ASPYRA INC
Form 10QSB
May 19, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

ý	**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006.	
o	**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from to

Commission file number 0-12551

ASPYRA, INC. formerly known as CREATIVE COMPUTER APPLICATIONS, INC.

(Exact name of small business issuer as specified in its charter)

California	**95-3353465**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

26115-A Mureau Road, Calabasas, California 91302

(Address of principal executive offices)

(818) 880-6700

(Issuer s telephone number, including area code)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý **No** o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o **No** ý

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: 8,489,400 common shares as of May 12, 2006.

Transitional Small Business Disclosure Format (check one):

Yes o **No** ý

ASPYRA, INC.

FORM 10-QSB

I N D E X

ASPYRA, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

		March 31, 2006 (Unaudited)		December 31, 2005
ASSETS				
CURRENT ASSETS:				
Cash	$	934,732	$	1,329,753
Receivables, net		2,090,081		1,547,699
Inventory		265,907		207,345
Prepaid expenses and other assets		340,995		589,510
TOTAL CURRENT ASSETS		3,631,715		3,674,307
PROPERTY AND EQUIPMENT, net		566,600		511,919
INVENTORY OF COMPONENT PARTS		137,848		158,302
CAPITALIZED SOFTWARE COSTS, net of accumulated amortization of $1,286,081 and $1,211,445		2,078,470		1,885,887
INTANGIBLES, net		4,546,613		4,697,240
GOODWILL		7,698,434		7,698,434
	$	18,659,680	$	18,626,089
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES:				
Notes payable (Note 6)	$	1,274,078	$	995,403
Accounts payable		1,002,336		1,218,698
Accrued liabilities:				
Vacation pay		407,419		384,887
Accrued payroll		210,647		355,277
Accrued settlement		79,300		154,300
Other		412,442		338,098
Deferred service contract income		2,381,095		1,611,644
Deferred revenue on system sales		1,759,791		1,165,521
TOTAL CURRENT LIABILITIES		7,527,108		6,223,828
NOTES PAYABLE		154,751		220,871
TOTAL LIABILITIES		7,681,859		6,444,699
SHAREHOLDERS EQUITY:				
Common shares, no par value; 20,000,000 shares authorized; 8,489,400 and 8,489,400 shares issued and outstanding		16,973,988		16,974,222
Additional paid-in-capital		114,553		
Accumulated deficit		(6,103,860)		(4,790,142)
Accumulated other comprehensive loss		(6,860)		(2,690)
TOTAL SHAREHOLDERS EQUITY		10,977,821		12,181,390
	$	18,659,680	$	18,626,089

See Notes to Condensed Consolidated Financial Statements.

ASPYRA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2006	2005
	(Unaudited)	
NET SYSTEM SALES AND SERVICE REVENUE:		
System sales	$ 971,842	$ 587,107
Service revenue	1,730,233	1,238,181
	2,702,075	1,825,288
COSTS OF PRODUCTS AND SERVICES SOLD:		
System sales	788,459	453,350
Service revenue	758,335	414,862
	1,546,794	868,212
Gross profit	1,155,281	957,076
OPERATING EXPENSES		
Selling, general and administrative	1,952,856	828,732
Research and development	488,468	314,843
Total operating expenses	2,441,324	1,143,575
Operating loss	(1,286,043)	(186,499)
INTEREST AND OTHER INCOME	4,739	4,727
INTEREST EXPENSE	(32,414)	(5,192)
Loss before provision for income taxes	(1,313,718)	(186,964)
PROVISION FOR INCOME TAXES		
NET LOSS	$ (1,313,718)	$ (186,964)
LOSS PER SHARE (Note 5):		
Basic	$ (.15)	$ (.06)
Diluted	(.15)	(.06)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	8,489,400	3,353,900
Diluted	8,489,400	3,353,900

See Notes to Condensed Consolidated Financial Statements.

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ASPYRA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash

	Three Months Ended March 31, 2006	2005
	(Unaudited)	
OPERATING ACTIVITIES		
Net loss	$ (1,313,718)	$ (186,964)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	209,014	34,397
Provision for doubtful accounts	17,019	
Amortization of capitalized software costs	74,636	90,139
Stock based compensation	114,553	
Increase (decrease) from changes in:		
Receivables	(559,401)	330,173
Inventories	(38,108)	(57,348)
Prepaid expenses and other assets	248,515	1,967
Accounts payable	(216,362)	89,821
Accrued liabilities	(122,754)	33,871
Deferred service contract income	769,451	191,664
Deferred revenue on system sales	594,270	(91,564)
Net cash provided by (used in) operating activities	(222,885)	436,156
INVESTING ACTIVITIES		
Additions to property and equipment	(113,068)	(81,088)
Additions to deferred merger costs		(69,626)
Additions to capitalized software costs	(267,219)	(126,000)
Net cash used in investing activities	(380,287)	(276,714)
FINANCING ACTIVITIES		
Borrowings on line of credit	300,000	
Payments on notes payable	(87,445)	(100,000)
Buyback of fractional shares related to merger	(234)	
Exercise of stock options		52,000
Net cash provided by (used in) financing activities	212,321	(48,000)
Foreign currency translation adjustment	(4,170)	
NET INCREASE (DECREASE) IN CASH	(395,021)	111,442
CASH, beginning of period	1,329,753	1,655,063
CASH, end of period	$ 934,732	$ 1,766,505

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 March 31, 2006, the results of its operations and cash flows for the three months ended March 31, 2006 and 2005. 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-KSB for the fiscal year ended December 31, 2005.

