

ASPYRA INC  
Form S-3  
May 02, 2008

As filed with the Securities and Exchange Commission on May 2, 2008

Registration Number 333-

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM S-3

#### REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

### Aspyra, Inc.

(Exact name of registrant as specified in its Charter)

**California**  
(State or other jurisdiction  
of incorporation or organization)

**95-3353465**  
(I.R.S. Employer  
Identification No.)

**26115- A Mureau Road**

**Calabasas, CA 91302**

**(818) 880-6700**

(Address, including zip code, and telephone number, including area code

of registrant's principal executive offices)

**James Zierick**

**Chief Executive Officer**

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**Aspyra, Inc.**

**26115- A Mureau Road**

**Calabasas, CA 91302**

**(818) 880-6700**

(Name, address, including zip code, and telephone number, including area code of agent for service)

**Copies to:**

**David Manno, Esq.**

Sichenzia Ross Friedman Ference LLP

61 Broadway, 32<sup>nd</sup> Floor

New York, New York 10006

(212) 930-9700

**Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.**

If the only securities being registered on this form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

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If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

### **CALCULATION OF REGISTRATION FEE**

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Title of Class of Securities to be Registered	Amount To be Registered	Proposed Maximum Aggregate Price Per Share (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, no par value	10,923,919 shares(2)	\$ 0.535	\$ 5,844,297	\$ 229.68

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, using the average of the high and low prices as reported on the American Stock Exchange on April 28, 2008, which was \$0.535 per share.

(2) Represents (i) 5,427,273 shares issuable upon conversion of convertible notes, and (ii) 5,496,646 shares issuable upon exercise of outstanding warrants, which convertible notes and warrants were issued by us to the selling stockholders in a private placement.

**The registrant hereby amends this registration statement on such date or date(s) as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the commission acting pursuant to said Section 8(a) may determine.**

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The information in this prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 2, 2008

### PROSPECTUS

#### ASPYRA, INC.

10,923,919 Shares of Common Stock

The selling stockholders named in this prospectus are offering to sell up to 10,923,919 shares of common stock of Aspyra, Inc., representing (i) 5,427,273 shares issuable upon conversion of convertible notes, and (ii) 5,496,646 shares issuable upon exercise of outstanding warrants, which convertible notes and warrants were issued by us to the selling stockholders in a private placement. We will not receive any proceeds from the resale of shares of our common stock.

Our common stock currently trades on the American Stock Exchange under the symbol APY. On April 30, 2008, the last reported sale price for our common stock on the American Stock Exchange was \$0.50 per share.

The securities offered in this prospectus involve a high degree of risk. See Risk Factors beginning on page 4 of this prospectus to read about factors you should consider before buying shares of our common stock.

The selling stockholders are offering these shares of common stock. The selling stockholders may sell all or a portion of these shares from time to time in market transactions through any market on which our common stock is then traded, in negotiated transactions or otherwise, and at prices and on terms that will be determined by the then prevailing market price or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. The selling stockholders will receive all proceeds from the sale of the common stock. For additional information on the methods of sale, you should refer to the section entitled Plan of Distribution.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is , 2008



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You may only rely on the information contained in this prospectus or that we have referred you to. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common stock offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common stock in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information contained by reference to this prospectus is correct as of any time after its date.

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### WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement that we filed on Form S-3 with the Securities and Exchange Commission or SEC. This prospectus does not contain all of the information in the registration statement and the exhibits and schedules that were filed with the registration statement. You should refer to the registration statement for additional information about us and the common stock being offered in this prospectus. Statements made in this prospectus regarding the contents of any contract, agreement or other document that is filed as an exhibit to the registration statement or any document incorporated by reference into the registration statement are not necessarily complete, and you should review the referenced document itself for a complete understanding of its terms.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document that we file at the SEC's public reference facilities located at 100 F Street Room 1580, Washington, DC 20549, and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Woolworth Building, 233 Broadway New York, New York. Copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. Information regarding the operation of the public reference rooms may be obtained by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to you free of charge at the SEC's web site at <http://www.sec.gov>.

### INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information that we incorporate by reference is considered to be part of this prospectus. Because we are incorporating by reference our future filings with the SEC, this prospectus is continually updated and those future filings may modify or supersede some or all of the information included or incorporated in this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus incorporates by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the selling stockholders sell all of our common stock registered under this prospectus.

