

ASPYRA INC  
Form PRE 14A  
April 18, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**  
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

Aspyra, Inc.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**Aspyra, Inc.**

**26115-A Mureau Road**

**Calabasas, CA 91302**

April , 2008

Dear Shareholder:

We cordially invite you to attend our 2008 Annual Meeting of Shareholders to be held at 10:00 a.m., Pacific Time, on Thursday, June 26, 2008, at the Company's offices at 26115-A Mureau Road, Calabasas, California 91302.

Enclosed are the Notice of Annual Meeting, Proxy Statement and a proxy card relating to the Annual Meeting which we urge you to read carefully. Also enclosed is the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007.

Please use this opportunity to take part in our affairs by voting on the business to come before the Annual Meeting. If you are a record holder of our Common Stock at the close of business on May 7, 2008 you are eligible to vote on these matters, either by attending the Annual Meeting in person or by proxy. It is important that your shares be voted, whether or not you plan to attend the Annual Meeting, to ensure the presence of a quorum. **Therefore, please complete, date, sign, and return the accompanying proxy card in the enclosed postage-paid envelope.** Properly executed proxy cards received by the Company prior to the Annual Meeting will be voted in accordance with the instructions indicated on such cards. Because mail delays occur frequently, it is important that the enclosed proxy card be returned well in advance of the Annual Meeting. Submitting the proxy card does NOT deprive you of your right to attend the Annual Meeting and vote your shares in person for the matters acted on at the Annual Meeting.

Very truly yours,

/s/ John Mutch  
John Mutch



**ASPYRA, INC.  
26115-A Mureau Road  
Calabasas, CA 91302**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held June 26, 2008**

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To the Shareholders of  
Aspyra, Inc.

Notice is hereby given that the 2008 Annual Meeting of Shareholders of Aspyra, Inc. (the Company or Aspyra ) will be held at the Company s offices at 26115-A Mureau Road, Calabasas, California 91302, on Thursday, June 26, 2008, at 10:00 a.m. Pacific Time, for the following purposes:

1. To elect seven (7) directors to our Board of Directors to serve until the next Annual Meeting of Shareholders and until their successors are elected and qualified. The following individuals are the nominees for election as director:

John Mutch	Lawrence S. Schmid	Robert S. Fogerson, Jr.	Norman R. Cohen
James Zierick	C. Ian Sym-Smith	Jeffrey Tumbleson	

2. To approve the potential issuance of up to 10,923,919 shares of the Company s Common Stock (issuable upon the conversion of \$2,985,000 principal amount convertible promissory notes and the exercise of warrants for 5,496,646 shares of Common Stock) at a price below the current book value issued in connection with a private placement conducted in March 2008.
3. To approve an amendment to the Company s Amended and Restated Articles of Incorporation in order to increase the total number of authorized shares of Common Stock from 20,000,000 shares to 40,000,000 shares.
4. To ratify the appointment of BDO Seidman, LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2008.
5. To consider and transact such other business as may properly be brought before the Annual Meeting and any adjournment or postponement thereof.

These proposals are more fully described in the accompanying Proxy Statement. Financial and other information concerning the Company is contained in the enclosed Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007. We urge you to read these materials carefully.

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Only shareholders of record at the close of business on May 7, 2008, the Record Date, are entitled to notice of and to vote at the Annual Meeting or any continuation, adjournment or postponement thereof. A list of shareholders eligible to vote at the Annual Meeting will be available for your review during Aspyra's regular business hours at its headquarters in Calabasas, California for at least 10 days prior to the Annual Meeting for any purpose related to the Annual Meeting.

This Proxy Statement and the accompanying proxy card are first being mailed to our shareholders on or about May 13, 2008.

**Whether or not you plan to attend the Annual Meeting in person, to ensure that your shares are represented at the Annual Meeting, we encourage you to submit your proxy by mail in the enclosed postage-paid envelope. Returning your proxy does not deprive you of your right to attend the Annual Meeting and to vote your shares in person. You may revoke your proxy in the manner described in the Proxy Statement at any time before it has been voted at the Annual Meeting.**

By Order of the Board of Directors,

Anahita Villafane  
*Chief Financial Officer and Secretary*

Calabasas, California  
April , 2008

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**ASPYRA, INC.**

**26115-A Mureau Road**

**Calabasas, California 91302**

**2008 ANNUAL MEETING OF SHAREHOLDERS**

**To be Held June 26, 2008**

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**PROXY STATEMENT**

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**GENERAL INFORMATION**

This Proxy Statement and the enclosed form of proxy card are being sent or given to shareholders of Aspyra, Inc., a California corporation (the Company or Aspyra), in connection with the solicitation of proxies by Aspyra's management on behalf of the Board of Directors of the Company for use at the 2008 Annual Meeting of Shareholders (the Annual Meeting) to be held on Thursday, June 26, 2008, at 10:00 a.m. Pacific Time at the Company's offices at 26115-A Mureau Road, Calabasas, California 91302. The Annual Report on Form 10-KSB to the shareholders of the Company for the fiscal year ended December 31, 2007, including its financial statements and information concerning the Company, is enclosed with this mailing. This Proxy Statement and the accompanying proxy card are first being mailed to our shareholders on or about May 13, 2008.

**Method of Voting**

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Shareholders can vote by proxy or by attending the Annual Meeting and voting in person. A proxy card is enclosed. If you vote by means of the proxy card, the proxy card must be completed, signed and dated by you or your authorized representative. The completed proxy card may be returned in the postage-paid envelope provided or by facsimile to attention Corporate Secretary at (818) 880-4398. James Helms and Anahita Villafane, the designated proxy holders, are members of the Company's management. If you hold Common Stock in street name, you must instruct your broker or nominee as to how to vote such shares.

### **Solicitation and Voting of Proxies**

If a proxy card is properly signed, dated and returned and is not revoked, the shares represented by the proxy card will be voted at the Annual Meeting in accordance with the shareholder's instructions indicated on the proxy card. If no instructions are indicated on the proxy card, the shares will be voted FOR each of the nominees named herein for election as directors, FOR Proposal No. 2 approving the potential issuance of shares of Common Stock below book value in connection with the conversion or exercise of outstanding Company promissory notes and warrants, FOR Proposal No. 3 to amend the Company's Articles of Incorporation to increase the authorized number of shares of Common Stock,

FOR ratification of the appointment of BDO Seidman, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008, and in accordance with the recommendations of the Board of Directors upon such other business as may properly come before such meeting (including any proposal to adjourn the Annual Meeting) or any and all continuations, postponements or adjournments thereof. If cumulative voting rights are exercised with respect to the election of directors at the Annual Meeting, then the holders of properly executed and returned proxies will be entitled to cumulate and allocate the votes represented by proxies held by such holders in a manner that will result in the approval of the maximum number of directors from the nominees selected by the Board.



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In the event that sufficient votes in favor of the proposals are not received by the date of the Annual Meeting, the persons named as proxies may propose one or more adjournments of the Annual Meeting to permit further solicitations of proxies. Any such adjournment would require the affirmative vote of the majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote.

This solicitation is made on behalf of the Board of Directors of the Company, and its cost (including preparing and mailing of the notice, this Proxy Statement and the form of proxy) will be paid by the Company. The Company will also make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send the proxy materials to their principals and will reimburse them for their reasonable expenses in so doing. To the extent necessary in order to assure sufficient representation at the Meeting, officers and regular employees of the Company may solicit the return of proxies by mail, telephone, telegram and personal interview. No compensation in addition to regular salary and benefits will be paid to any such officer or regular employee for such solicitation.

### **Revocation of Proxy**

A shareholder giving a proxy has the power to revoke it at any time before it is exercised by giving written notice of revocation to the Secretary of the Company, by executing a subsequent proxy card, or by attending the Annual Meeting and voting in person. If you have instructed your broker to vote your shares, you must follow directions received from your broker to change those instructions. Subject to any such revocation, all shares represented by properly executed proxy cards will be voted in accordance with the specifications on the enclosed proxy card.

### **Record Date**

The close of business on May 7, 2008 has been fixed as the record date (the **Record Date**) for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and any postponements or adjournments thereof. As of the Record Date, we estimate that there will be 12,437,150 shares of the Company's Common Stock outstanding and entitled to vote and 338 shareholders of record. There are no outstanding securities of the Company other than the Common Stock entitled to vote at the Annual Meeting.