The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results expected for any other period or for the entire year.

Note 2-Liquidity

As of March 31, 2006, the Company s working capital amounted to a deficit of $3,895,393 compared to a deficit of $2,549,521, as of December 31, 2005. The deficit working capital position on a consolidated basis is the result of ASPYRA merging with Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM, Inc.) which had a substantial negative working capital position at the time of the merger and the increase in deferred revenues which in the aggregate amounted to approximately $4,140,000 at March 31, 2006. On May 17, 2006, the Company sold in a private placement transaction 2,250,000 shares of its common stock and warrants to purchase up to 1,350,000 shares of its common stock pursuant to the terms of the Common Stock and Warrant Purchase Agreement, dated May 4, 2006. The private placement generated $4.5 million and improves the Company s working capital position.

The Company s primary source of working capital has been generated from the private placement, which was completed in November 2005, and from borrowings. The Company s results of operations for the current fiscal quarter ended March 31, 2006 produced negative operating cash flow of approximately $222,885. An unanticipated 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 create short-term liquidity problems. We believe that our current cash and cash equivalents, and cash flow from operations, will be sufficient to meet our current anticipated cash needs, including for working capital purposes, capital expenditures and various contractual obligations, for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in incurring debt service obligations and could result in 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.

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 March 31, 2006 and December 31, 2005 the inventory allowance was $131,781 and $116,781, respectively.

Note 4-Goodwill and Intangible Assets

In accordance with SFAS No. 142 and SFAS No. 144, management monitors intangible assets for impairment on a periodic basis. On an annual basis, unless circumstances indicate impairment may have occurred between annual dates, management performs an impairment analysis of goodwill and its indefinite life intangible assets. On a quarterly basis, management reviews definite life intangible assets to determine if the carrying values of intangible assets are 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. At March 31, 2006, the net carrying value of goodwill and intangible assets were $7,698,434 and $4,546,613, 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 has been computed as follows:

		Three Months Ended March 31, 2006		Three Months Ended March 31, 2005
NET LOSS	$	(1,313,718)	$	(186,964)
Basic weighted average number of common shares outstanding		8,489,400		3,353,900
Dilutive effect of stock options				
Diluted weighted average number of common shares outstanding		8,489,400		3,353,900
Basic loss per share	$	(.15)	$	(.06)
Diluted loss per share	$	(.15)	$	(.06)

For the three months ended March 31, 2006 and 2005, options to purchase 821,670 and 354,000 shares of common stock at per share prices ranging from $.72 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

The Company s line of credit with its bank provides for $800,000 on a revolving basis through June 15, 2006. On March 31, 2006, the total amount due to the bank was $800,000. The Company acquired a note in conjunction with the merger with an interest rate of 7% with payments in the amount of $25,000 due monthly. As of March 31, 2006, the total amount due on this note was $454,751. The Company also acquired unsecured notes in conjunction with the merger with interest rates ranging from 7% to 8%. These notes are due upon demand and the balance at March 31, 2006 was $174,078.

Note 7-Stock-Based Compensation

As of March 31, 2006, the Company has 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, the 1997 Stock Option Plan was closed for purposes of new grants. Both of these plans have been approved by our shareholders.

Prior to January 1, 2006, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* (Statement No. 123). No stock-based employee compensation cost was recognized in our Statement of Operations for the three months ended March 31, 2005 as all options granted under our plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123(R), *Share-Based Payment* (Statement No. 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the three months ended March 31, 2006 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 Statement 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 Statement No. 123(R). As SFAS No. 123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for the three months ended March 31, 2006 has been reduced by estimated forfeitures based on historical trends of option forfeitures. The Company has recorded approximately $114,500 of stock-based compensation expense during the first quarter of 2006 as a result of the adoption of SFAS No. 123(R). The Company did not record any excess tax benefits as a result of adopting SFAS No. 123(R) in the three months ended March 31, 2006 because the Company is currently providing a valuation on future tax benefits realized until it can sustain a level of profitability that demonstrates its ability to utilize the assets. Results for prior periods have not been restated.

A summary of option activities under the stock option plans during the three months ended March 31, 2006 is presented as follows:

Stock Options	**Shares**		**Weighted- Average Exercise Price**	**Weighted Average Remaining Contractual Term**		**Aggregate Intrinsic Value**
Outstanding at January 1, 2006	521,670	$	2.17	34.7 mos.	$	251,600
Granted		$				
Exercised		$				
Canceled or Expired		$				
Outstanding at March 31, 2006	521,670	$	2.17	31.7 mos.	$	230,600
Exercisable at March 31, 2006	190,000	$	1.63	28.3 mos.	$	166,500

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for the 210,000 options that were in-the-money at March 31, 2006. As of March 31, 2006, there was approximately $320,385 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under our stock awards plans. That cost is expected to be recognized over a weighted-average period of two years. The share-based compensation will be amortized based on the accelerated method over the vesting period.

