

Edgar Filing: Fortress Investment Group LLC - Form SC 13G/A

Fortress Investment Group LLC
Form SC 13G/A
February 17, 2009

SCHEDULE 13G

Amendment No. 1
Fortress Investment Group LLC
Common Stock
Cusip #34958B106

Cusip #34958B106
Item 1: Reporting Person - FMR LLC
Item 4: Delaware
Item 5: 1,470
Item 6: 0
Item 7: 7,208,270
Item 8: 0
Item 9: 7,208,270
Item 11: 7.619%
Item 12: HC

Cusip #34958B106
Item 1: Reporting Person - Edward C. Johnson 3d
Item 4: United States of America
Item 5: 0
Item 6: 0
Item 7: 7,208,270
Item 8: 0
Item 9: 7,208,270
Item 11: 7.619%
Item 12: IN

SCHEDULE 13G - TO BE INCLUDED IN
STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)

Item 1(a). Name of Issuer:
Fortress Investment Group LLC

Item 1(b). Name of Issuer's Principal Executive Offices:
1345 Avenue of the Americas
46th Floor
New York, NY 10105

Item 2(a). Name of Person Filing:
FMR LLC

Item 2(b). Address or Principal Business Office or, if None,
Residence:

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82 Devonshire Street, Boston,
Massachusetts 02109

Item 2(c). Citizenship:

Not applicable

Item 2(d). Title of Class of Securities:

Common Stock

Item 2(e). CUSIP Number:

34958B106

Item 3. This statement is filed pursuant to Rule 13d-1(b) or 13d-2(b) and the person filing, FMR LLC, is a parent holding company in accordance with Section 240.13d-1(b)(ii)(G). (Note: See Item 7).

Item 4. Ownership

(a) Amount Beneficially Owned: 7,208,270

(b) Percent of Class: 7.619%

(c) Number of shares as to which such person has:

(i) sole power to vote or to direct the vote: 1,470

(ii) shared power to vote or to direct the vote: 0

(iii) sole power to dispose or to direct the disposition of: 7,208,270

(iv) shared power to dispose or to direct the disposition of: 0

Item 5. Ownership of Five Percent or Less of a Class.

Not applicable.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the Common Stock of Fortress Investment Group LLC. No one person's interest in the Common Stock of Fortress Investment Group LLC is more than five percent of the total outstanding Common Stock.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company.

See attached Exhibit A.

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Item 8. Identification and Classification of Members of the Group.

Not applicable. See attached Exhibit A.

Item 9. Notice of Dissolution of Group.

Not applicable.

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purpose or effect.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 13, 2009
Date

/s/ Scott C. Goebel
Signature

Scott C. Goebel
Duly authorized under Power of Attorney
effective as of June 1, 2008 by and on behalf of FMR LLC
and its direct and indirect subsidiaries

SCHEDULE 13G - TO BE INCLUDED IN
STATEMENTS
FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)

Pursuant to the instructions in Item 7 of Schedule 13G, Fidelity Management & Research Company ("Fidelity"), 82 Devonshire Street, Boston, Massachusetts 02109, a wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 7,208,270 shares or 7.619% of the Common Stock outstanding of Fortress Investment Group LLC ("the Company") as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

Edward C. Johnson 3d and FMR LLC, through its control of Fidelity, and the funds each has sole power to dispose of the 7,208,270 shares owned by the Funds.

Members of the family of Edward C. Johnson 3d, Chairman of FMR LLC, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR

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LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.

Neither FMR LLC nor Edward C. Johnson 3d, Chairman of FMR LLC, has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds' Boards of Trustees.

SCHEDULE 13G - TO BE INCLUDED IN STATEMENTS

FILED PURSUANT TO RULE 13d-1(b) or 13d-2(b)
RULE 13d-1(f)(1) AGREEMENT

The undersigned persons, on February 13, 2009, agree and consent to the joint filing on their behalf of this Schedule 13G in connection with their beneficial ownership of the Common Stock of Fortress Investment Group LLC at December 31, 2008.

FMR LLC

By /s/ Scott C. Goebel
Scott C. Goebel

Duly authorized under Power of Attorney effective as of June 1, 2008, by and on behalf of FMR LLC and its direct and indirect subsidiaries

Edward C. Johnson 3d

By /s/ Scott C. Goebel
Scott C. Goebel

Duly authorized under Power of Attorney effective as of June 1, 2008, by and on behalf of Edward C. Johnson 3d

Fidelity Management & Research Company

By /s/ Scott C. Goebel
Scott C. Goebel
Senior V.P. and General Counsel

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ASPYRA, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash	\$ 872,050	\$ 779,630
Receivables, net	968,341	806,996
Inventory	58,056	27,358
Prepaid expenses and other assets	169,373	225,971
TOTAL CURRENT ASSETS	2,067,820	1,839,955
PROPERTY AND EQUIPMENT, net	362,422	498,395
OTHER ASSETS	567,352	182,698
INVENTORY OF COMPONENT PARTS	12,693	27,693
CAPITALIZED SOFTWARE COSTS, net of accumulated amortization of \$1,082,891 and \$798,919	2,742,785	2,851,327
INTANGIBLES, net	2,728,240	3,072,490
GOODWILL	6,692,000	6,692,000
	\$ 15,173,312	\$ 15,164,558
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 1,485,361	\$ 794,965
Accounts payable	785,039	710,157
Accrued liabilities:		
Vacation pay	366,389	357,798
Accrued compensation	402,485	333,712
Accrued interest	399,775	226,635
Deferred rent	74,567	75,511
Customer deposits	452,148	373,928
Other	402,540	254,928
Deferred service contract income	1,873,560	1,914,979
Deferred revenue on system sales	495,326	521,520
Capital lease — current portion	150,237	150,237
TOTAL CURRENT LIABILITIES	6,887,427	5,714,370
CAPITAL LEASE, LESS CURRENT PORTION	122,930	198,048
NOTES PAYABLE	3,224,315	2,460,000

TOTAL LIABILITIES	10,234,672	8,372,418
SHAREHOLDERS' EQUITY:		
Common shares, no par value; 75,000,000 shares authorized; 12,598,688 shares issued and outstanding	22,803,951	22,761,951
Additional paid-in-capital	3,774,978	2,587,065
Accumulated deficit	(21,624,538)	(18,556,512)
Accumulated other comprehensive loss	(15,751)	(364)
TOTAL SHAREHOLDERS' EQUITY	4,938,640	6,792,140
	\$15,173,312	\$15,164,558

See Notes to Condensed Consolidated Financial Statements.

ASPYRA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30,	
	2009	2008
NET SYSTEM SALES AND SERVICE REVENUE:		
System sales	\$ 438,409	\$ 632,015
Service revenue	1,709,844	1,684,792
	2,148,253	2,316,807
COSTS OF PRODUCTS AND SERVICES SOLD:		
System sales	588,613	649,980
Service revenue	557,316	603,407
	1,145,929	1,253,387
Gross profit	1,002,324	1,063,420
OPERATING EXPENSES		
Selling, general and administrative	1,598,524	1,672,741
Research and development	602,045	381,272
Total operating expenses	2,200,569	2,054,013
OPERATING LOSS	(1,198,245)	(990,593)
INTEREST AND OTHER INCOME	963	15,261
INTEREST EXPENSE	(386,111)	(224,951)
Loss before provision for income taxes	(1,583,393)	(1,200,283)
PROVISION FOR INCOME TAXES	—	—
NET LOSS	(1,583,393)	(1,200,283)
LOSS PER SHARE:		
Basic	(.13)	(.10)
Diluted	(.13)	(.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	12,446,121	12,437,150
Diluted	12,446,121	12,437,150

See Notes to Condensed Consolidated Financial Statements.

ASPYRA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Six Months Ended June 30,	
	2009	2008
NET SYSTEM SALES AND SERVICE REVENUE:		
System sales	\$681,518	\$1,080,784
Service revenue	3,389,392	3,400,588
	4,070,910	4,481,372
COSTS OF PRODUCTS AND SERVICES SOLD:		
System sales	1,091,089	1,210,235
Service revenue	1,124,075	1,260,967
	2,215,164	2,471,202
Gross profit	1,855,746	2,010,170
OPERATING EXPENSES		
Selling, general and administrative	3,083,771	3,153,588
Research and development	1,040,917	977,723
Total operating expenses	4,124,688	4,131,311
OPERATING LOSS	(2,268,942)	(2,121,141)
INTEREST AND OTHER INCOME	3,849	19,907
INTEREST EXPENSE	(802,933)	(293,449)
Loss before provision for income taxes	(3,068,026)	(2,394,683)
PROVISION FOR INCOME TAXES	—	—
NET LOSS	(3,068,026)	(2,394,683)
LOSS PER SHARE:		
Basic	(.25)	(.19)
Diluted	(.25)	(.19)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	12,441,635	12,437,150
Diluted	12,441,635	12,437,150

See Notes to Condensed Consolidated Financial Statements.