### **Quorum**

In order to conduct business at the Annual Meeting, a quorum must be present. A majority of the shares of Common Stock entitled to vote, present in person or represented by proxy, will constitute a quorum at the Annual Meeting. We will treat shares of Common Stock represented by a properly signed and returned proxy card, including abstentions and broker non-votes, as present at the Annual Meeting for the purposes of determining the existence of a quorum. Each share of Common Stock issued and outstanding on the Record Date is entitled to one vote on any matter presented for consideration and action by the shareholders at the Annual Meeting, subject, in the case of election of directors, to the cumulative voting provisions described below.

### **Voting Requirements**

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Directors are elected by a plurality of the votes cast in person or by proxy at the Annual Meeting. This means that the seven individuals nominated for election to the Board who receive the most votes will be elected. In voting for directors of the Company, each shareholder has the right to cumulate votes and give one candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which the shares are entitled, or to distribute the votes on the same principle among as many candidates as the shareholder chooses. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected. For a shareholder to exercise cumulative voting rights, such shareholder must give notice of his or her intent to cumulate votes prior to the vote at the Annual Meeting. Instructions for allocation may be marked on the proxy card in the space provided opposite each nominee's name and, if the proxy card is properly marked, the persons acting under the proxy will give notice of the shareholder's intent to vote cumulatively. Unless a contrary instruction is properly marked on the proxy card, the persons acting under the proxy will cumulatively vote so as to maximize the probability that each nominee will be elected.

Approval of Proposal No. 2 regarding the potential issuance of up to 10,923,919 shares of the Company's Common Stock below book value under notes and warrants previously issued in our March 2008 private placement will require the affirmative vote of a majority of the shares of our Common Stock represented at the Annual Meeting in person or by proxy and entitled to vote. Abstentions and broker non-votes on this proposal will have the same effect as a vote AGAINST this proposal for purposes of determining whether it has been approved, and thus will affect the outcome of the vote.

Approval of Proposal No. 3 to amend the Company's Amended and Restated Articles of Incorporation to increase the authorized number of shares of the Company's Common Stock will require the affirmative vote of the holders of a majority of the outstanding shares of Common Stock. Abstentions and broker non-votes on this proposal will have the same effect as a vote AGAINST this proposal for purposes of determining whether it has been approved, and thus will affect the outcome of the vote.

Approval of Proposal No. 4 regarding the ratification of the appointment of BDO Seidman, LLP as Aspyra's independent registered public accounting firm for the fiscal year ending December 31, 2008 and approval of any other proposals to be brought before the Annual Meeting will each require the affirmative vote of a majority of the shares of Common Stock entitled to vote that are present in person or represented by proxy at the Annual Meeting and voting on the proposal, which affirmative votes must also constitute at least a majority of the required quorum. Abstentions will have the same effect as a vote AGAINST these proposals but broker non-votes will have no effect on the outcome of the vote on these proposals.

*Abstentions.* A shareholder may withhold authority to vote for one or more nominees for director and may abstain from one or more of the other matters to be voted on at the Annual Meeting. If you return a properly executed proxy card marked ABSTAIN with respect to a particular proposal or marked WITHHELD with respect to one or more director nominees, then the shares represented by that proxy card will be counted as present at the Annual Meeting for purposes of determining a quorum, but those shares will not be voted at the Annual Meeting with respect to such proposal or nominee. Shares for which authority is withheld will have no effect on the voting for the election of directors (which requires a plurality of the votes cast). However, shares that a shareholder abstains from voting will be included in the total of votes cast and have the same effect as a vote AGAINST Proposals No. 2, No. 3 and No. 4.

*Broker Non-Votes.* If your shares are held by a broker, the broker will vote your shares for you if you provide instructions to your broker on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Broker non-votes are shares held by a broker or other nominee that are represented at the Annual Meeting, but with respect to which the broker or nominee has not received instructions from the beneficial owner of the shares to vote on the particular proposal and does not have discretionary voting power on the proposal. Brokers holding shares of record for beneficial owners generally are entitled to exercise their discretion to follow the recommendation of the Board of Directors and vote in favor of Proposals No. 1 (election of directors) and No. 4 (ratification of auditors), but do not have the discretion to vote on Proposal No. 2 or No. 3 included in this Proxy Statement unless they receive other instructions from their customers. Broker non-votes will be counted for purposes of determining the presence or absence of a quorum at the Annual Meeting but will not be counted for purposes of determining the number of shares represented and voting with respect to a proposal. Accordingly, broker non-votes will have no effect on voting on the election of directors or on the ratification of the independent registered public accounting firm. However, broker non-votes will have the effect of a vote AGAINST Proposal No. 2 regarding the potential issuance of shares of our Common Stock and Proposal No. 3 regarding amendment of the Company's Articles of Incorporation.

*Voting Shares in Person that are Held Through Brokers.* If your shares are held of record by your broker, bank or another nominee and you wish to vote those shares in person at the Annual Meeting, you must obtain from the nominee holding your shares a properly executed legal proxy identifying you as an Aspyra shareholder, authorizing you to act on behalf of the nominee at the Annual Meeting and identifying the number of shares with respect to which the authorization is granted.

**Procedures for Shareholder Nominations**

The Company's Bylaws provide that a shareholder may nominate candidates for the Board of Directors at an Annual Meeting. Shareholders seeking to nominate a candidate for election as director at an Annual Meeting must provide timely advance written notice to our Corporate Secretary. To be timely for the 2009 Annual Meeting, a shareholder's notice must be delivered to or mailed and received by the Corporate Secretary of Aspyra at our principal executive offices (at 26115-A Mureau Road, Calabasas, California 91302) within a reasonable amount of time prior to the first mailing of the Proxy Statement. The requesting shareholder should provide sufficient biographical information about the proposed candidate to satisfy the requirements of the Securities and Exchange Commission for inclusion in the Proxy Statement and to permit the Board of Directors to evaluate the proposed candidate in light of the criteria described under the caption "Nominating Procedures and Criteria." The request should also provide the full name, address and telephone number of the requesting shareholder and sufficient information to verify that the requesting shareholder is eligible to vote at the Annual Meeting. Additional information and certifications by the requesting shareholder and the proposed candidate may be required before the Board of Directors can make its evaluation.

**Other Business**

If any other matters besides the proposals described in this Proxy Statement are promptly presented for consideration at the Annual Meeting, the persons named as proxy holders will have discretion to vote on these other matters according to their best judgment to the same extent as the person delivering the proxy card would be entitled to vote. At the date this Proxy Statement went to press, we did not anticipate any other matter would be raised at the Annual Meeting.

**PROPOSAL NO. 1****ELECTION OF DIRECTORS**

The Bylaws of the Company provide that the Company's Board of Directors shall consist of not less than three nor more than nine directors, as determined by the Company's Board of Directors, each to hold office for a term of one year and until a successor shall be duly elected and qualified. The present number of directors constituting the entire Board is seven.

A board of seven directors is to be elected at the Annual Meeting. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the Company's seven nominees named below, all of whom are presently directors of the Company. In the event that any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in accordance with cumulative voting as will assure the election of as many of the nominees listed below as possible, and, in such event, the specific nominees to be voted for will be determined by the proxy holders. The Company is not aware of any nominee who will be unable or will decline to serve as a director. The term of office of each person elected as a director will continue until the next Annual Meeting of Shareholders or until a successor has been elected and qualified. The candidates for the Board of Directors receiving the seven highest vote totals will be elected to serve as members of the Board of Directors. There are no family relationships among directors or executive officers of the Company.