Aspyra, Inc. Filings (File No. 001-13268)

- our annual report on Form 10-KSB for the fiscal year ended December 31, 2007, filed with the SEC on March 31, 2008;
- our current reports on Form 8-K filed on January 7, 2008, February 1, 2008, February 28, 2008, March 17, 2008, and April 1, 2008; and
- the description of our common stock, which is contained in the registration statement on Form 8-A filed with the SEC on February 10, 2000.



The information about us contained in this prospectus should be read together with the information in the documents incorporated by reference. You may request a copy of any or all of these filings, at no cost, by writing or telephoning us at Aspyra, Inc., 26115-A Mureau Road, Calabasas, California 91302, attention: chief executive officer, telephone: (818) 880-6700.

## SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including, the section entitled "Risk Factors" before deciding to invest in our common stock. Aspyra, Inc. is referred to throughout this prospectus as "Aspyra," "the Company," "we" or "us."

### Our Company

Aspyra, Inc., formerly known as Creative Computer Applications, Inc., is a healthcare information technology and service provider that specializes in Clinical Information Systems ( CIS ) and Diagnostic Information Systems ( DIS ) for healthcare providers. As a result of its merger with StorCOMM, Inc., a private company, on November 22, 2005, Aspyra broadened its portfolio of products to include the Picture Archive Communication Systems ( PACS ) products that were developed and sold by StorCOMM. In connection with the merger, the Company changed its name to Aspyra, Inc. and StorCOMM's name was changed to Aspyra Diagnostic Solutions, Inc. ( ADSI ).

Aspyra's software and services for hospitals and clinic-based laboratories, orthopedic centers, and hospital imaging departments are highly scalable and can be used by a broad variety of healthcare providers. Clinical information is data that is

gathered concerning each individual patient's health condition, diagnosis, and treatment that are used by doctors, nurses and other healthcare providers. Such data may include laboratory test results, transcribed reports of radiological or imaging procedures, digital diagnostic images, and other clinical and diagnostic data. Aspyra's products are deployed to provide automation of clinical information and digital diagnostic images that facilitate the operation of clinical departments and allows the rapid recording and processing of information that can be communicated, documented, and delivered to healthcare providers.

Currently, we market a product line that includes a Laboratory Information System (LIS) under the trade name CyberLAB<sup>®</sup>, a general purpose PACS system under the trade name AccessNET, a Radiology Information System (RIS) under the trade name CyberRAD, a RIS/PACS integrated system under the trade name AccessRAD, a specialty PACS system under the trade name AccessMED, an Anatomic Pathology System under the trade name of CyberPATH<sup>®</sup>, a WebGateway portal for physician access to its CIS applications, and other related clinical and diagnostic application modules. In February 2008 we notified our customer base that we will discontinue support in February 2009 of our Pharmacy Information System previously marketed under the trade name CyberMED<sup>®</sup>.

Our corporate offices are located at 26115-A Mureau Road, Calabasas, California 91302. Our telephone number is (818) 880-6700 and our website address is www.aspyra.com. Information contained on our website or any other website does not constitute part of this prospectus. Our business consists of three operational areas: (1) Clinical Information System and Diagnostic Information System products, (2) service of our customer's installations, and (3) implementation services. We generate revenues from the licensing of application software, the sale of hardware, and the provision of implementation and long-term post implementation services. We sell our CIS and DIS systems directly through its own sales force in North America, through channel partners and distributor programs with other companies, and has reseller agreements in certain international markets.

### **This Offering**

On March 26, 2008 (the Closing Date), we entered into a Securities Purchase Agreement (the Purchase Agreement), by and among the Company, Jay Weil as collateral agent, and the purchasers named on the signature pages thereto (the Purchasers).

Pursuant to the Purchase Agreement, the Company issued and sold to the Purchasers, all of whom are accredited investors, \$2,775,000 in principal amount of secured convertible notes (the Purchaser Notes) (including \$600,000 in Purchaser Notes that was rolled over from bridge loans), and warrants to purchase 5,045,453 shares of the Company's common stock (Purchaser Warrants). The Purchaser 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 Purchaser Notes mature on March 26, 2010 and bear interest at the rate of 8% per annum compounded on each July 15 and January 15. Each Purchaser received Purchaser Warrants equal to the total number of shares of common stock initially issuable upon conversion of the related Purchaser Note, which terminate on the third anniversary of the warrant issuance. The Purchaser Warrants have an exercise price of \$0.55 per share subject to adjustment in the event of stock splits, stock dividends, and similar transactions.