ASPYRA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash

(unaudited)

	Six Months Ended June 30,	
	2009	2008
OPERATING ACTIVITIES		
Net loss	\$(3,068,026)	\$(2,394,683)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	142,748	204,028
Amortization of capitalized software costs	307,606	246,313
Warrant discount and beneficial conversion amortization	575,456	131,250
Amortization of acquired intangibles	344,250	344,250
Provision for doubtful accounts	18,257	13,337
Stock based compensation	123,822	245,853
Increase (decrease) from changes in:		
Receivables	(179,602)	58,848
Inventories	(15,698)	23,916
Prepaid expenses and other assets	(33,106)	(118,711)
Accounts payable	74,882	(105,953)
Accrued liabilities	475,393	(23,316)
Deferred service contract income	(41,419)	478,290
Deferred revenue on system sales	(26,194)	51,301
Net cash used in operating activities	(1,301,631)	(845,277)
INVESTING ACTIVITIES		
Additions to property and equipment	(6,098)	(17,447)
Additions to capitalized software costs	(199,064)	(288,087)
Net cash used in investing activities	(205,162)	(305,534)
FINANCING ACTIVITIES		
Borrowings on line of credit and notes payable	1,690,396	2,775,000
Payments on line of credit and notes payable	—	(250,050)
Payments on capital leases	(75,118)	(75,118)
Net cash provided by financing activities	1,615,278	2,449,832
Foreign currency translation adjustment	(16,065)	113
NET INCREASE IN CASH	92,420	1,299,134
CASH, beginning of period	779,630	803,392
CASH, end of period	872,050	
		2,102,526

See notes to Condensed Consolidated Financial Statements.

ASPYRA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1-Presentation of Financial Statements

In the opinion of management of Aspyra, Inc. (the "Company" or "ASPYRA"), the accompanying unaudited condensed consolidated financial statements reflect all adjustments (which include only normal recurring accruals) necessary to present fairly the Company's financial position as of June 30, 2009, the results of its operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008. These results have been determined on the basis of accounting principles generally accepted in the United States and practices applied consistently with those used in preparation of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results expected for any other period or for the entire year.

Note 2-Liquidity

We expect to incur negative cash flows and net losses for the foreseeable future. Based upon our current plans, we believe that our existing cash reserves will not be sufficient to meet our current liabilities and other obligations as they become due and payable. As of June 30, 2009, our average monthly cash usage is approximately \$265,000. Accordingly, we need to seek to obtain additional debt or equity financing through a public or private placement of shares of our preferred or common stock, through a public or private financing, or obtain a credit facility with a lender. However, the Company has a detailed contingent strategic plan which outlines short and long term plans to improve its operations. If by the end of the third quarter, revenues are not at the level anticipated, the Company would implement significant cost cutting measures in the fourth quarter. Our ability to meet such obligations will depend on our ability to sell securities, borrow funds, reduce operating costs, or some combination thereof. We may not be successful in obtaining necessary financing on acceptable terms, if at all. The sale of additional convertible debt securities or additional equity securities could result in additional dilution to our stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and could result in additional operating and financial covenants. Although there are no present understandings, commitments or agreements with respect to the acquisition of any other businesses, applications or technologies, we may from time to time, evaluate acquisitions of other businesses, applications or technologies. As of June 30, 2009, we had negative working capital of \$4,819,607 and accumulated deficit of \$21,624,538. Cash used in operations for the six months ended June 30, 2009 was \$1,301,631. As a result of these conditions, there is substantial doubt about our ability to continue as a going concern. The financial statements filed as part of this Quarterly Report on Form 10-Q do not include any adjustments that might result from the outcome of this uncertainty.

As of June 30, 2009, the Company's working deficit of \$4,819,607 compared to a working deficit of \$3,874,415, as of December 31, 2008. At June 30, 2009, the Company's credit facilities with its bank consisted of a revolving line of credit of \$1,300,000, of which \$744,965 was outstanding. On March 31, 2009, the Company executed agreements renewing its revolving line of credit in the aggregate amount of \$1,300,000. The revolving line of credit is secured by the Company's accounts receivable and inventory and matures on May 27, 2010. The revolving line of credit is subject to certain covenants, including revised financial covenants. As of June 30, 2009, the Company was in compliance with all covenants. Advances under the revolving line of credit are on a formula, based on eligible accounts receivable and inventory balances. This revolving credit line will need to be renewed prior to its maturity. In the event the Company is not able to renew its revolving line of credit it would have a material adverse

effect on the Company's financial statements and liquidity. At June 30, 2009, the Company had \$273,167 outstanding on its capital leases of which \$150,237 is due in the next twelve months.

The Company's primary source of working capital has been generated from private placements of securities and from borrowings. The Company has been experiencing a history of losses due to the integration of its businesses and the significant investment in new products since the quarter ended March 31, 2005 and negative cash flows from operations since the quarter ended December 31, 2005. An unanticipated decline in sales, delays in implementations where payments are tied to delivery and/or performance of services or cancellations of contracts have had and in the future could have a negative effect on cash flow from operations and could in turn create short-term liquidity problems.

On February 12, 2009 the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with various accredited investors (the "Purchasers"). Pursuant to the Purchase Agreement, the investors purchased secured promissory notes from the Company in the principal amount of \$1,000,000. The notes are convertible into up to 3,225,806 shares of the Company's Common Stock at a conversion price of \$0.31 per share and bear interest at the rate of 12% per annum compounded on each July 15 and January 15. Upon issuance, the notes had a maturity date of March 26, 2010. In April 2009, the maturity date of the notes was extended to August 26, 2010. Pursuant to the terms of the Purchase Agreement, the Company issued to the Purchasers three year warrants to purchase up to 5,774,194 of shares of Common Stock with an exercise price of \$0.31 per share. In addition, the Company issued the placement agent warrants to purchase up to 129,032 shares of Common Stock with an exercise price of \$0.31 per share. As a result, assuming the conversion of all promissory notes and exercise of all warrants, up to 9,129,032 shares of the Company's Common Stock may be issued. Such an issuance, if it were to occur, would be highly dilutive of existing shareholders and may, under certain conditions effect a change of control of the Company.

From June 17, 2009 through June 26, 2009, the Company temporarily reduced the exercise price of all outstanding warrants ("Warrants"), to \$0.15 (the "Special Warrant Offer"). In response to the Special Warrant Offer, the Company received an aggregate of \$690,395.85 (the "Funds") from holders (the "Holders") of the Warrants seeking to exercise an aggregate of 4,602,639 Warrants. From July 13, 2009, through July 20, 2009, the Company entered into a series of identical letter agreements (the "Letter Agreements") with the Holders. Pursuant to the Letter Agreements, the parties agreed that the Funds, in the aggregate amount of \$690,395.85 will be deemed loans (the "Loans") to the Company, until such time as Shareholder Approval (defined below) is obtained. Pursuant to the Letter Agreements, the Company agreed to obtain shareholder approval, and have such shareholder approval become effective in accordance with applicable law (including, without limitation, Section 14 of the Securities Exchange Act of 1934, as amended) (the "Shareholder Approval"), by October 31, 2009, for the Special Warrant Offer, and the issuance of shares of the Company's common stock in accordance therewith. Upon Shareholder Approval, provided Shareholder Approval has been received by October 31, 2009, the funds will be deemed an exercise of the Special Warrant Offer, the Company will issue shares of its common stock in accordance therewith, and no interest or other payments shall be due on the Loans. If the Shareholder Approval is not received by October 31, 2009, the loans shall become due and payable on October 31, 2009, together with accrued interest thereon. The Loans shall accrue interest at the rate of 12% per annum and may not be prepaid without the written consent of the holders.

Note 3-Inventories

Inventories consist primarily of computer hardware held for resale and are stated at the lower of cost or market (net realizable value). Cost is determined using the first-in, first-out method. Supplies are charged to expense as incurred. The Company also maintains an inventory pool of component parts to service systems previously sold, which is classified as non-current in the accompanying balance sheets. Such inventory is carried at the lower of cost or market and is charged to cost of sales based on usage. Allowances are made for quantities on hand in excess of estimated future usage. At June 30, 2009, the inventory allowance was \$151,989.

Note 4-Goodwill and Intangible Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, goodwill is tested for impairment on an annual basis or between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. In accordance with SFAS No. 144, Accounting for Impairment of Long-Lived Assets, management reviews definite life intangible assets to determine if events or circumstances have occurred which may cause the carrying values of intangible assets to be impaired. The purpose of these reviews is to identify any facts and circumstances, either internal or external, which may indicate that the carrying values of the assets may not be recoverable. As of December 31, 2008, there was a goodwill impairment of \$576,434 which was reflected in the financial statements. No additional events have occurred since that time that would trigger a reevaluation. At June 30,

2009, the net carrying value of goodwill and intangible assets were \$6,692,000 and \$2,728,240, respectively.

Note 5-Earnings per Share

The Company accounts for its earnings per share in accordance with SFAS No.128, which requires presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts, such as stock options, to issue common stock were exercised or converted into common stock.