Background information concerning our present directors, each of whom is also a director nominee is as follows:

<b>Name of Nominee</b>	<b>Age</b>	<b>Director Since</b>	<b>Principal Occupation</b>
John Mutch (3)	51	2007	Managing Partner, MV Advisors II, LLC
Lawrence S. Schmid (1)(2)	66	1991	President & Chief Executive Officer, Strategic Directions International, Inc.
Robert S. Fogerson, Jr. (2)	55	1992	General Manager, ViroMED Labcorp
Norman R. Cohen (1)(3)	71	2003	Retired Attorney
James Zierick	51	2007	Interim Chief Executive Officer, Aspyra, Inc.
C. Ian Sym-Smith (2)	77	2005	Former Chairman, StorCOMM, Inc.
Jeffrey Tumbleson (1)	40	2008	Vice President of Information Technology, Outpatient Imaging Affiliates, LLC

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- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Nominating Committee

*John Mutch* has served as a director of Aspyra since August 2007. Mr. Mutch has served as the Managing Partner of MV Advisors, LLC, a strategic block investment firm since June 2006. From August 2003 to December 2005, Mr. Mutch was the President and Chief Executive Officer of Peregrine Systems, a developer of enterprise management software. Between July 1997 and August 2002, Mr. Mutch served as President and Chief Executive Officer of HNC Software, an enterprise analytics software provider. Prior to that Mr. Mutch spent seven years at Microsoft Corporation in a variety of executive sales and marketing positions. Mr. Mutch is currently a Director of Phoenix Technologies and Edgar Online where he serves on the audit committee for both those companies. Mr. Mutch earned a M.B.A. from the University of Chicago Graduate School of Business and a B.S. from Cornell University.

*Lawrence S. Schmid* has served as a director of Aspyra since November 1991. Since November 1990, Mr. Schmid has served as the President and Chief Executive Officer of Strategic Directions International, Inc., a management consulting firm specializing in technology companies. Mr. Schmid received a BSME from General Motors Institute and a M.B.A. from the Graduate School of Management at the University of California Los Angeles.

*Robert S. Fogerson, Jr.* has served as a director of Aspyra since May 1992. Since January 1998, Mr. Fogerson has served as the general manager of ViroMED Labcorp, a laboratory providing clinical testing services. Mr. Fogerson had previously served in various capacities at PharmChem Laboratories since 1975. Mr. Fogerson received a B.A. from Stanford University.

*Norman R. Cohen* has served as a director of Aspyra since October 2003. Mr. Cohen is a retired attorney. Prior to his retirement in June 2003, Mr. Cohen had been in private practice for more than 40 years, primarily in the areas of corporate and securities law. Mr. Cohen received a B.S. in Economics from the Wharton School of the University of Pennsylvania and an LL.B from the Law School of the University of Pennsylvania.

*James Zierick* has served as Aspyra's interim Chief Executive Officer since February 2008 and a director of Aspyra since September 2007. In 2007, Mr. Zierick served as Chief Executive Officer of Logicalapps, a provider of embedded controls software for enterprise applications. From 2004 to 2006, Mr. Zierick was Executive Vice President of Worldwide Field Operations for Peregrine Systems, where he led 350 person sales, alliance, customer support and professional services organization. From 1989 to 2003, Mr. Zierick was a partner with McKinsey & Company, where he helped lead the company's Southern California technology and operational effectiveness practices. Mr. Zierick earned a M.B.A. from Dartmouth College, Amos Tuck School of Business, a B.S. in Engineering from Dartmouth College, Thayer School of Engineering, and a B.A. in Engineering Sciences from Dartmouth College.

*C. Ian Sym-Smith* has served as a director of Aspyra since November 2005 and was previously Chairman of the Board of Directors of StorCOMM, Inc. from April 1997 until November 2005 and as a director of StorCOMM, Inc. since February 1996. Mr. Sym-Smith has served as a director of several private and public companies. Mr. Sym-Smith received his B.S. in electrical engineering from the College of Technology in Birmingham, England, and his M.B.A. from the Wharton School of Business.

*Jeffrey Tumbleson* has served as a director of Aspyra since January 2008. Since December 2004, Mr. Tumbleson has served as Vice President of Information Technology of Outpatient Imaging Affiliates, LLC, a company which partners with local healthcare providers to develop, own and operate outpatient diagnostic imaging and positron emission tomography centers. From November 2002 to December 2004, Mr. Tumbleson was owner and President of JT Consulting, a consulting company providing information technology related services for the healthcare industry. From January 2001 to November 2002, Mr. Tumbleson was Chief Information Officer and Vice President of Spheris Inc., a provider of clinical documentation technology and services to health systems, hospitals and group practices throughout the United States. Mr. Tumbleson received a B.A. and a B.S. from the University of Kansas.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE  
NOMINEES FOR DIRECTOR NAMED ABOVE.**

**CORPORATE GOVERNANCE**

**Corporate Governance Principles**

Pursuant to California law and the Company's Bylaws, the Company's business, property and affairs are managed under the direction of the Board of Directors. Thus, the Board of Directors is the ultimate decision-making body of the Company except with respect to those matters reserved for the shareholders.

The Board of Directors selects the senior management team, which is charged with the day-to-day operations of the Company's business. Members of the Board of Directors are kept informed of the Company's business through discussions with the Chief Executive Officer and other senior officers, by reviewing materials requested by them or otherwise provided to them and by participating in meetings of the Board of Directors and its committees. Having selected the senior management team, the Board of Directors acts as an advisor and counselor to senior management, monitors its performance and proposes or makes changes to the senior management team when it deems necessary or appropriate.

**Director Independence**

The Board affirmatively determines the independence of each director and nominee for election as a director in accordance with guidelines it has adopted, which include all elements of independence set forth in Rule 10A-3 and Regulation S-B under the Securities Exchange Act of 1934 and in Section 803A of the American Stock Exchange ( AMEX ) Company Guide for small business filers. These guidelines help ensure that the Board and its committees are independent from management and that the interests of the Board and management align with the interests of the shareholders. Based on these standards, the Board has determined that each of the Company's directors, other than Mr. Zierick and Mr. Sym-Smith, is independent under the standards described above.



## **Board Meetings and Committees**

During the fiscal year ended December 31, 2007, the Board of Directors held a total of five meetings.

*Compensation Committee.* The Board of Directors of the Company has established a Compensation Committee for the purpose of reviewing and making recommendations concerning compensation plans and salaries of officers and other key personnel. The Compensation Committee has not adopted a charter. The Compensation Committee, as an ongoing responsibility, periodically reviews industry related surveys of other companies similar in size and complexity to the Company to determine reasonable salary ranges and incentive compensation for its managers and key employees. The members of the Compensation Committee are Lawrence S. Schmid, Robert S. Fogerson, Jr., and C. Ian Sym-Smith. All members of the Compensation Committee, other than Mr. Sym-Smith, are independent. The Compensation Committee met once during the fiscal year ended December 31, 2007.

*Audit Committee.* The Board of Directors of the Company has also established an Audit Committee for the purpose of meeting with the Company's independent registered public accounting firm and to review the scope of the audit, internal accounting controls, any change in accounting principles, significant audit adjustments, audit disclosures and related matters. The members of the Audit Committee are Lawrence S. Schmid, Norman R. Cohen, and Jeffrey Tumbleson. The Board has determined that Mr. Schmid qualifies as an audit committee financial expert as defined under the rules of the SEC. The Board has determined that all three members of the Audit Committee are independent as that term is defined by Rule 10A-3 under the Securities Exchange Act of 1934 and by the listing standards of the American Stock Exchange for small business filers under the Securities and Exchange Commission Regulation S-B.

The Audit Committee met four times during the fiscal year ended December 31, 2007. The Board initially adopted a charter for the Audit Committee in March 2000, and later amended the charter in June 2000. The current copy of the charter for the Audit Committee is available to security holders on the Company's website at [www.aspyra.com](http://www.aspyra.com). The Audit Committee recommends the engagement of BDO Seidman, LLP as the Company's independent registered public accounting firm.

*Nominating Committee.* In April 2007, the Company established a Nominating Committee which consists of John Mutch and Norman R. Cohen, both of whom are independent directors. The Nominating Committee has not yet adopted a formal charter. The Committee is responsible for nominating the slate of the directors which are then approved by the entire Board of independent directors. All members of the Nominating Committee are independent. The Nominating Committee met twice during the fiscal year ended December 31, 2007.

## **Nominating Procedures and Criteria**

Once the Nominating Committee makes its recommendation, the entire Board of independent directors considers and approves nominees for election to the Board of Directors. In addition to the candidates proposed by the Board of Directors, the Board of Directors considers candidates for director suggested by shareholders, provided such recommendations are made in accordance with the procedures set forth in the Bylaws and described under Shareholder Proposals. Shareholder nominations that meet the criteria outlined below will receive the same consideration that the Board of Director's nominees receive.

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Essential criteria for all candidates considered by the Board of Directors include the following: integrity and ethical behavior, maturity, management experience and expertise, independence and diversity of thought and broad business or professional experience, an understanding of business, financial affairs and the complexities of business organizations.