Pursuant to the Purchase Agreement, we are required, within 120 days of the Closing Date, to obtain shareholder approval, at a meeting of our shareholders held upon requisite notice and pursuant to the rules and regulations of the American Stock Exchange, for (i) the issuance and/or potential issuance of all shares of common stock which may be issued pursuant to the conversion of the Notes and the exercise of the Warrants equal to 19.99 percent or more of our common stock in connection with the Purchase Agreement, and (ii) amendment of our certificate of incorporation to increase the number of shares of our common stock that we are authorized to issue to 40,000,000 shares (collectively, the Shareholder Approval). Failure to obtain the Shareholder Approval would constitute an event of default under the Notes, which could require the early repayment of the outstanding principal balance of the Notes, and increase the interest rate on the Notes to the default rate of 24% (or the maximum lawful rate).

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Pursuant to a security agreement entered into in connection with the Purchase Agreement, the Purchaser Notes are secured by a security interest in substantially all of the Company's assets, subordinate only to the security interest held in the Company's assets by Western Commercial Bank pursuant to the Company's line of credit with the Western Commercial Bank.

We issued the placement agent for the private placement, a note in the amount of \$210,000 (the Broker Note), and together with the Purchaser Notes, the Notes), and warrants to purchase 451,193 shares of our common stock (the Broker Warrants, and together with the Purchaser Warrants, the Warrants). The Broker Notes and Broker Warrants have the same terms as the Purchaser Notes and Purchaser Warrants.

Pursuant to a registration rights agreement entered into in connection with the Purchase Agreement, we agreed to use commercially reasonable efforts to file a registration statement registering the shares of common stock underlying the Notes and the Warrants with the Securities and Exchange Commission (SEC) within 60 days from the Closing Date and use commercially reasonable effects to have such registration statement declared effective within 90 days from the date on which we file the registration statement (120 days if the registration statement is reviewed by the SEC). In the event that the initial registration statement does not include all of the shares of common stock underlying the Notes and Warrants, the Company will file an additional registration statement registering the allowable balance pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act).

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The issuance and sale of the Notes and Warrants was made in reliance upon the exemption provided in Section 4(2) of the Securities Act and/or Regulation D promulgated under the Securities Act. No form of general solicitation or general advertising was conducted in connection with the issuance. Each of the Notes and Warrants contain restrictive legends preventing the sale, transfer or other disposition of such Notes and Warrants, unless registered under the Securities Act, or pursuant to an exemption therefrom.

The 10,923,919 shares of common stock included in this prospectus represent the (i) 5,427,273 shares issuable upon conversion of the Notes, and (ii) 5,496,646 shares issuable upon exercise of the Warrants.

Common stock outstanding prior to the offering	12,437,150*
Common stock offered by selling stockholders	10,923,919 shares of common stock (representing 5,472,273 shares issuable upon conversion of Notes and 5,496,646 shares issuable upon exercise of Warrants)
Common stock to be outstanding after the offering	23,361,069**
Use of proceeds	We will not receive any proceeds from the sale of the securities hereunder. See Use of Proceeds for a complete description.

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\* As of April 14, 2008.

\*\* Assumes the full conversion of the Notes and exercise of the Warrants.

## RISK FACTORS

*An investment in our shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our shares could decline significantly and you may lose all or a part of your investment. The risk factors described below are not the only ones that may affect us. Additional risks and uncertainties that we do not currently know about or that we currently deem immaterial may also adversely affect our business, financial condition and results of operations. Our forward-looking statements in this prospectus are subject to the following risks and uncertainties. Our actual results could differ materially from those anticipated by our forward-looking statements as a result of the risk factors below. See Forward-Looking Statements.*