A summary of the status of the Company s non-vested stock options during the three months ended March 31, 2006 is presented below:

Non-vested Options	Shares		Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2006	361,670	$	2.36
Granted			
Exercised			
Vested	30,000		1.14
Forfeited or expired			
Non-vested at March 31, 2006	331,670	$	2.47

The following table illustrates the proforma effect on net loss and net loss per share if we had applied the fair value recognition provisions of Statement 123(R) to all periods presented.

		Three Months Ended March 31, 2005
Net loss before stock-based compensation expense	$	(186,964)
Less: total stock based employee compensation expense determined under fair value based method for all awards		(11,011)
Net loss	$	(197,975)
Basic net loss per share:		
Net loss before stock-based compensation	$	(.06)
Stock-based compensation		(.00)
Basic net loss per share	$	(.06)
Diluted net loss per share:		
Net loss before stock-based compensation	$	(.06)
Stock-based compensation		(.00)
Diluted net loss per share	$	(.06)

The Company issues all of its options at fair market value at the time of grant. The fair value of each option was estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rates ranging from 3.4% to 6.1%, expected life of options ranging from 3 to 5 years; volatility ranging from 67% to 126% and no assumed dividends. The weighted-average grant-date fair value of options granted during 2005 was estimated to be $1.80. There were no options granted in the three months ended March 31, 2006.

FASB Statement 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, vesting percentage and forfeitures. 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.

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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.

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-Acquisition of StorCOMM, Inc.

On November 22, 2005, the Company acquired StorCOMM, Inc. pursuant to an Agreement and Plan of Reorganization dated August 16, 2005 (the Merger Agreement). Simultaneously with the closing of the merger, ASPYRA sold in a private placement 1,500,000 shares of its common stock and warrants to purchase up to 300,000 shares of its common stock for $3,000,000 pursuant to the terms of the Common Stock and Warrant Purchase Agreement dated August 18, 2005. The private placement closed and became effective on November 22, 2005.

Pursuant to the Merger Agreement, the Company issued 3,498,000 shares of common stock in exchange for the business and assets of StorCOMM. Based upon the average closing price of the common stock for August 11, 2005 through August 19, 2005, the value of the common stock was $7,765,560. In addition, the Company paid approximately $1,157,000 in transaction costs and had advanced StorCOMM $595,387.

The acquisition of StorCOMM is accounted for as a purchase business combination in accordance with Statement of Financial Accounting Standards (SFAS) no. 141, Business Combinations. The total purchase price related to the acquisition of StorCOMM was $9,517,590.

StorCOMM will operate as a wholly owned subsidiary of ASPYRA and the Company s financial statements will include the results of StorCOMM from the closing date of the acquisition (November 22, 2005).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price was based on an independent third-party valuation of certain intangible assets. The excess purchase price over the estimated fair value of the assets acquired and liabilities assumed is recorded as goodwill.

At November 22, 2005

Current assets	$	1,286,767
Purchased technology		1,976,836
Other intangible assets		2,110,000
Goodwill		7,698,434
Total assets acquired		13,072,037
Current liabilities		3,554,447
Total liabilities assumed		3,554,447
Net assets acquired	$	9,517,590

The purchased technology is comprised of internally created software, which was valued by the independent third-party who assigned an expected useful life of 6 years.

The other intangible assets are primarily comprised of customer relationships valued by the independent third-party. The expected useful life assigned is 15 years.

The excess of the purchase price over the estimated fair value of the assets acquired and the liabilities assumed was recorded as goodwill.

Since there is no step up in basis of the acquired intangible assets for tax purposes, amortization of purchased technology and other intangible assets is not deductible for tax purposes. A $1,634,734 deferred tax liability is calculated at the blended tax rate of 40% applied to the $1,976,836 purchased technology and $2,110,000 other intangible assets. At December 31, 2005, in accordance with SFAS 141, $1,634,734 of the deferred tax liability is expected to be realized over the term as the deferred tax asset, therefore $1,634,734 of the deferred tax liability was offset against the deferred tax asset of ASPYRA as part of the consolidated income tax provision. As a result of the transaction, ASPYRA S deferred tax asset valuation was reduced. In accordance with SFAS 109, the change in valuation allowance was offset against goodwill.

The following summarized unaudited pro forma consolidated results of operations are presented as if the acquisition of StorCOMM occurred on January 1, 2005. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed and presented.

	Three Months Ended March 31, 2005 (unaudited)
Revenues	3,360,352
Net Loss	(564,645)
Loss per share-basic and diluted	(.17)

In January 2006, StorCOMM, Inc. changed its name to Aspyra Diagnostic Solutions, Inc.

Note 11-New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, which requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) be recognized as current-period charges. In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The adoption of this standard did not have a material impact on our results of operations or financial position.