In evaluating candidates for certain Board positions, the Board of Directors evaluates additional criteria, including the following: financial or accounting expertise, industry expertise, marketing, business and other experience relevant to public companies of a size comparable to the Company, and experience in investment banking, commercial lending or other financing activities.

In selecting nominees for the Board of Directors, the Board of Directors evaluates the general and specialized criteria set forth above, identifying the relevant specialized criteria prior to commencement of the recruitment process. If the candidate is a candidate for re-election, the Board considers previous performance and generally considers the candidate's ability to contribute to the success of the Company.

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The Board of Directors' nominees for the Annual Meeting have been recommended by the independent members of the Board of Directors.

Shareholders did not propose any candidates for election at the Annual Meeting.

### **Shareholder Communications with Directors**

You may communicate with each chairman of our Board Committees, or with our independent directors as a group by writing to such persons c/o Aspyra, Inc., 26115-A Mureau Road, Calabasas, California 91302, Attention Board of Directors.

Each communication should also specify the applicable addressee or addressees to be contacted as well as the general topic of the communication. We will initially receive and process communications before forwarding them to the addressee. We generally will not forward to the directors a shareholder communication that we determine to be primarily commercial in nature or that relates to an improper or irrelevant topic, or that requests general information about the Company. Additionally, the Board has requested that certain items that are unrelated to the duties and responsibilities of the Board should be excluded, such as junk mail and mass mailings, product complaints, product inquiries, new product suggestions, résumés and other forms of job inquiries, and surveys. In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any outside director upon request.

### **Board Attendance at the Annual Meeting**

The Company has not adopted a formal policy on members of the Board of Directors attendance at its Annual Meeting of Shareholders, although all members of the Board of Directors are invited and encouraged to attend in order to facilitate shareholder communication. All members of the Board of Directors attended the Company's 2007 Annual Meeting of Shareholders.

### **Code of Ethics**

The Company has adopted a Code of Ethics that applies to each of our directors, officers and employees. The Code of Ethics was previously filed as an exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005. We will provide to any person without charge, a copy of our Code of Ethics upon written request to the attention of the Company's Secretary at the address of the Company's principal executive offices.

### **Compensation of Directors**

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Directors who are not officers or employees of the Company receive an annual retainer of \$3,000 and a grant of 10,000 non-qualified stock options upon their election or reelection to the board. In addition, independent directors are paid fees of \$2,000 per meeting and are reimbursed for their reasonable expenses for attending such meetings. We also reimburse the reasonable expenses of our directors incurred in connection with attendance at meetings of the Board of Directors and its committees. At present, there are five independent directors, John Mutch, Lawrence S. Schmid, Robert S. Fogerson, Jr., Norman R. Cohen, and Jeffrey Tumbleson, who are not officers and/or employees of the Company. The following table sets forth information concerning the compensation of our non-employee directors during 2007.

Name (a)	Fees Earned or Paid in Cash (\$) (b)	Stock Awards (\$) (c)	Option Awards (\$) (d)(1)	Non-Equity Incentive Plan Compensation (\$) (e)	Non-Qualified Deferred Compensation Earnings (\$) (f)	All Other Compensation (\$) (g)	Total (\$) (j)
John Mutch (2)	37,500		259,083(4)				296,583
Lawrence S. Schmid	11,000		10,363(5)				21,363
Robert S. Fogerson, Jr.	11,000		10,363(6)				21,363
Norman R. Cohen	11,000		10,363(7)				21,363
James Zierick	4,250		12,831(8)				17,081
C. Ian Sym-Smith	9,000		10,363(9)				19,363
Bradford G. Peters(3)	11,000		10,363(10)				21,363

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- (1) A discussion of the methods used in calculation of these values may be found in Footnote 8 to the consolidated financial statements which is in our annual report on Form 10-KSB. Reflects the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year computed in accordance with SFAS 123(R), excluding the forfeiture assumption.
- (2) The compensation for Mr. Mutch includes fees paid to MV Advisors II, LLC, a consulting firm of which Mr. Mutch is the sole member and Managing Partner. In August 2007, the Company entered into an agreement with MV Advisors. Under the agreement, MV Advisors will provide strategic consulting services to the Company and will receive an annual fee of \$75,000, payable in non-refundable quarterly advances, offset by the amount of any retainer or meeting fees paid to Mr. Mutch for his board service. In addition, MV Advisors will be paid a success fee based upon the value of certain customer contracts secured by the Company as a result of the efforts of MV Advisors. MV Advisors will also be granted rights to purchase certain offerings of future Company equity securities. In his capacity as a consultant to the Company through MV Advisors, Mr. Mutch was also awarded a non-qualified stock option under the Company's 2005 Stock Incentive Plan exercisable for 240,000 shares of the Company's Common Stock.
- (3) Mr. Peters resigned from the Company's Board of Directors in January 2008.
- (4) The aggregate number of option awards outstanding for Mr. Mutch at 2007 fiscal year end are 250,000.
- (5) The aggregate number of option awards outstanding for Mr. Schmid at 2007 fiscal year end are 50,000.
- (6) The aggregate number of option awards outstanding for Mr. Fogerson at 2007 fiscal year end are 50,000.
- (7) The aggregate number of option awards outstanding for Mr. Cohen at 2007 fiscal year end are 40,000.
- (8) The aggregate number of option awards outstanding for Mr. Zierick at 2007 fiscal year end are 10,000.
- (9) The aggregate number of option awards outstanding for Mr. Sym-Smith at 2007 fiscal year end are 30,460.
- (10) The aggregate number of option awards outstanding for Mr. Peters at 2007 fiscal year end are 30,000.



**EXECUTIVE OFFICERS**

Set forth below is information regarding our current executive officers.

<b>Name</b>	<b>Age</b>	<b>Position</b>
James Zierick	51	Interim Chief Executive Officer
Anahita Villafane	37	Chief Financial Officer and Secretary
Bruce M. Miller	62	Chief Technology Officer
James R. Helms	63	Chief Operations Officer

For biographical information regarding Mr. Zierick, who also serves as a director of the Company, please refer to his profile set forth above under Proposal No. 1 Election of Directors.

**Anahita Villafane** has served as the Chief Financial Officer of Aspyra since June 2005 and secretary since November 2005. Ms. Villafane also served as Aspyra's controller and Chief Accounting Officer from April 2000 to June 2005. Prior to April 2000, Ms. Villafane was an audit manager with BDO Seidman, LLP since 1996. Ms. Villafane received a B.S. in Accounting from California State University at Northridge, and is a Certified Public Accountant.

**Bruce M. Miller** has served as the Chief Technology Officer of Aspyra since its inception in 1978 and also served as Chairman of the Board from the Company's inception until November 2005. Mr. Miller is a graduate of Rutgers University.

**James R. Helms** has served as the Chief Operations Officer of Aspyra since October 1982 and secretary from 1983 to November 2005. Mr. Helms also served as a director from 1987 until November 2005. Previously, Mr. Helms was an independent information systems consultant for more than five years.

**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table shows the compensation paid over the past two fiscal years ended December 31, 2007 and 2006 with respect to: (i) the two persons who served as the Company's Chief Executive Officer during the 2007 fiscal year, (ii) the two other most highly compensated executive officers or individuals in addition to the Chief Executive Officer, serving at the end of the last fiscal year whose total compensation exceeded \$100,000 in the last fiscal year and (iii) two additional individuals who would have qualified under (ii) but for the fact that the individual was not serving as an executive officer at the end of the 2007 fiscal year.