### **Risks Related to Our Business**

*We have incurred losses recently that may adversely impact liquidity.*

We have experienced operating losses and cash outflows. For the fiscal year ended December 31, 2007, our net loss was \$5,006,032. At December 31, 2007, our cash and cash equivalents totaled \$803,392 and our working capital deficit was \$4,007,912. We cannot be certain that Aspyra will become profitable, or if it does become profitable over any period of time, sustain profitability. If Aspyra does not become profitable and sustain profitability, the market price of our common stock will decline. The Company's primary source of working capital has been generated from private placements and borrowings. The Company's results of operations for the fiscal year ended December 31, 2007 produced negative operating cash flow of \$1,618,035. Any decline in sales, delays in implementations where payments are tied to delivery and/or performance of services or cancellations of contracts could have a negative effect on cash flow from operations and could in turn increase our liquidity problem. If sales are not as expected, the Company will consider certain cost cutting measures. We may require additional cash resources to sustain our business. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of additional indebtedness would result in incurring debt service obligations and could result in operating and financial covenants that would restrict our operations. There can be no assurance that any additional financing will be available on acceptable terms, if at all.

*Any failure to successfully introduce future products into the market could adversely affect our business.*

The commercial success of future products depends upon their acceptance by the medical community. Our future product plans include capital-intensive clinical and diagnostic information systems. We believe that these products can significantly reduce labor costs, improve patient care and offer other distinctive benefits to the medical community. However, there is often market resistance to products that require significant capital expenditures or which eliminate jobs through automation. We can make no assurance that the market will accept our future products and systems, or those sales of our future products and systems will grow at the rates expected by our management.

*If we fail to meet changing demands of technology, we may not continue to be able to compete successfully with competitors.*

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The market for our products is characterized by rapid technological advances, changes in customer requirements and frequent new product introductions and enhancements. Our future success depends upon our ability to introduce new products that keep pace with technological developments, enhance current product lines and respond to evolving client requirements. Aspyra has incurred, and we will need to continue to incur, significant research and development expenditures in future periods as we strive to remain competitive. Our failure to meet these demands could result in a loss of our market share and competitiveness and could harm our revenues and results of operations.

*Our success depends on our ability to attract, retain and motivate management and other skilled employees.*

Our future success and growth depend on the continued services of our key management and employees. The loss of the services of any of these individuals or any other key employee could materially affect our business. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense and we may not be successful in attracting or retaining them. There are a limited number of people with knowledge of, and experience in, our industry. We do not have employment agreements with most of our key employees. We do not maintain life insurance policies on our employees. Our loss of key personnel, especially without advance notice, or our inability to hire or retain qualified personnel, could have a material adverse effect on sales and our ability to maintain our technological edge. We cannot guarantee that we will continue to retain our key management and skilled personnel, or that we will be able to attract, assimilate and retain other highly qualified personnel in the future.

*If we do not protect our proprietary information and prevent third parties from making unauthorized use of our products and technology, our financial results could be harmed.*

We rely on a combination of confidentiality agreements and procedures and copyright, patent, trademark and trade secret laws to protect our proprietary information. However, all of these measures afford only limited protection and may be challenged, invalidated, or circumvented by third parties. Third parties may copy aspects of our products or otherwise obtain and use our proprietary information without authorization. Third parties may also develop similar or superior technology independently, including by designing around our patents. Furthermore, the laws of some foreign countries do not offer the same level of protection of our proprietary rights as the laws of the United States, and we may be subject to unauthorized use of our products in those countries. Any legal action that we may bring to protect proprietary information could be expensive and may distract management from day-to-day operations. Unauthorized copying or use of our products or proprietary information could result in reduced sales of our products.

*Third parties claiming that we infringe their proprietary rights could cause us to incur significant legal expenses and prevent us from selling our products.*

From time to time, we have received claims that we have infringed the intellectual property rights of others and may receive additional claims in the future. Any such claim, with or without merit, could:

- be time consuming to defend;
- result in costly litigation;
- divert management's time and attention from our business;
- require us to stop selling, to delay shipping or to redesign our products; or
- require us to pay monetary amounts as damages to our customers.

In addition, we license and use software from third parties in our business. These third party software licenses may not continue to be available to us on acceptable terms. Also, these third parties may from time to time receive claims that they have infringed the intellectual property rights of others, including patent and copyright infringement claims, which may affect our ability to continue licensing their software. Our inability to use any of this third party software could result in disruptions in our business, which could materially and adversely affect our operating results.