Earnings per share have been computed as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
NET LOSS, as reported	\$ (1,583,393)	\$ (1,200,283)	\$ (3,068,026)	\$ (2,394,683)
Basic weighted average number of common shares outstanding, as reported	12,446,121	12,437,150	12,441,635	12,437,150
Dilutive effect of stock options, as reported	—	—	—	—
Diluted weighted average number of common shares outstanding, as reported	12,446,121	12,437,150	12,441,635	12,437,150
Basic and diluted loss per share, as reported	\$ (.13)	\$ (.10)	\$ (.25)	\$ (.19)

For the three and six months ended June 30, 2009, options and warrants to purchase 13,219,872 shares of common stock at per share prices ranging from \$0.22 to \$2.48 were not included in the computation of diluted loss per share because inclusion would have been anti-dilutive. For the three and six months ended June 30, 2008, options and warrants to purchase 6,910,730 shares of common stock at per share prices ranging from \$0.36 to \$2.75 were not included in the computation of diluted loss per share because inclusion would have been anti-dilutive.

Note 6-Debt Obligations

On March 31, 2009, the Company executed agreements to renew its revolving line of credit in the aggregate amount of \$1,300,000. The revolving line of credit is secured by the Company's accounts receivable and inventory and matures on May 27, 2010. The revolving line of credit is subject to certain covenants, including revised financial covenants. As of June 30, 2009, the Company was in compliance with all covenants. Advances under the revolving line of credit are on a formula, based on eligible accounts receivable and inventory balances. On June 30, 2009, the total amount due to the bank was \$744,965.

As noted in Note 2 above, the Company entered into a series of identical letter agreements with certain Warrant Holders in the aggregate amount of \$690,395.85. The Loans shall accrue interest at the rate of 12% per annum and may not be prepaid without the written consent of the holders. If the Shareholder Approval is not received by October 31, 2009, the loans shall become due and payable on October 31, 2009, together with accrued interest thereon. Upon Shareholder Approval, provided Shareholder Approval has been received by October 31, 2009, the funds will be deemed an exercise of the Special Warrant Offer, the Company will issue shares of its common stock in accordance therewith, and no interest or other payments shall be due on the Loans.

Note 7-Stock-Based Compensation

Equity Incentive and Stock Option Plans: At June 30, 2008, the Company has two stock-based compensation plans. Readers should refer to both Note 1 and Note 8 of the Company's financial statements, which are included in the

Company's Annual Report on Form 10-K for the year ended December 31, 2008, for additional information related to these stock-based compensation plans. During the quarter ended June 30, 2009, the Company's shareholders approved an amendment to the 2005 Equity Incentive Plan increasing the number of available shares from 1,290,875 to 3,040,875. There were 820,000 and 835,000 options granted in the three and six months ended June 30, 2009. There were 637,500 and 800,000 options granted in the three and six months ended June 30, 2008. No stock options were exercised in the six months ended June 30, 2009. The Company accounts for stock option grants in accordance with FASB Statement 123(R), Share-Based Payment. Compensation costs related to share-based payments recognized in the Condensed Statements of Operations were \$46,332 and \$81,822 for the three and six months ended June 30, 2009 and \$128,339 and \$245,853 for the three and six months ended June 30, 2008.

On June 25, 2009, the Company issued 161,538 shares of common stock to its chief executive officer for services valued at approximately \$42,000.

Note 8-Commitments and Contingencies

In accordance with the bylaws of the Company, officers and directors are indemnified for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The term of the indemnification period is for the lifetime of the officer or director. The maximum potential amount of future payments the Company could be required to make under the indemnification provisions of its bylaws is unlimited. However, the Company has a director and officer liability insurance policy that reduces its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated exposure for the indemnification provisions of its bylaws is minimal and, therefore, the Company has not recorded any related liabilities.

The Company enters into indemnification provisions under agreements with various parties in the normal course of business, typically with customers and landlords. Under these provisions, the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions cannot be estimated. The Company maintains general liability, errors and omissions, and professional liability insurance in order to mitigate such risks. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated exposure under these agreements is minimal. Accordingly, the Company has not recorded any related liabilities.

On April 1, 2009, the Company and its former Chief Technology Officer ("CTO") entered into a Separation Agreement and General Release pursuant to which the CTO agreed that, due to management restructuring which resulted in the elimination of the position of Chief Technology Officer, his employment with the Company would terminate effective April 1, 2009. The following is brief summary of the material terms of the Separation Agreement: (i) the CTO shall provide consulting services to the Company for an initial period of ninety business days (ii) receive severance equal to fifteen months of his base salary in effect as of April 1, 2009, to be paid in equal bi-weekly installments over twenty-two and one-half months; (ii) the Company shall pay COBRA benefits to the CTO and his spouse for up to eighteen months; (iii) the Company shall accelerate the vesting of options exercisable for 10,000 of the Company's Common Stock previously granted to the CTO pursuant to the Company's 2005 Stock Incentive Plan; and (iv) the Company and the CTO released each other from all claims arising from the CTO's employment with the Company, subject to certain exceptions.

In April 2009, the Company received a complaint filed in the United States District Court for the Eastern District of Texas Marshall Division for patent infringement naming the Company and nine other Picture Archive Communication System ("PACS") vendors as defendants. The Company's exposure to this action, if any, cannot be determined due to the early stage of the litigation. The Company believes that it has meritorious defenses to master all of the claims asserted in the action. No reserves were established on the Company's potential exposure as of June 30, 2009.

Note 9-Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109 "Accounting for Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statements and the tax bases of assets and liabilities using

enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Note 10-Private Placement

On February 12, 2009 the Company entered into a private placement transaction with various accredited investors. Pursuant to the purchase agreement entered into in connection with the private placement, the investors purchased secured promissory notes from the Company in the principal amount of \$1,000,000. The notes are convertible into shares of the Company's Common Stock at a conversion price of \$0.31 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions. The notes are convertible into up to 3,225,806 shares of the Company's common stock, and bear interest at the rate of 12% per annum compounded on each July 15 and January 15. Upon issuance, the notes had a maturity date of March 26, 2010. . In April 2009, the maturity date of the notes was extended to August 26, 2010. In addition, purchase agreement includes an interest contingency provision in the event of default in which the interest rate would increase to 24% or the maximum allowable legal rate. Pursuant to the terms of the purchase agreement, the Company issued to the investors three year warrants to purchase up to an additional 5,774,194 of shares of Common Stock. In addition, the Company issued the placement agent warrants to purchase up to 129,032 shares of Common Stock. As a result, assuming the conversion of all promissory notes and exercise of all warrants, up to 9,129,032 shares of the Company's Common Stock may be issued. Such an issuance if it were to occur, would be highly dilutive of existing shareholders and may, under certain conditions effect a change of control of the Company. Pursuant to a security agreement entered into between the Company and the purchasers under the private placement and an intercreditor agreement between the Company and the collateral agent for the purchasers, the purchasers were granted a security interest in the Company's assets that is pari passu to that of the purchasers who are parties to the Securities Purchase Agreement, dated March 26, 2008. During the six months ended June 30, 2009, the Company valued the warrants received in the private placement utilizing the Black-Scholes Model and determined the value of the warrants is \$1,235,518. The Company allocated the proceeds to the debt and warrants based on relative fair value. The relative value of the warrants was \$552,676 and was recorded in additional paid in capital with an offsetting adjustment to contra discount against the principal amount of the notes. The contra discount is being recognized over the term of the notes. As of June 30, 2009, \$137,873 of the discount was charged to earnings. In addition, the Company determined that the warrant holders are receiving a discount of \$.163 per share, which gives rise to a beneficial conversion feature of \$525,806 that is being charged to earnings over the term of the note or period of return, if shorter. Based on the value of the warrants and the debt discount the investors received a value of \$78,482 in excess of the proceeds, as such this amount was charged to earnings during the six months ended June 30, 2009. As of June 30, 2009, \$86,746 of the beneficial conversion was charged to earnings.

The obligations under the notes and the security interest created by the security agreement are subordinate and junior in right of payment to the senior lien on the Company's assets held by Western Commercial Bank in connection with the Company's existing line of credit.

The Company issued the placement agent for the private placement, Great American Investors (GAI), warrants to purchase 129,032 shares of common stock. The Company valued the warrants utilizing the Black-Scholes Model and determined the value of the warrants is \$27,609. The broker warrants have the same terms as the purchaser warrants. The Company also paid the placement agent a non-refundable due diligence fee of \$5,000 and a cash fee of \$40,000. The Company also agreed to pay the placement agent's expenses up to \$12,500. The placement agent fee of \$40,000 is classified as bond issuance costs and is included in other assets. The costs and value of the warrants will be recognized over the shorter term of debt or date of conversion. As of June 30, 2009, \$18,476 of the placement agent fee was charged to earnings.