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(A) Name and Principal Position	(B) Year	(C) Salary(\$)	(D) Bonus(\$)	(E) Stock Awards	(F) Option Award(s) (\$)(2)	(G) Non-Equity Incentive Plan Compensation (\$)	(H) Nonqualified Deferred Compensation Earnings (\$)	(I) All Other Compensation (3)	(J) Total
<b>James R. Helms</b> Chief Operations Officer	2007 2006	<b>155,597</b> 162,864			12,259			<b>17,465</b> 14,965	<b>173,062</b> 190,088
Steven M. Besbeck Former President, Chief Executive Officer(1)	2007 2006	191,504 210,344			19,988			8,122 6,871	199,626 237,203
Bruce M. Miller Chief Technology Officer	2007 2006	192,495 204,664			12,259			14,112 12,023	206,607 228,946
William W. Blair Vice President, Sales	2007 2006	148,062 120,000			12,259			6,527 4,809	154,589 137,068
Anahita Villafane Chief Financial Officer	2007 2006	120,673 125,000			12,259			6,851 5,832	127,524 143,091





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- (1) Mr. Besbeck retired in November 2007. On December 20, 2007, the Company and Mr. Besbeck entered into a Separation Agreement and General Release pursuant to which (i) Mr. Besbeck shall receive severance equal to one year of his base salary in effect as of November 30, 2007, to be paid in equal bi-weekly installments over eighteen months;

(ii) the Company shall pay COBRA benefits to Mr. Besbeck for up to eighteen months; (iii) the Company shall accelerate the vesting of options exercisable for 35,000 of the Company's Common Stock previously granted to Mr. Besbeck pursuant to the Company's 2005 Stock Incentive Plan; and (iv) the Company and Mr. Besbeck will release each other from all claims arising from Mr. Besbeck's employment with the Company, subject to certain exceptions.

- (2) A discussion of the methods used in calculation of these values may be found in Footnote 8 to the consolidated financial statements which is in our annual report on Form 10-KSB. Reflects the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year computed in accordance with SFAS 123(R), excluding the forfeiture assumption.
- (3) Amounts shown in Column (I) consist of premiums paid for medical, life and disability insurance and Company matching contributions under the Company's 401(k) profit-sharing plan.

Compensation to our executive officers consists of salary, cash bonus, tax-deferred profit sharing, medical and life insurance benefits, and equity compensation pursuant to our 2005 Equity Incentive Plan and our 1997 Stock Option Plan. Certain of our executive officers also have additional benefits regarding severance or a change of control of the Company. The Compensation Committee of the Board of Directors (i) reviews and approves corporate goals and objectives relevant to compensation of the executive officers, (ii) evaluates the performance of the executive officers in light of those goals and objectives, (iii) determines and approves the compensation level of the executive officers based on this evaluation, and (iv) makes recommendations to the Board with respect to cash incentive compensation plans and equity incentive plans. The Committee also reviews and recommends to the Board any new compensation or retirement plans and administers the Company's 2005 Equity Incentive Plan and our 1997 Stock Option Plan.

The Compensation Committee is responsible for administering a management incentive bonus plan that is predicated on the pre-tax profitability of the overall company. Bonus pool funds will be allocated according to two criteria: (i) 50% of the pool should be awarded to the participants according to salary percentage and (ii) the remaining 50% will be allocated according to the accomplishment of individual goals set for each plan participant. The Compensation Committee of Aspyra also is responsible for administering the Company's 2005 Equity Incentive Plan and 1997 Stock Option Plan and such grants under these plans are at the discretion of the committee, as described in more detail below.

Aspyra has adopted a profit sharing plan pursuant to which income tax is deferred on amounts contributed by employees under Section 401(k) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code. All employees, over the age of 21, are eligible to participate in the plan after the completion of six months of service. Aspyra contributes, on a matching basis, 25% of the employee's contribution up to 4%. Aspyra's contribution becomes vested at the rate of 20% for each full year of employment. Both the employee's and Aspyra's contributions are subject to aggregate annual limits under the Code.

#### **Employment Agreements, Termination of Employment and Change-in-Control Agreements**

Other than Messrs. Miller, Zierick and Besbeck, we currently have no employment agreements with any of our executive officers, nor any compensatory plans or arrangements resulting from the resignation, retirement or any other termination of any of our executive officers, from a change-in-control of the Company, or from a change in any executive officer's responsibilities following a change-in-control.

Bruce Miller is employed by Aspyra on a month-to-month basis pursuant to the terms of his employment agreement. The agreement provides for a base salary at an annual rate of \$191,757 for Mr. Miller and authorizes the payment of other fringe benefits and bonuses made available by Aspyra to its senior executives. Mr. Miller also received insurance benefits which were paid for by Aspyra and employer contributions to his 401(k) plan account as provided for in Aspyra's 401(k) profit sharing plan. These amounts, including amounts accrued and unconditionally vested under the 401(k) plan, are reflected in the table above.

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In connection with his appointment on a consulting basis as interim Chief Executive Officer on February 25, 2008, James Zierick, who is also a member of the Company's Board of Directors, entered into a letter agreement with the Company dated February 25, 2008 setting forth the terms of his services as interim CEO. Under the agreement, Mr. Zierick is to be engaged on a consulting basis for a period of three months, with cash compensation of \$15,000 per month payable at the beginning of each month. In connection with Mr. Zierick's appointment, the Company also awarded him a non-qualified stock option exercisable for 112,500 shares of Aspyra Common Stock, at an exercise price equal to the closing market price of the Company's Common Stock on March 1, 2008. The options vest at a rate of 1/12 at the end of each week until fully vested or, if earlier, the termination of Mr. Zierick's services as interim CEO. The option has a five year term.

Steven Besbeck retired as our Chief Executive Officer in November 2007. On December 20, 2007, the Company and Mr. Besbeck entered into a Separation Agreement and General Release pursuant to which (i) Mr. Besbeck shall receive severance equal to one year of his base salary in effect as of November 30, 2007, to be paid in equal bi-weekly installments over eighteen months, (ii) the Company shall pay COBRA benefits to Mr. Besbeck for up to eighteen months, (iii) the Company shall accelerate the vesting of options exercisable for 35,000 of the Company's Common Stock previously granted to Mr. Besbeck pursuant to the Company's 2005 Stock Incentive Plan, and (iv) the Company and Mr. Besbeck will release each other from all claims arising from Mr. Besbeck's employment with the Company, subject to certain exceptions.

**Outstanding Equity Awards At 2007 Fiscal Year End**

The following table sets forth information concerning unexercised options, granted as equity incentive awards, held by each of our Named Executive Officers. Options shown in this table were granted between 2003 and 2006. There have been no stock awards granted to any Named Executive Officer. As such, these columns are omitted from this table.

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (1) (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards:	Option Exercise Price (\$) (e)	Option Expiration Date (f)
			Number of Securities Underlying Unexercised Unearned Options (#) (d)		
James R. Helms	10,000			1.60	06/16/2008
	7,500	2,500		1.51	02/27/2009
	10,000			2.65	12/27/2008
	2,500	7,500		1.76	08/11/2011
Steven M. Besbeck	10,000			1.76	06/16/2008
	10,000			1.51	02/27/2009
	10,000			2.65	12/27/2008
	40,000			1.76	08/11/2011
Bruce M. Miller	10,000			1.76	06/16/2008
	7,500	2,500		1.66	02/27/2009
	10,000			2.65	12/27/2008
	2,500	7,500		1.76	08/11/2011
William W. Blair	5,000			2.65	12/27/2008
	2,500	7,500		1.76	08/11/2011
Anahita Villafane	10,000			1.60	06/16/2008
	10,000			2.65	12/27/2008
	2,500	7,500		1.76	08/11/2011

(1) Options which are not fully vested vest 25% annually on the anniversary of the option grant date.

**Equity Incentive Plan Information**

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The Company's 2005 Equity Incentive Plan (the "2005 Plan") was adopted by the Board on August 2, 2005 and approved by shareholders at the Annual Meeting held on November 21, 2005. The 2005 Plan replaced the Company's former 1997 Stock Option Plan (the "1997 Plan") and incorporated 290,875 remaining unissued options from the 1997 Plan. Awards under the 2005 Plan may be granted to any of our employees, directors or consultants or those of our affiliates. As of March 28, 2008, there were approximately 67 full-time employees and 7 non-employee directors eligible to participate in the 2005 Plan. An incentive stock option may be granted under the 2005 Plan only to a person who, at the time of the grant, is an employee of the Company or a related corporation. The 2005 Plan is administered by the Board or a committee of the Board.

Under the 2005 Plan, the Company may award to eligible participants incentive stock options (ISO), non-statutory stock options; stock awards (both restricted stock awards and restricted stock unit awards); and stock appreciation rights. As of April 16, 2008 there were 868,626 shares of Common Stock subject to outstanding awards under the 2005 Plan and 422,249 available for future awards under the 2005 Plan. In the case of awards intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the measures established by the 2005 Plan administrator must be qualifying performance criteria.