*Aspyra operates in a consolidating industry which creates barriers to market penetration.*

The healthcare information technology industry in recent years has been characterized by consolidation by both healthcare providers who are our customers and by those companies that we compete against. Large hospital chains and groups of affiliated hospitals prefer to negotiate comprehensive contracts for all of their system needs with larger vendors who offer broader product lines and services. The conveniences offered by these large vendors are administrative and financial incentives that we cannot offer our customers.

*Our products may be subject to government regulation in the future that could impair our operations.*

Our products could be subject to stringent government regulation in the United States and other countries in the future. Furthermore, we expect that the integration of our product and service offering will require us to comply with regulatory requirements and that we will devote significant time and resources to this effort. These regulatory processes can be lengthy, expensive and uncertain. Additionally, securing necessary clearances or approvals may require the submission of extensive data and other supporting information.

Failure to comply with applicable requirements could result in fines, recall, total or partial suspension of distribution, withdrawal of existing product or our inability to integrate our service and product offerings. If any of these things occur, it could have a material adverse impact on our business.



***Changes in government regulation of the healthcare industry could adversely affect our business.***

Federal and state legislative proposals are periodically introduced or proposed that would affect major changes in the healthcare system, nationally, at the state level or both. Future legislation, regulation or payment policies of Medicare, Medicaid, private health insurance plans, health maintenance organizations and other third-party payers could adversely affect the demand for our current or future products and our ability to sell our products on a profitable basis. Moreover, healthcare legislation is an area of extensive and dynamic change, and we cannot predict future legislative changes in the healthcare field or their impact on our industry or our business.

***We are subject to the Health Insurance Portability and Accountability Act ( HIPAA ) and the cost of complying with HIPAA may negatively impact our net income.***

Our business is substantially impacted by the requirements of HIPAA and our products must maintain the confidentiality of a patient's medical records and information. These requirements also apply to most of our customers. We believe our products meet the standards of HIPAA and may require our customers to upgrade their systems, but our customers' preoccupation with HIPAA may adversely impact sales of our products, and the costs of compliance with HIPAA could have an impact on our product margins and selling, general and administrative expenses incurred by us and could negatively impact our net income.

***Defective products or product failure may subject us to liability and could substantially increase our costs.***

Our products are used to gather information for professionals to make medical decisions, diagnosis, and treatment. Accordingly, the manufacture and sale of our products entails an inherent risk of product liability arising from an inaccurate, or allegedly inaccurate, test or procedure result. In the past, Aspyra has discovered errors and failures in certain of our product offerings after their introduction and have experienced delayed or lost revenues during the period required to correct these errors. Errors and failures in products released by us could result in negative publicity, product returns, loss of or delay in market acceptance of our products, loss of competitive position or claims by customers or others. Alleviating any of these problems could require significant expenditures of our capital and resources and could cause interruptions, delays or cessation of our sales, which could cause us to lose existing or potential customers and would adversely affect our operating results. We may be subject to product liability claims as a result of any failure or errors in our products. If a customer is successful in proving its damages, it could prove expensive and time-consuming to defend against these claims, and we could be liable for the damages suffered by our customers and other related expenses, which could adversely affect our operating results. We currently maintain product liability insurance coverage for up to \$2 million per incident and up to an aggregate of \$4 million per year. Although management believes this liability coverage is sufficient protection against future claims, there can be no assurance of the sufficiency of these policies. We have not received any indication that our insurance carrier will not renew our product liability insurance at or near current premiums; however, we cannot guarantee that this will continue to be the case.

***System or network failures could reduce our sales, increase costs or result in a loss of customers.***

We rely on our management information systems to operate our business and to track our operating results. Our management information systems will require modification and refinement as we grow and our business needs change. If we experience a significant system failure or if we are unable to modify our management information systems to respond to changes in our business needs, then our ability to properly run our business could be adversely affected and could lead to a reduction in our sales, increase costs and a loss of customers.

*Our evaluation of internal controls and remediation of potential problems will be costly and time consuming and could expose weakness in our financial reporting.*

While we believe that we currently have adequate internal control procedures in place, we are still exposed to potential risks from recent legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002. We have evaluated our internal controls system to allow management to report on in the current year and determined our controls are effective.