On January 28, 2008, the Company entered into a Note Purchase Agreement with two of the Company's current stockholders, C. Ian Sym-Smith, who is also a director, and TITAB, LLC. Pursuant to the Purchase Agreement, the purchasers each purchased a secured promissory note from the Company in the principal amounts of \$200,000 and \$100,000, respectively. The two notes each have a maturity of six months from the date of issuance and bear interest at the rate of LIBOR plus 2.5% per annum. These notes automatically converted to the terms and conditions of the subsequent transaction completed on March 26, 2008 discussed below. On March 13, 2008, the Company entered into a Note Purchase Agreement with one of the Company's current stockholders, J. Shawn Chalmers. Pursuant to the Purchase Agreement Mr. Chalmers purchased a secured promissory note from the Company in the principal amounts of \$300,000. The note has a maturity date of July 28, 2008 and bears interest at the rate of LIBOR plus 2.5% per annum. Mr. Chalmers had the option and exercised the option to convert to the terms and conditions of the subsequent transaction completed on March 26, 2008 discussed below.

On March 26, 2008 the Company completed a private placement of promissory notes and warrants pursuant to a Securities Purchase Agreement (the "Purchase Agreement") with various accredited investors. Pursuant to the Purchase Agreement, the investors purchased secured promissory notes from the Company in the principal amount of \$2,775,000. The notes are convertible into shares of the Company's Common Stock at a conversion price of \$0.55 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions. The notes are convertible into up to 5,427,273 shares of the Company's Common Stock, and bear interest at the rate of 8% per annum compounded on each July 15 and January 15. Upon issuance, the notes had a maturity date of March 26, 2010. In April 2009, the maturity date of the notes was extended to August 26, 2010. Pursuant to the terms of the Purchase Agreement, the Company issued to the note holders three year warrants to purchase up to an additional 5,496,646 of shares of Common Stock. In February 2009, the term of the warrants was extended to March 26, 2012. Assuming the conversion of all promissory notes and exercise of all warrants, up to 10,923,919 shares of the Company's Common Stock may be issued as a result of the private placement. Such an issuance, if it were to occur, would be highly dilutive to existing shareholders and may, under certain conditions, effect a change of control of the Company. The Company's obligations under the notes are secured by a security interest in substantially all of the Company's tangible and intangible assets, pursuant to the terms of a Security Agreement dated March 26, 2008. In addition, the Company entered into a note purchase agreement with Great American Investors (GAI) for the amount of the transaction fees of \$210,000. Pursuant to the terms of an agreement between the Company and GAI, the Company issued warrants to purchase such number of shares of Common Stock equal to the total number of shares of Common Stock which shall be initially issuable upon conversion of the related Note plus an additional 69,375 warrants. The transfer fee of \$210,000 will be recognized over the shorter term of debt or date of conversion based on the effective interest method. As of June 30, 2009, and December 31, 2008 \$123,529 and \$78,750, respectively, of the transfer fee was charged to earnings. During the year ended December 31, 2008, the Company valued the warrants issued in the private placement and purchase agreement with GAI utilizing the Black-Scholes Model and determined that the value of the warrants is \$1,170,000. The Company allocated the total proceeds to the debt and warrants based on relative fair value. The relative value of the warrants was \$840,000 and was recorded in additional paid in capital with an

offsetting adjustment to contra discount against the principal amount of the notes. The contra discount is being recognized over the term of the notes. As of June 30, 2009, and December 31, 2008 \$494,118 and \$315,000, respectively, of the value of the warrants was charged to earnings. In addition, the warrant holders are getting a discount of \$.025 per share, which gives rise to a beneficial conversion feature of \$133,000 that is being charged to earnings over the period from the date of issuance to the date of which the holder can realize a return. As of June 30, 2009, and December 31, 2008 \$81,857 and \$49,875, respectively, of the beneficial conversion was charged to earnings.

The obligations under the note and the security interest created by the Security Agreement are subordinate and junior in right of payment to the senior lien on the Company's assets held by Western Commercial Bank in connection with the Company's existing line of credit.

Simultaneously with the execution of the Purchase Agreement, the Company and each of the investors entered into a Registration Rights Agreement, pursuant to which each of the investors were granted certain registration rights.

Note 11-New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 141 (Revised) ("SFAS 141(R)"), Business Combinations. The provisions of this statement are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier application is not permitted. SFAS 141(R) replaces SFAS 141 and provides new guidance for valuing assets and liabilities acquired in a business combination. The Company will adopt SFAS 141 (R) for future acquisitions beginning January 1, 2009.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", or "SFAS 157". SFAS 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, except for the measurement of share-based payments. SFAS 157 was effective for the Company on January 1, 2008. However, since the issuance of SFAS No. 157, FASB has issued several FASB Staff Position (FSP) to clarify the application of FAS No. 157 "Fair Value Measurements". On February 2008, the FASB released FASB Staff Position ("FSP") SFAS No. 157-2, "Effective Date of FASB Statement No. 157", which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On October 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", which clarifies the application of Statement 157 in a market that is not active and provides guidance in key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FASB Staff Position applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with FASB statement No. 157, "Fair Value Measurements". On April 2009, the FASB issued FASB Staff Position (FSP) SFAS No. 157-4, "Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, "Fair Value Measurements", when the volume and level of activity for the asset or liability have significantly decreased. SFAS No. 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS No. 157-4 is effective for interim and periods ending after June 15, 2009, and shall be applied prospectively. The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial statements. The adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities, effective January 1, 2009, did not have a material impact on our consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" (FSP APB 14-1). Under the new rules for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. Previous guidance provided for accounting of this type of convertible debt instruments entirely as debt. For instruments subject to the scope of FSP APB 14-1, higher interest expense may result through the accretion of the discounted carrying value of the convertible debt instruments to their face amount over their

term. FSP APB 14-1 will be effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. Early adoption is not permitted. As of the date of these consolidated financial statements, we do not have any instruments outstanding that would be subject to FSP APB 14-1, but any instruments that we may issue in the future will be subject to this pronouncement.

In June 2008, the FASB ratified Emerging Issue Task Force (“EITF”) Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity’s Own Stock” (EITF 07-5). This issue provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity’s own stock. EITF 07-5 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under paragraphs 6-9 of Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities”, (SFAS 133) for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under paragraph 11(a) of SFAS 133. EITF 07-5 also applies to any freestanding financial instrument that is potentially settled in an entity’s own stock, regardless of whether the instrument has all the characteristics of a derivative under paragraphs 6-9 of SFAS 133, for purposes of determining whether the instrument is within the scope of EITF Issue 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock”, (Issue 00-19) which provides accounting guidance for instruments that are indexed to, and potentially settled in, the issuer’s own stock. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. We have concluded that application of EITF 07-5 does not have a material impact on the Company’s financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1, “Interim Disclosures about Fair Value of Financial Instruments”, which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded Companies as well as in annual financial statements. FSP FAS 107-1 also amends APB Opinion No. 28, “Interim Financial Reporting”, to require those disclosures in summarized financial information at interim reporting. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We have concluded that application of FSP FAS107-1 does not have a material impact on the Company’s financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements,” an amendment of ARB 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent’s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective beginning December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements. The adoption of SFAS No. 160 did not have a material impact to the Company’s consolidated financial statements.

In January 2009, the FASB issued FASB Staff Position (FSP) No. EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20”, which amends the impairment guidance in EITF issue No. 99-20, “Recognition of Interest Income and Impairment on Purchased Beneficial Interest and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets,” to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 retains and emphasizes the other-than-temporary impairment assessment guidance and required disclosures in FASB Statement No. 115, “Accounting for certain Investments in Debt and Equity Securities”. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Currently, there is no impact of the adoption of FSP EITF 99-20-1 on the Company’s consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. FSP No. FAS 115-2 and FAS 124-2 improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The effective date for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. The adoption of FSP No. FAS 115-2 and FAS 124-2 did not have a material impact to the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 is intended to establish general standards of the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009 and was adopted by the Company during the quarter ended June 30, 2009.

In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles". This statement replaces SFAS No. 162. This new statement identifies the source of accounting principles and the framework for selecting principles used in the preparation of financial statements for nongovernmental entities that are presented in conformity with US GAAP. The pronouncement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has reviewed the details of the statement and concluded that changes in codification structure will have no effect on the financial reporting of the Company. The Company will adopt the pronouncement for the quarter ended September 30, 2009 and the 10Q filing will reflect citations as stated under the codification.

Note 12-Subsequent Event

On July 10, 2009, the Company entered into a sub-lease (the "Sub-Lease") with Standard Pacific Corp. pursuant to which the Company will sub-lease from the Sub-Lessor property located at 4360 Park Terrace Drive, Suite 220, Westlake Village, California 91361, for an eighteen month term commencing on August 1, 2009. Pursuant to the Sub-Lease, the Company will pay rent of \$16,840 per month.

In connection with the Sub-Lease, on July 10, 2009, the Company entered into a lease termination agreement (the "Lease Termination") with Arden Realty Limited Partnership. Pursuant to the Lease Termination, the Company's lease agreement with Arden, pursuant to which the Company leased property located at 26115-A Mureau Road, Calabasas, California 91302 was terminated, effective July 31, 2009, and the Company agreed to pay Arden \$89,860 for final rental payments and operating expenses.