In December 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets*, as amendment of APB Opinion No. 29 Accounting for Nonmonetary Transactions. This statement amends the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and more broadly provides for exceptions regarding exchanges of nonmonetary assets that do not have commercial substance. This Statement is effective for nonmonetary asset exchanges occurring during our fiscal year beginning January 1, 2006. The adoption of this standard did not have a material impact on our results of operations or financial position.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, which changes the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement in the usual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impractical to determine either the period-specific or cumulative effects of the change. Statement No. 154 is effective for accounting changes made in our fiscal year beginning January 1, 2006. The adoption of this standard did not have a material impact on our results of operations or financial position.

Note 12-Subsequent Events

On May 17, 2006, ASPYRA sold in a private placement 2,250,000 shares of its common stock and warrants to purchase up to 1,350,000 shares of its common stock pursuant to the terms of the Common Stock and Warrant Purchase Agreement, dated May 4, 2006 (the Purchase Agreement), by and among ASPYRA and each of the Purchasers. The shares of common stock and warrants were sold in units, with each unit consisting of a single share of ASPYRA common stock and three-fifths of a warrant to purchase one share of ASPYRA common stock. The price per unit was $2.00 for an aggregate purchase price of $4.5 million. The exercise price of the warrants is $3.00 per share. These shares were issued and sold pursuant to the exemption from registration under the Securities Act of 1933, as amended (the Securities Act) that is available for offers and sales to accredited investors pursuant to Rule 506 of Regulation D under the Securities Act and Section 4(2) of the Securities Act. Simultaneously with the execution of the Purchase Agreement, ASPYRA and each of the Purchasers entered into a Registration Rights Agreement, dated May 4, 2006, pursuant to which each of the Purchasers shall be entitled to certain registration rights.

Item 2. **Management s Discussion and Analysis or Plan of Operation**

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-QSB 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 terms of similar subs 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-QSB, 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-QSB. 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-QSB, whether as a result of new information, future events or otherwise.

Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion relates to the newly merged business of ASPYRA, which includes the operations of its wholly owned subsidiaries Aspyra Diagnostic Systems, Inc. and Aspyra Technologies, Ltd. The merger was consummated on November 22, 2005 and this first fiscal quarter of 2006 is the first full quarterly report since the merger was consummated.

ASPYRA operates in one business segment and generates revenues primarily from the sale of its Clinical and Diagnostic Information Systems (CIS and DIS), 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, including its data acquisition products, to its customers and to third parties. The Company also generates recurring revenues from the provision of comprehensive post implementation services to its customers, pursuant to extended service agreements. This is an important aspect of its 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. The ability to provide comprehensive services is crucial to selling new customers and maintaining existing customers.

Because of the nature of its 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 either continue at current levels or may increase for the foreseeable future, and will be funded primarily out of the Company s cash flow.

ASPYRA s results of operations for the first fiscal quarter ended March 31, 2006 were marked by an increase in sales and an increase in operating loss over the comparable period of 2005 that are more fully discussed in the following section Results of Operations. The Company s increase in revenues was due to the addition of the revenues from ASPYRA s wholly owned subsidiary, Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM, Inc.). The Company had sales, which due to timing issues, were not fully implemented and recognized in the quarter. Despite the shortfall in our new system sales recognized, there were positive areas in our business. For instance, service revenues increased for the quarter by $492,052 or 39.7%. Generally, sales cycles for CIS and DIS products are 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.

The operating losses incurred by the Company during the three-month period ended March 31, 2006 were primarily a result of two factors. First, the Company experienced delays related to implementation of systems, which prevented it from recognizing revenue on many of its DIS sales, which increased the Company s deferred revenue as of March 31, 2006. Only a fraction of the sales booked in the quarter ended March 31, 2006, were actually recognized as revenue in that quarter. The backlog of deferred revenue associated with such sales increased to $1,759,791 as of March 31, 2006, which will be recognized in future periods. Second, the Company is engaged in executing an integration and restructuring of the merged business and incurred certain costs associated with such activities which were only partially offset by reductions in redundant personnel and other expenses during the quarter ended March 31, 2006. The Company expects to achieve synergies and cost reductions in its business as it completes further integration and restructuring in the next two fiscal quarters.

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 March 31, 2006	Three Months Ended March 31, 2005
Revenues:		
System sales	36.0%	32.2%
Service revenues	64.0	67.8
Total revenues	100.0	100.0
Cost of products and services sold:		
System sales	29.2	24.8
Service revenues	28.0	22.7
Total cost of products and services	57.2	47.5
Gross profit	42.8	52.5
Operating expenses:		
Selling, general and administrative	72.3	45.4
Research and development	18.1	17.2
Total operating expenses	90.4	62.6
Operating loss	(47.6)	(10.2)
Loss before provision for income taxes	(48.6)	(10.2)
Provision for income taxes		
Net loss	(48.6)	(10.2)

Revenues

Sales for the first fiscal quarter ended March 31, 2006 increased to $2,702,075, as compared to $1,825,288 for the comparable quarter ended March 31, 2005, an overall increase of approximately $876,787 or 48.0%. When analyzed by product category for the quarter, sales of CIS and DIS products increased by $384,735, or 65.5%, and service revenues increased by $492,052 or 39.7%. The increase in sales of CIS and DIS products was primarily attributable to the addition of the revenues from ASPYRA s wholly owned subsidiary, Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM, Inc.) described above under Overview . The increase in service revenues is attributable to the consolidation of service revenues from the subsidiaries and a greater number of client accounts under contract. Service revenues are expected to continue to increase as and when the Company s installed base of CIS and DIS installations increases.

