

ASPYRA INC
Form 10QSB
May 19, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2006.

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

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

26115-A Mureau Road, Calabasas, California 91302

(Address of principal executive offices)

Edgar Filing: ASPYRA INC - Form 10QSB

(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 No

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

Yes No

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 No

ASPYRA, INC.

FORM 10-QSB

INDEX

PART I - Financial Information:

Item 1. Financial Statements (unaudited)

Condensed Consolidated Balance Sheets, at March 31, 2006 and December 31, 2005

Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 and March 31, 2005

Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and March 31, 2005

Notes to Condensed Consolidated Financial Statements

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

Item 3. Controls and Procedures

PART II - Other Information:

Item 5. Other Information

Item 6. Exhibits

Signatures

Exhibit Index

ASPYRA, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

Edgar Filing: ASPYRA INC - Form 10QSB

	March 31, 2006 (Unaudited)	December 31, 2005
<u>ASSETS</u>		
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.

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

Edgar Filing: ASPYRA INC - Form 10QSB

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.

Edgar Filing: ASPYRA INC - Form 10QSB

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.

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.

Edgar Filing: ASPYRA INC - Form 10QSB

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)**