The Company evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on August 19, 2009. The Company is not aware of any significant events, except as noted above, that occurred subsequent to the balance sheet date but prior to the filing of this Report that would have a material impact on its Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains such "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," "seek," "will" and words and phrases of similar substance used in connection with any discussion of future events, operating or financial performance, financing sources, product development, capital requirements, market growth and the like, identify forward-looking statements. Forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors which could cause the actual results to differ materially from the forward-looking statement. These forward-looking statements include, among others:

- projections of revenues and other financial items;
- statements of strategies and objectives for future operations;
- statements concerning proposed applications or services;
- statements regarding future economic conditions, performance or business prospects;
- statements regarding competitors or competitive actions; and
- statements of assumptions underlying any of the foregoing.

All forward-looking statements are present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The risks related to ASPYRA's business discussed under "Risk Factors" of this Quarterly Report on Form 10-Q, among others, could cause actual results to differ materially from those described in the forward-looking statements. Such risks include, among others: the competitive environment; unexpected technical and marketing difficulties inherent in major product development efforts; the potential need for changes in our long-term strategy in response to future developments; future advances in clinical information technology and procedures, as well as potential changes in government regulations and healthcare policies, both of which could adversely affect the economics of the products offered by ASPYRA; and rapid technological change in the microelectronics and software industries.

The Company makes no representation as to whether any projected or estimated information or results contained in any forward-looking statements will be obtained or achieved. Shareholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. The Company is under no obligation, and it expressly disclaims any obligation, to update or alter any forward-looking statements after the date of this Quarterly Report on Form 10-Q, whether as a result of new information, future events or otherwise.

Overview

The following discussion relates to the consolidated business of ASPYRA, which includes the operations of its wholly owned subsidiary, Aspyra Diagnostic Solutions, Inc. (ADSI), formerly StorCOMM, Inc., and its wholly owned subsidiary Aspyra Technologies, Ltd. (ATI), formerly StorCOMM Technologies, Ltd. On June 30, 2009, Aspyra Diagnostic Solutions, Inc. merged into Aspyra, Inc.

ASPYRA operates in one business segment determined in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 131, and generates revenues primarily from the sale of its Clinical and Diagnostic Information Systems, which includes the license of proprietary application software, and may include the sale of servers and other hardware components to be integrated with its application software. In connection with its sales of its products, the Company provides implementation services for the installation, integration, and training of end users’ personnel. The Company also generates sales of ancillary software and hardware, to its customers and to third parties. We recognize these revenues under system sales in our financial statements. The Company also generates recurring revenues from the provision of comprehensive post-implementation services to its customers, pursuant to extended service agreements. We recognize these revenues under service revenues in our financial statements. This service relationship is an important aspect of our business, as the Company’s products are “mission critical” systems that are used by healthcare providers, in most cases, 24 hours per day and 7 days per week. In order to retain this service relationship we must keep our products current for competitive, clinical, diagnostic, and regulatory compliance. Enhancements to our products in the form of software upgrades are an integral part of our business model and are included as a contract obligation in our warranty and extended service agreements. In order to generate such revenue opportunities our investment in software enhancements is significant and is a key component of our ongoing support obligations.

Because of the nature of our business, ASPYRA makes significant investments in research and development for new products and enhancements to existing products. Historically, ASPYRA has funded its research and development programs through cash flow primarily generated from operations. Management anticipates that future expenditures in research and development will continue at current levels.

Aspyra incurred a net loss of \$1,583,393 or basic and diluted loss per share of \$0.13 for the quarter ended June 30, 2009 as compared to a net loss of \$1,200,283 or basic and diluted loss per share of \$0.10 for the quarter ended June 30, 2008. For the six months ended June 30, 2009, the Company incurred a net loss of \$3,068,026 or basic and diluted loss per share of \$0.25 as compared to a net loss of \$2,394,683 or basic and diluted loss per share of \$0.19 for the same period of fiscal 2008.

The operating losses incurred by the Company during the three and six months ended June 30, 2009 were attributable to a decrease in sales compared to the same periods in 2008, partially offset by lower costs as a result of actions taken in 2008 to reduce personnel and other expenses. The results are more fully discussed in the following section “Results of Operations”.

This “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section should be read in conjunction with the accompanying unaudited interim financial statements which have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Our recurring losses from operations and net capital deficiency raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is substantially dependent on the successful execution of our strategic plan and otherwise discussed in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and in Note 2, “Liquidity” to our unaudited interim financial statements filed as part of this Quarterly Report, on the timeline contemplated by our plans and our ability to obtain additional financing. The uncertainty of successful execution of our plans, among other factors, raises substantial doubt as to our ability to continue as a going concern. The accompanying unaudited interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.

This management’s discussion and analysis compares the results of operation for the three and six months ended June 30, 2009 with the three and six months ended June 30, 2008.

Results of Operations

The following table sets forth certain line items in our condensed consolidated statement of operations as a percentage of total revenues for the periods indicated:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008		Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
Revenues:								
System sales	20.4	%	27.3	%	16.7	%	24.1	%
Service revenues	79.6		72.7		83.3		75.9	
Total revenues	100.0		100.0		100.0		100.0	
Cost of products and services sold:								
System sales	27.4		28.1		26.8		27.0	
Service revenues	25.9		26.0		27.6		28.1	
Total cost of products and services	53.3		54.1		54.4		55.1	
Gross profit	46.7		45.9		45.6		44.9	

Operating expenses:				
Selling, general and administrative	74.4	72.2	75.7	70.4
Research and development	28.0	16.5	25.6	21.8
Total operating expenses	102.4	88.7	101.3	92.2
Operating loss	(55.7)	(42.8)	(55.7)	(47.3)
Loss before provision for income taxes	(73.7)	(51.8)	(75.4)	(53.4)
Provision for income taxes	—	—	—	—
Net loss	(73.7)	(51.8)	(75.4)	(53.4)

Revenues

Sales for the quarter ended June 30, 2009 were \$2,148,253, as compared to \$2,316,807 for the quarter ended June 30, 2008, an overall decrease of \$168,554 or 7.3%. For the six months ended June 30, 2009, sales decreased to \$4,070,910, as compared to \$4,481,372 for the comparable six-month period ended June 30, 2008, an overall decrease of \$410,462 or 9.2%.

When analyzed by revenue category for the quarter and six-month period ended June 30, 2009, sales of Clinical Information Systems (CIS) and Diagnostic Information Systems (DIS) decreased by \$193,606 or 30.6% and \$399,266 or 36.9%, respectively. For the quarter, service revenues increased by \$25,052 or 1.5%. For the six-month period, service revenues decreased by \$11,196 or 0.3%. The Company continues to show a decrease in sales of DIS products primarily attributable to the reduction in sales through the Company's distributors and channel partners. Additionally, due to market conditions, there has been a slowing of sales cycles. Management continues to believe that the importance of imaging technologies such as the Company's Radiology Information System ("RIS") / Picture Archive Communication System ("PACS") products justifies them as an investment by end users to improve efficiencies.

The increase in service revenues for the quarter is primarily attributable to continued high levels of renewals of extended maintenance contracts and an increasing level of post-implementation services provided. If and when the Company's installed base of CIS and DIS installations increases, then service revenues would be expected to increase as well.

Sales cycles for CIS and DIS products are generally lengthy and on average exceed six months from inception to closure. Because of the complexity of the sales process, a number of factors that are beyond the control of the Company can delay the closing of transactions. Furthermore, market conditions have also affected the length of the sales cycle. Additionally, the Company has been primarily reliant on distributors and channel partners for the sales of its diagnostic systems and has been subject to inconsistent flow of orders. ASPYRA's sales force is now focusing on a direct sales model for the diagnostic system products to supplement the distribution and channel network so that the Company will be less reliant on third parties for the sale of its diagnostic systems. ASPYRA has completed new versions of its laboratory and radiology information systems products, as well as its AccessRAD RIS/ PACS which it has begun marketing.

The Company continues to seek strategic joint marketing partnerships with other companies, and channel partners. We expect that the Company's future operating results will continue to be subject to annual and quarterly variations based upon a wide variety of factors, including the volume mix and timing of orders received during any quarter or annual period. In addition, the Company's revenues associated with CIS and DIS transactions may be delayed due to customer related issues such as availability of funding, staff availability, IT infrastructure readiness, and the performance of third party contractors, all of which are issues outside of the control of ASPYRA.

Costs of products and services sold

Cost of products and services sold decreased by \$107,458 or 8.6% for the quarter ended June 30, 2009 as compared to the quarter ended June 30, 2008. Cost of products and services sold decreased by \$256,038 or 10.4% for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. For the quarter, the overall decrease in cost of sales was primarily attributable to a decrease in labor costs of \$76,771 or 12.1%, a decrease in material costs of \$22,028 or 12.0% and a decrease in other costs of sales of \$8,659 or 2.0%. For the six-month period, the overall decrease in cost of sales was primarily attributable to a decrease in labor costs of \$175,137 or 13.4%, a decrease in material costs of \$55,251 or 18.5%, and a decrease in other costs of sales of \$25,650 or 3.0%. The decrease in labor costs and other costs of sales was primarily attributable to reduction of personnel and overhead. The decrease in material costs was attributable to the decrease in system sales requiring hardware.