Although the Company continues to invest in sales and marketing activities, management is cautious about the near-term outlook for its sales of CIS and DIS products as it focuses on increasing its transaction pipeline. The Company has invested additional funds into marketing activities to further build its sales pipeline as well as to launch the newly merged company. The Company s future operating results will continue to be subject to quarterly variations based upon a wide variety of factors, including the volume mix and timing of orders received during any quarter, and the temporary delays in the closing of new CIS and DIS sales. In addition, the Company s revenues associated with CIS and DIS sales may be delayed due to client related issues such as client staff availability for training, information technology infrastructure readiness, and the performance of third party contractors, all of which are issues outside of the control of ASPYRA.

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Costs of products and services sold

Cost of sales for the first quarter ended March 31, 2006 increased by $678,582 or 78.2% as compared to the same period of fiscal 2005. The increase in cost of sales was primarily attributable to an increase in material costs of $143,617 or 142.1%, an increase in labor costs of $349,240 or 75.4%, and an increase in other costs of $185,725 or 61.1%. The increase in material costs was attributable to the increase in sales of CIS and DIS products discussed above. The increase in labor costs was attributable to the consolidation of addition of personnel of Aspyra Diagnostic Solutions, Inc. The increase to other costs was also a result of the addition of the operations of the subsidiary. For the current quarter, cost of sales as a percentage of sales was 57%, as compared to 48% for the comparable period of 2005. The overall percentage increase in cost of sales, as a percentage of sales, in the quarter was attributable to a reduced number of sales of CIS and DIS products recognized. As a result, gross margins decreased from 52% for the three months ended March 31, 2005 to 43% for the three months ended March 31, 2006. The Company could potentially experience quarterly variations in gross margin as a result of the factors discussed above.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by $1,124,124 or 135.6% for the current fiscal quarter ended March 31, 2006 as compared to the same period of fiscal 2005. The increases in selling, general and administrative expenses were primarily attributable to the addition of expenses from the consolidation of the subsidiaries of approximately $629,000 as well as additional expenses incurred during the quarter ended March 31, 2006, as follows: legal and accounting fees of approximately $71,000, tradeshow expenses of approximately $90,000 and expenses related to the Company s user symposium of approximately $72,000 in the current quarter. Also included in the current quarter as additional expense was approximately $150,000 attributable to amortization of intangible assets, and compensation expense of approximately $114,000 associated with the adoption of FASB Statement 123R. The Company s plans include increased further investment in its marketing and sales programs during the balance of its 2006 fiscal year.

Research and development expenses

Research and development expenses increased by $173,625, or 55.1% for the current fiscal quarter ended March 31, 2006 as compared to the same period of fiscal 2005. The increase is attributable to increases in salaries as a result of the addition of the personnel in the consolidated subsidiaries, which amounted to approximately $142,000 during the current quarter. For the comparable first quarters of 2006 and 2005, the Company capitalized software costs of $267,219 and $126,000, respectively, which are generally amortized over the estimated useful life, not to exceed five years. Such costs were attributable to the development of AccessRAD the new RIS/PACs platform that integrates the Company s radiology information system CyberRAD with its AccessNET PACS system, and enhancements and new modules for the Company s CIS and DIS products. The Company plans to continue significant product development activities at current expense levels throughout the 2006 fiscal year.

Interest Expense

Interest expense for the three months ended March 31, 2006 increased by $27,222 or 524.3% as compared to the same period of fiscal 2005. The increase is a result of the increased borrowings at March 31, 2006 as compared to March 31, 2005.

Net income (loss)

As a result of the factors discussed above, the Company incurred a net loss of $1,313,718 or basic and diluted loss per share of $.15 in the first fiscal quarter of 2006 as compared to net loss of $186,964 or basic and diluted loss per share of $.06 for the first fiscal quarter of 2005.

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 $267,219 and $126,000 respectively during three months ended March 31, 2006 and 2005 in software development. These expenditures related to investment in the Company s new RIS/PACS integrated system AccessRAD, and the new browser version of the Company s LIS product, CyberLAB, and other product enhancements. The Company anticipates expending additional sums during fiscal 2006 on product enhancements to all its products and the further development of AccessRAD, and the new browser version of the Company s LIS product, CyberLAB. During three months ended March 31, 2006 and 2005, the Company invested an aggregate of $113,068 and $81,088, respectively, in fixed assets primarily consisting of computers and software.