The 2005 Plan provides that in the event of a merger with or into another corporation or our change in control, including the sale of all or substantially all of our assets, and certain other events, our Board or the Compensation Committee may, in its discretion, provide for the assumption or substitution of, or adjustment to, each outstanding award, accelerate the vesting of options and stock appreciation rights, and terminate any restrictions on stock awards or cash awards or provide for the cancellation of awards in exchange for a cash payment to the participant.

During the fiscal year ended December 31, 2007, we did not grant any options to any of the Named Executive Officers.

The following table sets forth information as to stock options granted under the 2005 Plan and 1997 Plan, and the net value received from the exercise of options (market value of stock on the date of exercise, less the exercise price) by each executive officer whose aggregate remuneration is set forth above.

**Aggregated Option/SAR Exercises in Last Fiscal Year**

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized (\$)	(d) Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable	(e) Value of Unexercised In-the-Money Options/SARs at FY-End (\$) Exercisable/Unexercisable
James R. Helms	0	\$ 0	30,000/ 10,000	3,300/ 600
Steven M. Besbeck	0	\$ 0	70,000/ 0	1,800/ 600
Bruce M. Miller	0	\$ 0	30,000/ 10,000	675/ 225
William W. Blair	0	\$ 0	7,500/ 7,500	0/ 0
Anahita Villafane	0	\$ 0	22,500/ 7,500	1,500/ 0

**Equity Compensation Plan Information**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and other rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,290,875	\$ 2.00	422,249
Equity compensation plans not approved by security holders	none	None	
Total	1,290,875	\$ 2.00	422,249

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to the Company regarding beneficial ownership of Aspyra's Common Stock as of April 16, 2008 of (i) each present director or nominee for director, (ii) each Named Executive Officer, (iii) all officers and directors as a group, and (iv) each beneficial owner of more than five percent of Aspyra's Common Stock. Information as to beneficial owners who are not officers or directors of Aspyra is based on publicly available information as of the record date.

Beneficial ownership of shares is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Except in cases where community property laws apply or as indicated in the footnotes to this table, we believe that each shareholder identified in the table possesses sole voting and investment power over all shares of Common Stock shown as beneficially owned by the shareholder. Shares of Common Stock subject to options that are currently exercisable or exercisable within 60 days of April 16, 2008, are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated below, the address of each individual listed below is c/o Aspyra, Inc., 26115-A Mureau Road, Calabasas, California 91302.

The percentages for each person or group shown in the table below are based on 12,437,150 shares issued and outstanding as of April 16, 2008, plus the additional shares that such person or group is deemed to beneficially own as set forth in the table. The table below shows the number of shares and percentage beneficially owned both prior to and after giving effect to the approval of Proposal No. 2 and No. 3 and the issuance of additional shares under the Notes and Warrants sold in our March 2008 Private Placement. An aggregate maximum of 10,923,919 shares are issuable upon conversion or exercise of all Notes and Warrants issued in the Private Placement, assuming that the shareholders approve both Proposal No. 2 and Proposal No. 3 at the Annual Meeting (consisting of 5,427,273 shares issuable upon conversion of all Notes, and 5,496,646 shares issuable upon exercise of all Warrants). The Notes and Warrants issued in the Private Placement provide that they cannot be converted or exercised, as applicable, to the extent such conversion or exercise would result in the holder and its affiliates beneficially owning more than 9.99% of our outstanding Common Stock on the date of such conversion or exercise. The number and percentage of Common Stock deemed beneficially owned and shown in the column prior to the approval of Proposals No. 2 and 3 is limited accordingly.

Name	Common Shares Beneficially Owned Prior to Approval of Proposals 2 & 3		Common Shares Beneficially Owned Assuming Approval of Proposals 2 & 3	
	Number of Shares	Percent of Class	Number of Shares	Percent of Class
James R. Helms (1)	144,300	1.16%	144,300	*
Steven M. Besbeck	314,200	2.53%	314,200	1.34%
Bruce M. Miller (2)	384,500	3.08%	384,500	1.64%
William W. Blair (3)	7,500	*	7,500	*
Anahita Villafane (4)	27,500	*	27,500	*
John Mutch (5)	60,000	*	60,000	*
Lawrence S. Schmid (6)	57,500	*	57,500	*
Robert S. Fogerson, Jr.(7)	54,000	*	54,000	*
Norman R. Cohen (8)	22,500	*	22,500	*
James Zierick (9)	112,500	*	112,500	*
C. Ian Sym-Smith	1,394,469	(10) 11.20%	1,758,105	(11) 7.52%
Jeffrey Tumbleson (12)		*		*
Bradford G. Peters (13)	1,918,575	(14) 15.41%	2,645,847	(15) 11.32%
<b>All Executive Officers and Directors as a Group</b> (13 persons) (16)	4,497,544	35.09%	5,588,452	23.90%
Bicknell Family Holding Co. LLC (17)	1,380,371(18)	9.99%	4,545,454	(19) 19.46%
Potomac Capital Management LLC (20)	1,480,000	11.90%	1,480,000	6.34%



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James Shawn Chalmers (21)	1,277,594(22)	9.99%	3,653,296(23)	15.64 %
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\* Indicates less than 1.0%

- (1) Includes 32,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Helms but excludes 7,500 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Helms.

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- (2) Includes 32,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Miller but excludes 7,500 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Miller.
- (3) Includes 7,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Blair but excludes 7,500 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Blair.
- (4) Includes 22,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Ms. Villafane but excludes 7,500 shares of Common Stock issuable under currently non-exercisable stock options held by Ms. Villafane.
- (5) Includes 60,000 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Mutch, but excludes 190,000 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Mutch. Mr. Mutch's address is c/o MV Advisors LLC, 420 Stevens Avenue, Suite 270, Solana Beach, CA 92075.
- (6) Includes 32,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Schmid, but excludes 17,500 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Schmid. Mr. Schmid's address is c/o Strategic Directions International, Inc., 6242 Westchester Parkway, Suite 100, Los Angeles, CA 90045.
- (7) Includes 32,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Fogerson but excludes 17,500 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Fogerson. Mr. Fogerson's address is 2111 Austrian Pine Lane, Minnetonka, MN 55305.
- (8) Includes 22,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Cohen but excludes 17,500 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Cohen.
- (9) Includes 112,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008 held by Mr. Zierick but excludes 10,000 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Zierick.
- (10) Includes 12,960 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008. Does not include (i) 181,818 shares of common stock issuable upon exercise of a Purchaser Note and (ii) 181,818 shares issuable upon exercise of Purchaser Warrants. The Note and Warrants owned by the selling stockholder provide that they cannot be converted or exercised, as applicable, to the extent such conversion or exercise, as applicable, would result in the holder and its affiliates beneficially owning more than 9.99% of our outstanding common stock on the date of such conversion or exercise, as applicable. The number and percentage of common stock deemed beneficially owned is limited accordingly.
- (11) Represents amounts shown prior to shareholder approval of Proposals No. 2 and 3, plus (i) 181,818 shares of common stock issuable upon exercise of a Note and (ii) 181,818 shares issuable upon exercise of a Warrant issued to Mr. Sym-Smith in the Private Placement.
- (12) Excludes 50,000 shares of Common Stock issuable under currently non-exercisable stock options held by Mr. Tumbleson. Mr. Tumbleson's address is 2107 Ipswitch Ct, Thompson's Station, TN 37179.
- (13) Bradford G. Peters was a director of the Company from November 2005 to January 2008.
- (14) Includes 12,500 shares of Common Stock issuable under currently exercisable stock options and options that may be exercisable within 60 days of April 16, 2008. Does not include (i) 363,636 shares of common stock issuable upon exercise of a Note and (ii) 363,636 shares issuable upon exercise of Warrants issued in the Private Placement. The Note and Warrants owned by Mr. Peters provide that they cannot be converted or exercised, as applicable, to the extent such conversion or exercise, as applicable, would result in the holder and its affiliates beneficially owning more than 9.99% of our outstanding common stock on the date of such conversion or exercise, as applicable. The number and percentage of common stock deemed beneficially owned is limited accordingly. Mr. Peters' address is 21 Grove Lane, Greenwich, CT 06831.