For the quarter and six months ended June 30, 2009, cost of products and services sold as a percentage of sales was 53% and 54%, as compared to 54% and 55% for the quarter and six months ended June 30, 2008. The overall percentage decrease in cost of sales, as a percentage of sales, was primarily attributable to reduction in personnel. Management believes the gross profit margin will improve in the remainder of fiscal 2009; however, the Company could experience quarterly variations in gross margin as a result of the factors discussed above.

Selling, general and administrative expenses

Selling, general, and administrative expenses decreased by \$74,217 or 4.4% for the quarter ended June 30, 2009 as compared to the quarter ended June 30, 2008. For the six months ended June 30, 2009, selling, general, and administrative expenses decreased by \$69,817 or 2.2%, as compared to the six months ended June 30, 2008.

For the quarter ended June 30, 2009, the decrease in selling, general, and administrative expenses was primarily related to the decrease of approximately \$80,000 in SFAS 123(R) stock compensation expense, consulting expense of \$84,000, and recruitment expense of \$105,000, which was partially offset by an increase in salaries of \$192,000 compared to the same period in fiscal 2008.

For the six-month period, the reduction of expenses was primarily attributable to decreases of approximately \$161,000 in SFAS 123(R) stock compensation expense, consulting expense of \$125,000, \$105,000 in recruitment fees, and \$115,000 in legal and accounting expenses, which were partially offset by an increase of \$386,000 related to salaries, \$42,000 in insurance expense, and \$17,000 in tradeshow expenses compared to the same period in fiscal 2008. Management continues to evaluate cost reductions in some of its selling, general and administrative expenses while it also continues to plan further investment in its marketing programs.

Research and development expenses

For the quarter and six months ended June 30, 2009, research and development expenses increased \$220,773 or 57.9% and \$63,194 or 6.5%, respectively, as compared to the quarter and six months ended June 30, 2008. The increase was primarily attributable to the Company entering into a separation agreement with a former employee. Current development expenses were attributable to the development of AccessRAD, the RIS/PACS solution that integrates the Company's CyberRAD radiology information system with its AccessNET PACS system, and enhancements and new modules for the Company's CIS and DIS products. For the quarter ended June 30, 2009 and 2008, the Company's capitalized software costs were \$94,392 and \$131,691, respectively, which are generally amortized over the estimated useful life not to exceed five years. For the six months ended June 30, 2009 and 2008, the Company's capitalized software costs were \$199,064 and \$288,087, respectively, which are generally amortized over the estimated useful life not to exceed five years.

Interest and other income

Interest and other income was \$963 and \$3,849 for the quarter and six months ended June 30, 2009 as compared to \$15,261 and \$19,907 for the quarter and six months ended June 30, 2008 due to the collection activity and therefore finance charges levied on customers who were late in their payments on accounts receivable.

Interest expense

Interest expense was \$386,111 and \$802,933 for the quarter and six months ended June 30, 2009 as compared to \$224,951 and \$293,449 for the quarter and six months ended June 30, 2008. The increase was primarily due to the increased average level of borrowings during the current quarter and six month period as compared to the same periods of fiscal 2008.

Net loss

As a result of the factors discussed above, the Company incurred a net loss of \$1,583,393 or basic and diluted loss per share of \$0.13 for the quarter ended June 30, 2009 as compared to a net loss of \$1,200,283 or basic and diluted loss per share of \$0.10 for the quarter ended June 30, 2008. For the six months ended June 30, 2009, the Company incurred a net loss of \$3,068,026 or basic and diluted loss per share of \$0.25 as compared to a net loss of \$2,394,683 or basic and diluted loss per share of \$0.19 for the same period of fiscal 2008.

Liquidity and Capital Resources

Historically, the Company's primary need for capital has been to invest in software development, and in computers and related equipment for its internal use. The Company invested \$199,064 and \$288,087, respectively, in software development during the six months ended June 30, 2009 and 2008. These expenditures related to investment in the Company's new RIS/PACS integrated system, AccessRAD, enhancements to AccessNET, the new browser version of the Company's LIS product, CyberLAB, and other product enhancements. The Company anticipates expending additional sums during fiscal 2009 on product enhancements to all its products and the further development of AccessRAD. During the six months ended June 30, 2009, the Company invested an aggregate of \$6,098 in fixed assets primarily consisting of computers and software, as compared to an investment of \$17,447 in fixed assets primarily consisting of computers and software in the quarter ended June 30, 2008.

As of June 30, 2009, the Company's working capital amounted to a deficit of \$4,819,607 as compared to a deficit of \$3,874,415 as of December 31, 2008. As described in more detail below, on February 12, 2009 the Company entered into a Note Purchase Agreement with various current and new investors. Under the terms of the private placement, the investors purchased secured promissory notes from the Company in the principal amount of \$1,000,000 together with warrants executable for additional shares of Common Stock.

On March 31, 2009, the Company executed agreements renewing its revolving line of credit in the aggregate amount of \$1,300,000. The revolving line of credit is secured by the Company's accounts receivable and inventory and matures on May 27, 2010. The revolving line of credit is subject to certain covenants including revised financial covenants. At June 30, 2009, the balance outstanding on the Company's revolving line of credit was \$744,965. As of June 30, 2009, the Company was in compliance with all covenants. Advances under the revolving line of credit are on a formula based on eligible accounts receivable and inventory balances. This revolving credit line will need to be renewed prior to its maturity. In the event the Company is not able to renew its revolving line of credit it would have a material adverse effect on the Company's financial condition and liquidity.

Cash used in operating activities was \$1,301,631 for the six months ended June 30, 2009, compared to cash used in operating activities of \$845,277 for the six months ended June 30, 2008. The increase in cash used for operating activities was primarily attributable to the net loss and the net change in receivables, deferred service contract income, and deferred revenue on system sales which was partially offset by the change in accounts payable, accrued liabilities along with increased amortization of capitalized software and warrant discount and beneficial conversion amortization.

Net cash used in investing activities totaled \$205,162 for the six months ended June 30, 2009, compared to \$305,534 used in investing activities during the same period of 2008. The change was primarily the result of a decrease in investment in fixed assets and software capitalization costs compared to the same period of 2008.

Cash provided by financing activities amounted to \$1,615,278 during the six months ended June 30, 2009 compared to cash provided by financing activities of \$2,449,832 in the same period of 2008. The decrease was primarily attributable to the Company completing a private placement transaction in the principal amount of \$2,775,000 in March 2008 as compared to the private placement described below in the principal amount of \$1,000,000 on February 12, 2009, partially offset by the payments on notes payable in the six months ended March 31, 2008.

The Company's primary source of working capital has been generated from private placements of securities and from borrowings. The Company has been experiencing a history of losses due to the integration of its businesses and the significant investment in new products since the quarter ended March 31, 2005 and negative cash flows from operations since the quarter ended December 31, 2005. An unanticipated decline in sales, delays in implementations where payments are tied to delivery and/or performance of services or cancellations of contracts have had and in the future could have a negative effect on cash flow from operations and could in turn create short-term liquidity problems.

On February 12, 2009 the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with various accredited investors. Pursuant to the Purchase Agreement, the investors purchased secured promissory notes from the Company in the principal amount of \$1,000,000. The notes are convertible up to 3,225,806 shares of the Company's Common Stock at a conversion price of \$0.31 per share, and bear interest at the rate of 12% per annum compounded on each July 15 and January 15. Upon issuance, the notes had a maturity date of March 26, 2010. In April 2009, the maturity date of the notes was extended to August 26, 2010. Pursuant to the terms of the Purchase Agreement, the Company issued three year warrants to purchase up to 5,774,194 of shares of Common Stock with an exercise price of \$0.31 per share. In addition, the Company issued the placement agent warrants to purchase up to 129,032 shares of Common Stock with an exercise price of \$0.31 per share. As a result, assuming the conversion

of all promissory notes and exercise of all warrants, up to 9,129,032 shares of the Company's Common Stock may be issued. Such an issuance if it were to occur, would be highly dilutive of existing shareholders and may, under certain conditions effect a change of control of the Company.

From June 17, 2009 through June 26, 2009, the Company temporarily reduced the exercise price of all outstanding warrants ("Warrants"), to \$0.15 (the "Special Warrant Offer"). In response to the Special Warrant Offer, the Company received an aggregate of \$690,395.85 (the "Funds") from holders (the "Holders") of the Warrants seeking to exercise an aggregate of 4,602,639 Warrants. From July 13, 2009, through July 20, 2009, the Company entered into a series of identical letter agreements (the "Letter Agreements") with the Holders. Pursuant to the Letter Agreements, the parties agreed that the Funds, in the aggregate amount of \$690,395.85 will be deemed loans (the "Loans") to the Company, until such time as Shareholder Approval (defined below) is obtained. Pursuant to the Letter Agreements, the Company agreed to obtain shareholder approval, and have such shareholder approval become effective in accordance with applicable law (including, without limitation, Section 14 of the Securities Exchange Act of 1934, as amended) (the "Shareholder Approval"), by October 31, 2009, for the Special Warrant Offer, and the issuance of shares of the Company's common stock in accordance therewith. Upon Shareholder Approval, provided Shareholder Approval has been received by October 31, 2009, the funds will be deemed an exercise of the Special Warrant Offer, the Company will issue shares of its common stock in accordance therewith, and no interest or other payments shall be due on the Loans. If the Shareholder Approval is not received by October 31, 2009, the loans shall become due and payable on October 31, 2009, together with accrued interest thereon. The Loans shall accrue interest at the rate of 12% per annum and may not be prepaid without the written consent of the holders.