As of March 31, 2006, the Company s working capital amounted to a deficit of $3,895,393 compared to a deficit of $2,549,521, as of December 31, 2005. The deficit working capital position on a consolidated basis is the result of ASPYRA merging with Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM, Inc.) which had a substantial negative working capital position at the time of the merger and the increase in deferred revenues which in the aggregate amounted to approximately $4,140,000 at March 31, 2006. On May 17, 2006, the Company sold in a private placement transaction 2,250,000 shares of its common stock and warrants to purchase up to 1,350,000 shares of its common stock pursuant to the terms of the Common Stock and Warrant Purchase Agreement, dated May 4, 2006. The private placement generated $4.5 million and improves the Company s working capital position.

Cash used in operating activities were $222,885 for the three-month period ended March 31, 2006 compared to cash provided by operations of $436,156 for the comparable period of fiscal 2005. The decrease in cash flow from operating activities was primarily attributable to the net loss incurred and the net change in accrued receivables, payables, and deferred revenues compared to the same period of fiscal 2005.

Net cash used in investing activities totaled $380,287 for the three-month period ended March 31, 2006, compared to $276,714 used in investing activities during the comparable period of 2005. The increase in cash used in investing activities was due to increased investment in property and equipment and additional investment in capitalized software, and additions to capitalized acquisition costs.

Cash flows from financing activities amounted to $212,321 during the three-month period ended March 31, 2006 compared to $48,000 used during the comparable period of fiscal 2005. The increase was primarily from borrowings on its revolving line of credit with the bank offset by cash flows from payments on notes payable.

The Company s primary source of working capital has been generated from the private placement, which was completed in November 2005, and from borrowings. The Company s results of operations for the current fiscal quarter ended March 31, 2006 produced negative operating cash flow of approximately $222,885. An unanticipated 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 create short-term liquidity problems. We believe that our current cash and cash equivalents, and cash flow from operations, will be sufficient to meet our current anticipated cash needs, including for working capital purposes, capital expenditures and various contractual obligations, for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in incurring debt service obligations and could result in 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.

Seasonality, Inflation and Industry Trends

The Company s sales are generally higher in the winter and spring. 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 those promulgated by HIPAA 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 paradigm 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. The Company anticipates it will be able to meet these challenges.

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, 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 are believed 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 its clients. 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 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 March 31, 2006, the inventory reserve was approximately $131,800.

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 March 31, 2006 was $2,090,081, net of an allowance for doubtful accounts of approximately $68,500.

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 and specifically defined in a quotation or contract. The Company determines the fair value of the maintenance portion of the arrangement based on the renewal price of the maintenance charged to customers, 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 March 31, 2006 deferred revenue was $1,759,791.

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. 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. At March 31, 2006 deferred service contract income was $2,381,095.

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 three-month periods ended March 31, 2006 and 2005, the Company capitalized $267,219 and $126,000, respectively. At March 31, 2006, the balance of capitalized software costs was $2,078,470, net of accumulated amortization of $1,286,081.

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 4 to 15 years.

Under SFAS No. 142, Goodwill and Other Intangible Assets , goodwill and indefinite life intangible assets are no longer amortized but are subject to periodic impairment tests. Other intangible assets with definite lives, such as acquired technology, customer relationships, channel partners continue to be amortized over their useful lives. Management monitors intangible assets for impairment on a periodic basis. On an annual basis, unless circumstances indicate impairment may have occurred between annual dates, management performs an impairment analysis of goodwill and its indefinite life intangible asset. On a quarterly basis, management reviews definite life intangible assets to determine if the carrying values of intangible assets are 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, the 1997 Stock Option Plan was closed for purposes of new grants. Both of these plans have been approved by our shareholders.

Prior to January 1, 2006, we accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation (Statement No. 123). No stock-based employee compensation cost was recognized in our Statement of Operations for the three months ended March 31, 2005 as all options granted under our plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment (Statement No. 123(R)), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the three months ended March 31, 2006 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 Statement 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 Statement No. 123(R). Results for prior periods have not been restated.

FASB Statement 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.

Risk Factors

In evaluating the Company, various risk factors and other information should be carefully considered. The risks and uncertainties described below are not the only ones that impact the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also have an adverse impact on us. Among other things, this discussion contains forward-looking statements that are based on certain assumptions about future risks and uncertainties. We believe that our assumptions are reasonable. Nonetheless, it is likely that at least some of these assumptions will not come true.

We have incurred losses recently that may adversely impact liquidity.

We have experience operating losses and cash outflows. At March 31, 2006, our net loss was $1,313,718, our cash and cash equivalents totaled $934,732, and our working capital deficit was $3,895,393. We cannot be certain that ASPYRA will become profitable and sustain profitability. If ASPYRA does not become profitable and sustain profitability, the market price of our common stock will likely decline.

If ASPYRA and Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) fail to effectively integrate their operations, the combined company may not realize the potential benefits of the merger.