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- (15) Represents amounts shown prior to shareholder approval of Proposals No. 2 and 3, plus (i) 363,636 shares of common stock issuable upon exercise of the Note and (ii) 363,636 shares issuable upon exercise of the Warrant issued to Mr. Peters in the Private Placement.
- (16) Number of shares shown prior to approval of Proposals 2 and 3 includes 925,914 shares of Common Stock issuable under currently exercisable stock options, warrants and options that may be exercisable within 60 days of April 16, 2008 held by all officers and directors as a group but excludes 367,500 shares of Common Stock issuable under currently non-exercisable stock options held by such individuals as a group. Number of shares shown assuming Proposals 2 and 3 are approved includes 1,471,368 shares issuable upon exercise of outstanding options plus Notes and Warrants issued to Mr. Sym-Smith and Mr. Peters in the Private Placement.
- (17) Martin C. Bicknell is the manager of Bicknell Family Holding Co., LLC and in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, may be deemed a control person, with voting and investment power (directly or with others), of the securities of the Company owned by Bicknell Family Holding Co., LLC. Mr. Bicknell disclaims beneficial ownership of these securities. The selling stockholder has informed us that it is not a broker-dealer or affiliate of a broker-dealer Bicknell Family Holding Co., LLC s address is 7400 College Blvd., Suite 205, Overland Park, Kansas 66210.
- (18) The holder owns a Note in the amount of \$1,250,000, convertible into 2,272,727 shares of common stock at a conversion price of \$0.55 per share, and Warrants to purchase 2,272,727 shares of common stock. The Note and Warrants owned by the holder provide that they cannot be converted or exercised, as applicable, to the extent such conversion or exercise, as applicable, would result in the holder and its affiliates beneficially owning more than 9.99% of our outstanding common stock on the date of such conversion or exercise, as applicable. The number and percentage of common stock deemed beneficially owned is limited accordingly.
- (19) Represents amounts shown prior to shareholder approval of Proposals No. 2 and 3, plus (i) 2,272,727 shares issuable upon exercise of a Note and (ii) 2,272,727 shares issuable upon exercise of a Warrant issued to the holder in the Private Placement.
- (20) Potomac Capital Management LLC s address is 825 Third Avenue, 33rd Floor, New York, NY 10022. Based on information contained in Schedule 13G filed with the SEC on September 17, 2007 by Potomac Capital Management LLC, Potomac Capital Management Inc. and Paul J. Solit as joint filers. Paul J. Solit is the Managing Member of Potomac Capital Management LLC and President of Potomac Capital Management Inc. All of the joint filers state that they have shared voting and shared dispositive power over 1,480,000 shares. The joint filers state that they own an aggregate of 1,480,000 shares of Common Stock.
- (21) Mr. James Shawn Chalmers address is 705 South 10th Street, Blue Springs, Missouri 64015. Based on information contained in Schedule 13D filed with the SEC on April 3, 2008 by Mr. Chalmers. Mr. Chalmers states that he does not own any Common Stock directly but he is (i) the sole director and President and majority shareholder of J&S Ventures, Inc.; (ii) the sole manager and holder of 75% of the membership interests of Orion Capital Investments, LLC; and (iii) the sole trustee and sole beneficiary of the J. Shawn Chalmers Revocable Trust dated August 13, 1996.
- (22) Includes 926,023 shares of common stock and an additional 351,571 shares of common stock issuable upon exercise of Warrants or conversion of a Note. The Note and Warrants owned by the selling stockholder provide that they cannot be converted or exercised, as applicable, to the extent such conversion or exercise, as applicable, would result in the holder and its affiliates beneficially owning more than 9.99% of our outstanding common stock on the date of such conversion or exercise, as applicable. The number and percentage of common stock deemed beneficially owned is limited accordingly.
- (23) Includes 926,023 shares of common stock, plus (i) 1,363,637 shares of common stock issuable upon exercise of a Note and (ii) 1,363,636 shares issuable upon exercise of a Warrant issued in the Private Placement.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Transactions with Directors and Executive Officers

#### *2008 Bridge Loans and Private Placement.*

On January 28, 2008 the Company entered into a Note Purchase Agreement (the "Bridge Agreement") with two of the Company's current shareholders, C. Ian Sym-Smith, a director of the Company, and TITAB, LLC, a privately held investment management company whose Managing Member is Bradford G. Peters, a former director of the Company. In connection with TITAB's entry into the Bridge Agreement, Mr. Peters resigned from his position as a director of the Company. Subsequently, on March 13, 2008, the Company entered into a second Bridge Agreement with J. Shawn Chalmers, who is a holder of approximately 9.9% of our outstanding Common Stock. Pursuant to these Bridge Agreements, Mr. Sym-Smith, TITAB LLC and Mr. Chalmers each purchased a secured promissory note from the Company in the principal amount of \$200,000, \$100,000 and \$300,000, respectively, and bearing interest at the rate of LIBOR plus 2.5% per annum. The Company's obligations under the notes were secured by a security interest in substantially all of the Company's tangible and intangible assets, pursuant to the terms of a Security Agreement entered into between the Company and each of Mr. Sym-Smith, TITAB LLC and Mr. Chalmers. The obligations under the note and the security interest created by the Security Agreement were subordinate and junior in right of payment to the senior lien on the Company's assets held by Western Commercial Bank in connection with the Company's existing line of credit. The Bridge Agreement with Mr. Sym-Smith and TITAB LLC (which includes the form of promissory note) and the Security Agreement were filed as exhibits to our Current Report on Form 8-K filed February 1, 2008 and are hereby incorporated by reference herein. The Bridge Agreement with Mr. Chalmers (which includes the form of promissory note) and the Security Agreement were filed as exhibits to our Current Report on Form 8-K filed March 13, 2008 and are hereby incorporated by reference herein.

In connection with the Private Placement described below under Proposal No. 2, each of Mr. Sym-Smith, TITAB LLC and Mr. Chalmers purchased a new convertible Note in the principal amount of \$700,000, \$200,000 and \$100,000, respectively, which new Notes included all principal rolled over from each of their previous bridge notes to the Company. In connection with the Private Placement and their purchase of new Notes, each of Mr. Sym-Smith, TITAB LLC and Mr. Chalmers was issued a Warrant corresponding to their new Notes and exercisable for additional shares of the Company's Common Stock. The terms of the Note and Warrant issued to each of Mr. Sym-Smith, TITAB LLC and Mr. Chalmers in connection with the Private Placement are described below under Proposal 2.

#### *Consulting Agreement with MV Advisors II, LLC*

On August, 29, 2007, John Mutch was elected as a member of the Board of Directors and to serve as Chairman of the Board. Mr. Mutch was elected pursuant to a right held by certain holders of the Company's Common Stock and warrants to purchase Common Stock issued in a private placement in 2005 to designate one member of the Company's Board of Directors, in accordance with the terms of Section 4.9 of a Common Stock and Warrant Purchase Agreement dated as of August 18, 2005, which was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2005.

In connection with Mr. Mutch's election, the Company entered into a consulting agreement with MV Advisors II, LLC ("MV Advisors"), a consulting firm of which Mr. Mutch is the sole member and Managing Partner. Under the agreement, MV Advisors provides strategic consulting services to the Company and receives an annual fee of \$75,000, payable in non-refundable quarterly advances, offset by the amount of any retainer or meeting fees that Mr. Mutch is eligible to receive for his Board service. In addition, MV Advisors will be paid a success fee,

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payable for up to 6 years, equal to 5% of the value of certain customer contracts secured by the Company as a result of the efforts of MV Advisors. MV Advisors was also granted rights to purchase at least \$250,000 of certain future offerings of Company equity securities. The consulting agreement has an initial term of one year commencing with Mr. Mutch's becoming a director of the Company and will automatically renew for successive one year terms unless either party notifies the other of its intent not to renew the agreement. In his capacity as a consultant to the Company through MV Advisors, Mr. Mutch was also awarded a non-qualified stock option under the Company's 2005 Stock Incentive Plan exercisable for 240,000 shares of the Company's Common Stock, vesting in equal monthly installments over three years, subject to full acceleration upon a change in control of the Company and also upon certain terminations of Mr. Mutch's services.