*Factors outside of our control may adversely affect our operations and operating results.*

Our operations and operating results may be adversely affected by many different factors which are outside of our control, including:

- deterioration in economic conditions in any of the healthcare information technology industry, which could reduce customer demand and ability to pay for our products and services;
- political and military instability, which could slow spending within our target markets, delay sales cycles and otherwise adversely affect our ability to generate revenues and operate effectively;
- budgetary constraints of customers, which are influenced by corporate earnings and spending objectives;
- earthquakes, floods or other natural disasters affecting our headquarters located in Calabasas, California, an area known for seismic activity, or our other locations worldwide;
- acts of war or terrorism; and
- inadvertent errors.

Any of these factors could result in a loss of revenues and/or higher expenses, which could adversely affect our financial results.

*Our international operations involve special risks that could increase our expenses, adversely affect our operating results and require increased time and attention of our management.*

We expect to generate approximately 10% of our revenues from customers located outside of the United States in the fiscal year ending December 31, 2008. Our international operations are subject to risks in addition to those faced by our domestic operations, including:

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- potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of our intellectual property rights;
- imposition of foreign laws and other governmental controls, including trade and employment restrictions;
- enactment of additional regulations or restrictions on imports and exports;
- fluctuations in currency exchange rates and economic instability such as higher interest rates and inflation, which could make our products more expensive in those countries;
- limitations on future growth or inability to maintain current levels of revenues from international sales if we do not invest sufficiently in our international operations;
- longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;
- difficulties in staffing, managing and operating our international operations;
- difficulties in coordinating the activities of our geographically dispersed and culturally diverse operations; and
- political unrest, war or terrorism, particularly in areas in which we have facilities.

A portion of the Company's transactions outside of the United States are denominated in foreign currencies. Our functional currency is the U.S. dollar. Accordingly, our future operating results will continue to be subject to fluctuations in foreign currency rates. Hedging foreign currency transaction exposures is complex and subject to uncertainty. We may be negatively affected by fluctuations in foreign currency rates in the future, especially if international sales continue to grow as a percentage of our total sales.

***Changes to financial accounting standards and new exchange rules could make it more expensive to issue stock options to employees, which would increase compensation costs and may cause us to change our business practices.***

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the Public Company Accounting Oversight Board, the SEC and various other bodies. A change in those policies could have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced.

For example, we have used stock options and other long-term equity incentives as a fundamental component of our employee compensation packages. We believe that stock options and other long-term equity incentives directly motivate our employees to maximize long-term shareholder value and, through the use of vesting, encourage employees to remain with our Company. The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards 123R that requires us to record a charge to earnings for employee stock option grants. In addition, regulations implemented by the American Stock Exchange generally require shareholder approval for all stock option plans, which could make it more difficult or expensive for us to grant stock options to employees. We may, as a result of these changes, incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could materially and adversely affect our business, operating results and financial condition.

***Our wholly owned subsidiary, Aspyra Diagnostic Solutions, Inc., currently relies on third party distribution arrangements to distribute its products. The loss of any of these relationships, or a material change in any of them, could materially harm our business.***

For the fiscal years ended December 31, 2007 and 2006, our wholly owned subsidiary, Aspyra Diagnostic Solutions, Inc., received approximately 17% and 90% of its revenues, respectively, through third party distribution arrangements. We expect that we will continue to generate a significant portion of our revenues through a limited number of distribution arrangements for the foreseeable future. A significant portion of the Company's outstanding accounts receivable is with such third party distributors, which will result in a concentration of our credit risk. If any of these third party distributors decides not to market or distribute our products or decides to terminate or not renew its agreement with us, we may be unable to replace the affected agreements with acceptable alternatives, which could materially harm our business, operating results and financial condition.

***Failure to obtain the required shareholder approval under the Purchase Agreement could require the early repayment of the Notes. If we were unable to repay the Notes when required, the Note holders could, subject to the security interest of Western Commercial Bank, foreclose on the collateral and commence legal action against us to recover the amounts due which ultimately could require the disposition of some or all of our assets.***

Pursuant to the Purchase Agreement which closed in March 2008, we are required, within 120 days of the Closing Date, to obtain shareholder approval, at a meeting of our shareholders held upon requisite notice and pursuant to the rules and regulations of the American Stock Exchange, for (i) the issuance and/or potential issuance of all shares of common stock which may be issued pursuant to the conversion of the Notes and the exercise of the Warrants equal to 19.99 percent or more of our common stock in conn