The integration of ASPYRA and Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) has been a time consuming and expensive process and may disrupt the combined company s operations if it is not completed in a timely and efficient manner. The integration is still in process. If this integration effort is not successful, the combined company s results of operations could be harmed, employee morale could decline, key employees could leave, customers could cancel existing orders or choose not to place new ones and the combined company could have difficulty complying with regulatory requirements. In addition, the combined company may not achieve anticipated synergies or other benefits of the merger. ASPYRA and Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) must operate as a combined organization utilizing common information and communication systems, operating procedures, financial controls and human resources practices. The combined company may encounter the following difficulties, costs and delays involved in integrating their operations:

failure to successfully manage relationships with customers and other important relationships;

failure of customers to accept new services or to continue using the products and services of the combined company;

difficulties in successfully integrating the management teams and employees of ASPYRA and Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM);

challenges encountered in managing larger, more geographically dispersed operations;

the loss of key employees;

diversion of the attention of management from other ongoing business concerns;

potential incompatibilities of technologies and systems;

potential difficulties integrating and harmonizing financial reporting systems; and

potential incompatibility of business cultures.

If the combined company s operations do not meet the expectations of customers of ASPYRA or Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) then these customers may cease doing business with the combined company altogether, which would harm the results of operations and financial condition of ASPYRA.

If the anticipated benefits of the merger are not realized or do not meet the expectations of financial or industry analysts, the market price of ASPYRA common stock may decline. The market price of ASPYRA common stock may decline as a result of the merger if:

- the integration of ASPYRA and Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) is unsuccessful;

- the combined company does not achieve the expected benefits of the merger as quickly as anticipated or the costs of or operational difficulties arising from the merger are greater than anticipated;

- the combined company s financial results after the merger are not consistent with the expectations of financial or industry analysts;

- the anticipated operating and product synergies of the merger are not realized; or

- the combined company experiences the loss of significant customers or employees as a result of the merger.

We face intense competition from both established entities and new entries in the market that may adversely affect our revenues and profitability.

Our markets are competitive. There are many companies with active research and development programs both in and outside of the healthcare information technology industry. Many of these companies have considerable experience in areas of competing interest to us. Additionally, we cannot determine if other firms are conducting potentially competitive research, which could result in the development and introduction of products that are either comparable or superior to the products we sell. Further, new product introductions, product enhancements and the use of other technologies by our competitors could lead to a loss of market acceptance and cause a decline in sales or gross margins.

If we are unable to anticipate or react to competition or if existing or new competitors gain market share, our sales may decline or be impaired and we may experience a decline in the prices we can charge for our products, which could adversely affect our operating results. Our competitive position depends on several factors, including:

our ability to adapt effectively to the continued development, acquisition or licensing of technology or product rights by our competitors;

our ability to enhance our products or develop new products;

our ability to adapt to changing technological demands; and

our strategic decisions regarding the best allocation of our limited resources.

Several of our current and potential competitors have greater financial, technical, sales, marketing and other resources than we do and consequentially may have an ability to influence customers to purchase their products that compete with ours. Our future and existing competitors could introduce products with superior features, scalability and functionality at lower prices than our products, and could also bundle existing or new products with other more established products in order to compete with us. Our competitors could also gain market share by acquiring or forming strategic alliances with our other competitors. If we do not adapt our business in the face of this competition, our business and operating results may be harmed.

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 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.

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, including Steven M. Besbeck, Bruce M. Miller, James R. Helms, Samuel G. Elliott, and William W. Peterson. 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. However, we generally enter into agreements with our employees regarding patents, confidentiality and related matters. We do not maintain life insurance polices 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 are evaluating our internal controls system in order to allow management to report on, and our independent registered public accounting firm to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 beginning in our fiscal year 2007.

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, 2006. We expect to expand our international operations and such expansion is contingent upon the successful growth of our international revenues. Our international operations are subject to risks in addition to those faced by our domestic operations, including:

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 will require 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.

Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) 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 three months ended March 31, 2006 and March 31, 2005, Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) received approximately 90% and 80% 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.

We depend on channel partners and distributors for a significant portion of our revenues.

In each of fiscal 2005 and 2004, Aspyra Diagnostic Solutions, Inc. (formerly StorCOMM) generated approximately 90%, respectively, of its revenues from medical imaging related products. We expect to continue to derive a substantial portion of our revenues from this single product category. If this product category is not successful in the future or we are unable to develop new applications that are as successful, our future revenues could be limited and our business may suffer.

Risks Related to Our Common Stock

Future sales of our common stock could adversely affect our stock price.

Future sales of substantial amounts of shares of our common stock in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. In addition, we may be required to issue additional shares upon exercise of previously granted options or warrants such as the warrants to purchase up to 300,000 shares of ASPYRA common stock that ASPYRA issued a private placement pursuant to the Common Stock and Warrant Purchase Agreement dated August 18, 2005 by and among ASPYRA and each of the selling shareholders (the Securities Agreement), and the ASPYRA options and warrants to be issued in exchange for StorCOMM s options and warrants pursuant to the merger. Increased sales of our common stock in the market after exercise of stock options or warrants could exert significant downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

Our stock price may be volatile in the future, and you could lose the value of your investment.