We expect to incur negative cash flows and net losses for the foreseeable future. Based upon our current plans, we believe that our existing cash reserves will not be sufficient to meet our current liabilities and other obligations as they become due and payable. As of June 30, 2009, our average monthly burn rate is approximately \$265,000. Accordingly, we need to seek to obtain additional debt or equity financing through a public or private placement of shares of our preferred or common stock, through a public or private financing, or obtain a credit facility with a lender. However, the Company has a detailed contingent strategic plan which outlines short and long term plans to improve its operations. If by the end of the third quarter, revenues are not at the level anticipated, the Company would implement significant cost cutting measures in the fourth quarter. Our ability to meet such obligations will depend on our ability to sell securities, borrow funds, reduce operating costs, or some combination thereof. We may not be successful in obtaining necessary financing on acceptable terms, if at all. The sale of additional convertible debt securities or additional equity securities could result in additional dilution to our stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and could result in additional operating and financial covenants that would restrict our operations. In addition, there can be no assurance that any additional financing will be available on acceptable terms, if at all. Although there are no present understandings, commitments or agreements with respect to the acquisition of any other businesses, applications or technologies, we may from time to time, evaluate acquisitions of other businesses, applications or technologies. As of June 30, 2009, we had negative working capital of \$4,819,607 and accumulated deficit of \$21,624,538. Cash used in operations for the six months ended June 30, 2009 was \$1,301,631. As a result of these conditions, there is substantial doubt about our ability to continue as a going concern. The financial statements filed as part of this Quarterly Report on Form 10-Q do not include any adjustments that might result from the outcome of this uncertainty.

Seasonality, Inflation and Industry Trends

The Company's sales are generally higher in the spring and fall but are subject to a number of factors related to its customers' budgetary cycles. Inflation has not had a material effect on the Company's business since the Company has been able to adjust the prices of its products and services in response to inflationary pressures. Management believes that most phases of the healthcare segment of the computer industry will continue to be highly competitive, and that potential healthcare reforms including the initiatives to establish a national standard for the electronic health record may have a long-term positive impact on its business. The key issues driving demand for ASPYRA's products are industry concerns about patient care and safety issues, development of a national standard for the electronic health record that will affect all clinical data, a shift from analog to digital imaging technologies, and regulatory compliance. The Company has continued to invest heavily in new application modules to assist its customers in addressing these issues. Management believes that new application modules and features that concentrate on such issues will be key selling points and will provide a competitive advantage. In addition, management believes that the healthcare information technology industry will be marked with more significant technological advances, which will improve the quality of service and reduce costs.

Critical Accounting Policies and Estimates

Management's discussion and analysis of ASPYRA's financial condition and results of operations are based upon the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates estimates, including those related to the valuation of inventory and the allowance for uncollectible accounts receivable. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual

results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Inventory

The Company's inventory is comprised of a current inventory account that consists of items that are held for resale and a long-term inventory account that consists of items that are held for repairs and replacement of hardware components that are serviced by the Company under long-term Extended Service Agreements with some of its customers. Current inventory is valued at the lower of cost to purchase or the current estimated market value of the inventory items. Inventory is evaluated on a continual basis and adjustments to recorded costs are made based on management's estimate of future sales value, or in the case of the long-term component inventory, on management's estimation of the usage of specific inventory items and net realizable value. Management reviews inventory quantities on hand and makes a determination of the excess or obsolete items in the inventory, which, are specifically reserved. In addition, adjustments are made for the difference between the cost of the inventory and the estimated market value and charged to operations in the period in which the facts that give rise to the adjustments become known. At June 30, 2009, the inventory reserve was approximately \$151,989.

Accounts Receivable

Accounts receivable balances are evaluated on a continual basis and allowances are provided for potentially uncollectible accounts based on management's estimate of the collectability of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance may be required. Allowance adjustments are charged to operations in the period in which the facts that give rise to the adjustments become known. The accounts receivable balance at June 30, 2009 was \$968,341, net of an allowance for doubtful accounts of approximately \$50,830.

Revenue Recognition

Revenues are derived primarily from the sale of CIS and DIS products and the provision of services. The components of the system sales revenues are the licensing of computer software, installation, and the sale of computer hardware and sublicensed software. The components of service revenues are software support and hardware maintenance, training, and implementation services. The Company recognizes revenue in accordance with the provisions of Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as amended by SOP No. 98-4, SOP 98-9 and clarified by Staff Accounting Bulletin (SAB) 104 "Revenue Recognition in Financial Statements." SOP No 97-2, as amended, generally requires revenue earned on software arrangements involving multiple-elements to be allocated to each element based on the relative fair values of those elements. The Company allocates revenue to each element in a multiple-element arrangement based on the element's respective fair value, with the fair value determined by the price charged when that element is sold separately and specifically defined in a quotation or contract. Deferred revenue related to CIS and DIS sales are comprised of deferrals for license fees, hardware, and other services for which the implementation has not yet been completed and revenues have not been recognized. Revenues are presented net of discounts. At June 30, 2009 deferred revenue was \$495,326.

Post-implementation software and hardware maintenance services are marketed under monthly, quarterly and annual arrangements and are recognized as revenue ratably over the contracted maintenance term as services are provided. The Company determines the fair value of the maintenance portion of the arrangement based on the renewal price of the maintenance charged to customers, the professional services portion of the arrangement (other than installation services) based on hourly rates which the Company charges for these services when sold apart from a software license, and the hardware and sublicense of software based on the prices for these elements when they are sold separately from the software. At June 30, 2009, deferred service contract income was \$1,873,560.

Software Development Costs

Costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a program design. Thereafter, applicable software development costs are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and expected future revenue for each product with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the product, not to exceed five years. For the six months ended June 30, 2009 and 2008, the Company capitalized \$199,064 and \$288,087, respectively. At June 30, 2009, the balance of capitalized software costs was \$2,742,785, net of accumulated amortization of \$1,082,891.

Intangible Assets

Intangible assets, with definite and indefinite lives, consist of acquired technology, customer relationships, channel partners, and goodwill. They are recorded at cost and are amortized, except goodwill, on a straight-line basis based on the period of time the asset is expected to contribute directly or indirectly to future cash flows, which range from four

to 15 years.

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In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, goodwill is tested for impairment on an annual basis or between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. In accordance with SFAS No. 144, Accounting for Impairment of Long-Lived Assets, management reviews definite life intangible assets to determine if events or circumstances have occurred which may cause the carrying values of intangible assets to be impaired. The purpose of these reviews is to identify any facts or circumstances, either internal or external, which may indicate that the carrying value of the assets may not be recoverable.

Stock-based Compensation

We have two stock-based compensation plans, the 2005 Equity Incentive Plan and the 1997 Stock Option Plan, under which we may issue shares of our common stock to employees, officers, directors and consultants. Upon effectiveness of the 2005 Equity Incentive Plan on November 22, 2005, the 1997 Stock Option Plan was terminated for purposes of new grants. Both of these plans have been approved by our shareholders. On June 11, 2009, the Company’s shareholders approved an amendment to the Company’s 2005 Equity Incentive Plan increasing the number of shares available for grant from 1,290,875 to 3,040,875.

Prior to January 1, 2006, we accounted for these plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the three months ended March 31, 2009 and 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

SFAS No. 123(R) requires us to make certain assumptions and judgments regarding the grant date fair value. These judgments include expected volatility, risk free interest rate, expected option life, dividend yield and vesting percentage. These estimations and judgments are determined by us using many different variables that in many cases are outside of our control. The changes in these variables or trends, including stock price volatility and risk free interest rate may significantly impact the grant date fair value resulting in a significant impact to our financial results.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109 “Accounting for Income Taxes,” which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the differences between the financial statements and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense represents the tax payable for the period and the change during the period in deferred tax assets and liabilities. The Company has evaluated the net deferred tax asset taking into consideration operating results and determined that a full valuation allowance should be maintained.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard No. 141 (Revised) (“SFAS 141(R)”), Business Combinations. The provisions of this statement are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier application is not permitted. SFAS 141(R) replaces SFAS 141 and provides new guidance for valuing assets and liabilities acquired in a business combination. The Company will adopt SFAS 141 (R) for future acquisitions beginning January 1, 2009.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", or "SFAS 157". SFAS 157 establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework and expands disclosures about fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, except for the measurement of share-based payments. SFAS 157 was effective for the Company on January 1, 2008. However, since the issuance of SFAS No. 157, FASB has issued several FASB Staff Position (FSP) to clarify the application of FAS No. 157 "Fair Value Measurements". On February 2008, the FASB released FASB Staff Position ("FSP") SFAS No. 157-2, "Effective Date of FASB Statement No. 157", which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). On October 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active", which clarifies the application of Statement 157 in a market that is not active and provides guidance in key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FASB Staff Position applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with FASB statement No. 157, "Fair Value Measurements". On April 2009, the FASB issued FASB Staff Position (FSP) SFAS No. 157-4, "Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, "Fair Value Measurements", when the volume and level of activity for the asset or liability have significantly decreased. SFAS No. 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS No. 157-4 is effective for interim and periods ending after June 15, 2009, and shall be applied prospectively. The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial statements. The adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities, effective January 1, 2009, did not have a material impact on our consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" (FSP APB 14-1). Under the new rules for convertible debt instruments that may be settled entirely or partially in cash upon conversion, an entity should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. Previous guidance provided for accounting of this type of convertible debt instruments entirely as debt. For instruments subject to the scope of FSP APB 14-1, higher interest expense may result through the accretion of the discounted carrying value of the convertible debt instruments to their face amount over their term. FSP APB 14-1 will be effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. Early adoption is not permitted. As of the date of these consolidated financial statements, we do not have any instruments outstanding that would be subject to FSP APB 14-1, but any instruments that we may issue in the future will be subject to this pronouncement.