The market prices of the common stock for ASPYRA have experienced significant fluctuations and our stock price may continue to fluctuate significantly, and you could lose the value of your investment. The market price of our common stock may be affected by a number of factors, including:

announcements of quarterly operating results and revenue and earnings forecasts by us, our competitors or our customers;

failure to achieve financial forecasts, either because expected sales do not occur or because they occur at lower prices or on terms that are less favorable to us;

rumors, announcements or press articles regarding changes in our management, organization, operations or prior financial statements;

changes in revenue and earnings estimates by securities analysts;

announcements of planned acquisitions by us or by our competitors;

announcements of new or planned products by us, our competitors or our customers;

gain or loss of a significant customer;

inquiries by the SEC, American Stock Exchange, law enforcement or other regulatory bodies; and

acts of terrorism, the threat of war and economic slowdowns in general.

The stock market has experienced extreme price volatility, which has adversely affected and may continue to adversely affect the market price of our common stock for reasons unrelated to our business or operating results.

Fluctuations in our quarterly financial results have affected the stock prices of ASPYRA in the past and could affect our stock price in the future.

The quarterly financial results of ASPYRA have fluctuated in the past, and the quarterly financial results of the combined company are likely to vary significantly in the future. A number of factors associated with the operations of our business may cause our quarterly financial results to fluctuate, including our ability to:

- effectively align sales resources to meet customer needs and address market opportunities;
- effectively respond to competitive pressures; and
- effectively manage our operating expense levels.

A number of factors associated with our industry and the markets for our products, many of which are outside our control, may cause our quarterly financial results to fluctuate, including:

- reduced demand for any of our products;
- timing and amount of orders by customers and seasonality in the buying patterns of customers;
- cancellation, deferral or limitation of orders by customers;
- fluctuations in foreign currency exchange rates; and
- weakness or uncertainty in general economic or industry conditions.

Quarterly changes in our financial results could cause the trading price of our common stock to fluctuate significantly after the merger. If our quarterly financial results or our predictions of future financial results fail to meet the expectations of securities analysts and investors, our stock price could be negatively affected. Any volatility in our quarterly financial results may make it more difficult for us to raise capital in the future or pursue acquisitions that involve issuances of our stock or securities convertible into or exercisable for our stock. You should not rely on the results of prior periods as predictors of our future performance.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, which requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) be recognized as current-period charges. In addition, the statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The adoption of this standard did not have a material impact on our results of operations or financial position.

In December 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets*, as amendment of APB Opinion No. 29 Accounting for Nonmonetary Transactions. This statement amends the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and more broadly provides for exceptions regarding exchanges of nonmonetary assets that do not have commercial substance. This Statement is effective for nonmonetary asset exchanges occurring during our fiscal year beginning January 1, 2006. The adoption of this standard did not have a material impact on our results of operations or financial position.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, which changes the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement in the usual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impractical to determine either the period-specific or cumulative effects of the change. Statement No. 154 is effective for accounting changes made in our fiscal year beginning January 1, 2006. The adoption of this standard did not have a material impact on our results of operations or financial position.

Item 3. Controls and Procedures

Attached as exhibits to this Quarterly Report on Form 10-QSB are certifications of ASPYRA s Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications. This section should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this Form 10-QSB. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2006, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 5. **Other Information**

As previously reported on the Current Report on Form 8-K, filed with the Securities and Exchange Commission on May 18, 2006, on May 17, 2006, ASPYRA sold in a private placement 2,250,000 shares of its common stock and warrants to purchase up to 1,350,000 shares of its common stock pursuant to the terms of the Common Stock and Warrant Purchase Agreement, dated May 4, 2006 (the Purchase Agreement), by and among ASPYRA and each of the Purchasers listed on Schedule 1 thereto. The shares of common stock and warrants were sold in units, with each unit consisting of a single share of ASPYRA common stock and three-fifths of a warrant to purchase one share of ASPYRA common stock. The price per unit was $2.00 for an aggregate purchase price of $4.5 million. The exercise price of the warrants is $3.00 per share. These shares were issued and sold pursuant to the exemption from registration under the Securities Act of 1933, as amended (the Securities Act) that is available for offers and sales to accredited investors pursuant to Rule 506 of Regulation D under the Securities Act and Section 4(2) of the Securities Act. Simultaneously with the execution of the Purchase Agreement, ASPYRA and each of the Purchasers entered into a Registration Rights Agreement, dated May 4, 2006, pursuant to which each of the Purchasers shall be entitled to certain registration rights. There is no material relationship between the Registrant and purchasers.

Item 6. **Exhibits**

Exhibit 3.1 Restated Articles of Incorporation, as Amended (previously filed as an exhibit to the Company s Registration Statement on Form S-18 dated September 22, 1983, SEC File No. 2-85265).

Exhibit 3.2 By-Laws, as amended (previously filed as an exhibit to the Company s Registration Statement on Form S-18 dated September 22, 1983, SEC File No. 2-85265).

Exhibit 11 Statement re: computation of per share earnings.

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

Exhibit 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934.

Exhibit 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASPYRA, INC.
(Registrant)

Date:	May 18, 2006	/S/ Steven M. Besbeck Steven. M. Besbeck, President and Chief Executive Officer (Principal Executive Officer)
Date:	May 18, 2006	/S/ Anahita Villafane Anahita Villafane, Chief Financial Officer (Principal Financial and Accounting Officer

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