In June 2008, the FASB ratified Emerging Issue Task Force ("EITF") Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock" (EITF 07-5). This issue provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. EITF 07-5 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative under paragraphs 6-9 of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", (SFAS 133) for purposes of determining whether that instrument or embedded feature qualifies for the first part of the scope exception under paragraph 11(a) of SFAS 133. EITF 07-5 also applies to any freestanding financial instrument that is potentially settled in an entity's own stock, regardless of whether the instrument has all the characteristics of a derivative under paragraphs 6-9 of SFAS 133, for purposes of determining whether the instrument is within the scope of EITF Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", (Issue 00-19) which provides accounting

guidance for instruments that are indexed to, and potentially settled in, the issuer's own stock. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. We have concluded that application of EITF 07-5 does not have a material impact on the Company's financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1, "Interim Disclosures about Fair Value of Financial Instruments", which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded Companies as well as in annual financial statements. FSP FAS 107-1 also amends APB Opinion No. 28, "Interim Financial Reporting", to require those disclosures in summarized financial information at interim reporting. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We have concluded that application of FSP FAS107-1 does not have a material impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," an amendment of ARB 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective beginning December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements. The adoption of SFAS No. 160 did not have a material impact to the Company's consolidated financial statements.

In January 2009, the FASB issued FASB Staff Position (FSP) No. EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20", which amends the impairment guidance in EITF issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interest and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 retains and emphasizes the other-than-temporary impairment assessment guidance and required disclosures in FASB Statement No. 115, "Accounting for certain Investments in Debt and Equity Securities". FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Currently, there is no impact of the adoption of FSP EITF 99-20-1 on the Company's consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. FSP No. FAS 115-2 and FAS 124-2 improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The effective date for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. The adoption of FSP No. FAS 115-2 and FAS 124-2 did not have a material impact to the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). SFAS No. 165 is intended to establish general standards of the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009 and was adopted by the Company during the quarter ended June 30, 2009.

In June 2009, the FASB issued SFAS No. 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles". This statement replaces SFAS No. 162. This new statement identifies the source of accounting principles and the framework for selecting principles used in the preparation of financial statements for nongovernmental entities that are presented in conformity with US GAAP. The pronouncement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has reviewed the details of the statement and concluded that changes in codification structure will have no effect on the financial reporting of the Company. The Company will adopt the pronouncement for the quarter ended September 30, 2009 and the 10Q filing will reflect citations as stated under the codification.

Item 4T. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2009. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as

appropriate, to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of June 30, 2009, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

During the quarter ended June 30, 2009, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings

In April 2009, the Company received a complaint filed in the United States District Court for the Eastern District of Texas Marshall Division for patent infringement naming the Company and nine other Picture Archive Communication System (“PACS”) vendors as defendants. The Company’s exposure to this action, if any, cannot be determined due to the early stage of the litigation. The Company believes that it has meritorious defenses to master all of the claims asserted in the action. No reserves were established on the Company’s potential exposure as of June 30, 2009.

Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds.

On June 25, 2009, the Company issued 161,538 shares of common stock to its chief executive officer for services valued at approximately \$42,000.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission Of Matters To A Vote Of Security Holders.

On June 11, 2009, we held our 2009 annual meeting of stockholders. At the annual meeting, there were 12,437,150 shares entitled to vote, and 10,091,784 shares (81.1%) were represented at the meeting in person or by proxy. Immediately prior to the meeting, the Board of Directors was comprised of James Zierick, Lawrence S. Schmid, Robert S. Fogerson, Jr., Norman R. Cohen, C. Ian Sym-Smith, Jeffrey Tumbleson, and Rodney W. Schutt, all of whom were re-elected at the meeting to serve on the Board. The following summarizes vote results for those matters submitted to our stockholders for action at the Annual Meeting:

1. Proposal to elect Mr. James Zierick, Mr. Lawrence S. Schmid, Mr. Robert S. Fogerson, Jr., Mr. Norman R. Cohen, Mr. C. Ian Sym-Smith, Mr. Jeffrey Tumbleson, and Mr. Rodney W. Schutt as directors to hold office until the 2010 annual meeting or until their successors are elected and qualified.

Director	For	Withheld
James Zierick	9,906,781	185,003
Lawrence S. Schmid	9,383,618	708,166
Robert S. Fogerson, Jr.	9,383,618	708,166
Norman R. Cohen	9,383,381	708,403
C. Ian Sym-Smith	9,907,018	184,766
Jeffrey Tumbleson	9,904,081	187,703
Rodney W. Schutt	9,906,781	185,003

2. Proposal to ratify the potential issuance of up to 9,129,033 shares of the Company’s common stock at a price below the current book value issued in connection with a private placement of convertible notes and warrants conducted in February 2009.

For Against Abstain

Broker
Non-Votes

7,476,625	160,495	1,180	2,453,484
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3. Proposal to ratify the amendment to the Company's amended and restated articles of incorporation in order to increase the total number of authorized shares of common stock from 40,000,000 to 75,000,000.

For	Against	Abstain
9,869,792	220,327	1,660

4. Proposal to ratify the appointment of BDO Seidman, LLP as the Company's Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2009.

For	Against	Abstain
9,978,985	101,220	11,579

5. Proposal to ratify the amendment to the Company's 2005 Equity Incentive Plan to increase the aggregate number of shares that may be issued pursuant to the Company's 2005 Equity Incentive Plan from 1,290,875 to 3,040,875.

For	Against	Abstain	Broker Non-Votes
7,143,347	491,113	3,840	2,453,484

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No. Description

3.1 (1)	Restated Articles of Incorporation, as amended.
3.2 (2)	Amendment to the Restated Articles of Incorporation filed with the Secretary of the State of California on November 21, 2005.
3.3 (1)	By-Laws, as amended.
10.1 (3)	Note Purchase Agreement dated as of January 28, 2008
10.2 (3)	Security Agreement dated as of January 28, 2008
10.3 (4)	Agreement dated February 25, 2008 by and between Aspyra, Inc. and James Zierick
10.4 (5)	Note Purchase Agreement dated as of March 13, 2008
10.5 (5)	Security Agreement dated as of March 13, 2008
10.6 (6)	Securities Purchase Agreement dated as of March 26, 2008

10.7 (6) Form of Note

10.8 (6) Form of Warrant

10.9 (6) Registration Rights Agreement dated as of March 26, 2008

10.10 (6) Security Agreement dated as of March 26, 2008

10.11(7)	Securities Purchase Agreement dated as of February 12, 2009
10.12(7)	Form of Note
10.13(7)	Form of Warrant
10.14(7)	Intercreditor Agreement dated as of February 12, 2009
10.15(7)	Security Agreement dated as of February 12, 2009
10.16(8)	Business Loan Agreement
10.17(8)	Separation Agreement and General Release, dated as of April 1, 2009 by and between Aspyra, Inc. and Bruce M. Miller.
31.1 *	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2 *	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1 *	Certification of Chief Executive Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
32.2 *	Certification of Chief Financial Officer Pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.

-
- (1) Previously filed as an exhibit to the Company's Registration Statement on Form S-18 dated September 22, 1983, SEC File No. 2- 85265.
- (2) Included as an Annex to the joint proxy statement/prospectus that is part of the Company's Registration Statement on Form S-4, originally filed on October 3, 2005, SEC File No. 333-128795.
- (3) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 1, 2008.
- (4) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 28, 2008.
- (5) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 17, 2008.
- (6) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2008.
- (7)

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Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 19, 2009.

(8) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 3, 2009.

*

Filed herewith.

SIGNATURES

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.

ASPYRA, INC.

Date: August 19, 2009

/s/ Rodney W. Schutt
Chief Executive Officer
(Principal Executive Officer)

Date: August 19, 2009

/s/ Anahita Villafane
Chief Financial Officer
(Principal Financial and Accounting Officer)

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