*Placement Agent Services by Great American Investors, Inc.*

One of our current directors and a director nominee, Jeffrey Tumbleson, is the brother of the managing director of Great American Investors, Inc. ( GAI ). As disclosed below under Proposal No. 2 concerning the issuance of Common Stock in connection with our 2008 Private Placement, we engaged GAI as placement agent for the Private Placement, and in

consideration for their services in that transaction, we issued to GAI a Note in the principal amount of \$210,000, together with a Warrant to purchase 451,193 shares of our Common Stock. The Note and Warrant issued to GAI have the same terms as other Notes and Warrants issued to the Purchasers in the Private Placement and their terms are described more fully below under Proposal No. 2. GAI also acted as placement agent for two private placements of the Company's securities in November 2005 and May 2006 and in connection with those two prior transactions we paid GAI fees in the amount of \$150,000 in 2005 and \$315,000 in 2006.

#### **Indemnification; Directors and Officers Insurance**

On November 22, 2005, the Company completed its merger with StorCOMM, Inc., pursuant to the terms of the Agreement and Plan of Reorganization, dated August 16, 2005 (the Merger Agreement). Under the terms of the Merger Agreement, Aspyra agreed that it will indemnify and hold harmless, and provide advancement of expenses to, all past and present directors, officers and employees of StorCOMM and its subsidiaries, including Messrs. Peters, Sym-Smith, Elliott and Peterson, to the same extent these directors, officers and employees were indemnified or had the right to advancement of expenses as of the date of the Merger Agreement by StorCOMM pursuant to StorCOMM's Certificate of Incorporation, Bylaws and indemnification agreements, in existence on the date of the Merger Agreement with any of the directors, officers and employees of StorCOMM and its subsidiaries for acts or omissions occurring at or prior to the date of the merger, including for acts or omissions occurring in connection with the approval of the Merger Agreement and the consummation of the merger.

Sections 204(a)(10), 204(a)(11), 204.5 and 317 of the California General Corporation Law (CGCL) permit a corporation to indemnify its directors, officers, employees and other agents in terms sufficiently broad to permit indemnification (including reimbursement for expenses) under certain circumstances for liabilities arising under the Securities Act of 1933. The Company's Articles of Incorporation provide that the liability of directors for monetary damages shall be eliminated to the fullest extent permitted under California law. In addition, Aspyra's Articles of Incorporation provide that Aspyra is authorized to provide indemnification of agents, including directors, officers, employees and other agents (as defined in Section 317 of the CGCL) for breach of duty to Aspyra and its shareholders through Bylaw provisions or through agreements with the agents, or both, in excess of the indemnification otherwise permitted by Section 317 of the CGCL, subject only to the applicable limits set forth in Section 204 of the CGCL.

Aspyra's Bylaws provide that, to the maximum extent permitted by the CGCL, Aspyra may indemnify any person who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that such person was an agent of Aspyra, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding. Aspyra may advance expenses incurred in defending any proceeding prior to the final disposition of such proceeding to the maximum extent permitted by the CGCL.

The above discussion of the CGCL and Aspyra's Articles of Incorporation and Bylaws is not intended to be exhaustive and is qualified in its entirety by such statutes, Articles of Incorporation and Bylaws.

Indemnification for liabilities arising under the Securities Act may be permitted to Aspyra's directors, officers and controlling persons under the foregoing provisions, or otherwise. Aspyra has been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Section 317(i) of the CGCL further provides that a corporation may purchase and maintain insurance on behalf of any agent, including any director, officer, employee or other agent of the corporation. Aspyra's Bylaws permit Aspyra to secure insurance on behalf of any officer, director, employee or other agent of Aspyra. Aspyra has obtained policies of insurance under which, subject to the limitations of such policies, coverage is provided to Aspyra's directors and officers against loss arising from claims made by reason of breach of fiduciary duty or other

wrongful acts as a director or officer.

Aspyra has entered into agreements to indemnify its directors and executive officers in addition to the indemnification provided for in its Articles of Incorporation and Bylaws. These agreements, among other things, provide for indemnification of Aspyra's directors and executive officers for expenses, judgments, fines and settlement amounts incurred by any of these people in any action or proceeding arising out of his or her services as a director or executive officer or at Aspyra's request. Aspyra believes that these provisions and agreements are necessary to attract and retain qualified people as directors and executive officers.



## **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission and the American Stock Exchange (AMEX) reports of ownership and changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2007, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

## **AUDIT COMMITTEE REPORT**

The Audit Committee of the Board is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee is currently composed of three directors, each of whom meets the independence and experience requirements under the AMEX rules and the independence requirements of the SEC. The Audit Committee operates under a written charter adopted by the Board of Directors.

Management is responsible for the preparation of the Company's financial statements and financial reporting process including its system of internal controls. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and expressing an opinion on whether the Company's financial statements present fairly, in all material respects, the Company's financial position and results of operations for the periods presented in conformity with accounting principles generally accepted in the United States. The Audit Committee's responsibility is to monitor and oversee these processes. In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm the audited financial statements that have been included in our Annual Report on Form 10-KSB for the year ended December 31, 2007.

The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standard No. 61, Communication with Audit Committees, as amended. In addition, the Audit Committee has reviewed with the independent registered public accounting firm their independence from the Company and its management including the written disclosure and the letter provided to the Audit Committee as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees.

Based upon the Audit Committee's review and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, the inclusion of the audited financial statements in the Annual Report on Form 10-KSB for the 2007 fiscal year for filing with the Securities and Exchange Commission. The Audit Committee has recommended the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2008, subject to approval by the shareholders at the Annual Meeting.

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SUBMITTED BY THE AUDIT COMMITTEE OF

THE BOARD OF DIRECTORS

Lawrence S. Schmid

Norman R. Cohen

Jeffrey Tumbleson

The Report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

**PROPOSAL NO. 2**

**APPROVAL OF POTENTIAL ISSUANCES OF  
SHARES OF COMMON STOCK UNDER CONVERTIBLE NOTES AND WARRANTS**

**Introduction**

On March 26, 2008 (the Closing Date), the Company closed a private placement transaction (the Private Placement) with nine accredited investors (the Purchasers) in which the Company issued and sold to the Purchasers \$2,775,000 in principal amount of secured convertible notes (the Notes) (including \$600,000 in Notes that were rolled over from outstanding bridge loans to the Company previously made by certain of the Purchasers), together with warrants to purchase an additional 5,045,454 shares of the Company's Common Stock (Warrants). The Notes are convertible into shares of the Company's Common Stock at a conversion price of \$0.55 per share (the Conversion Price), subject to adjustment in the event of stock splits, stock dividends, and similar transactions. The Notes mature on March 26, 2010 and bear interest at the rate of 8% per annum compounded on each July 15 and January 15, which rate is subject to increase to 24% per annum (or the maximum lawful rate) if the Company defaults under the Notes. Each Purchaser received Warrants with an exercise price of \$0.55 per share equal to the total number of shares of Common Stock initially issuable upon conversion of the corresponding Note, which terminate on the third anniversary of the warrant issuance. The terms of the Notes and Warrants are described in greater detail below in the section entitled Terms of the Transaction.

At the current Conversion Price, the Notes, including current principal and all accrued interest through their maturity date, would be convertible into 5,427,273 shares of the Company's Common Stock. The Warrants, if exercised in full at their current exercise price, would be exercisable for an additional 5,496,646 shares of the Company's Common Stock. Accordingly, the Notes and Warrants together are currently convertible or exercisable for an aggregate of 10,923,919 shares, or approximately 88% of the shares of the Company's Common Stock currently issued and outstanding. However, we are not obligated to issue shares in excess of 19.9% of our issued and outstanding shares (the Issuance Cap) unless and until any required shareholder approvals with respect to applicable issuances of shares under the Notes and Warrants are obtained. The rules of the American Stock Exchange (AMEX) requires shareholder approval of the issuance of shares in excess of the Issuance Cap at a price less than the greater of book or market value, as discussed below. Accordingly, at the present time, in the absence of shareholder approval, the Notes and Warrants together are convertible or exercisable at the Purchasers' discretion only into 2,474,993 shares of Common Stock, or 19.9% of our issued and outstanding shares in the absence of a shareholder vote.

**In connection with the Private Placement, we agreed with the Purchasers, that, among other things, (i) we would obtain, within 120 days after the Closing Date, the approval of our shareholders for the issuance and/or potential issuance of all shares of Common Stock which may be issued pursuant to the conversion of the Notes and the exercise of the Warrants in excess of 19.99% of our Common Stock in connection with the Private Placement, and (ii) we would obtain the approval of our shareholders to amend our Articles on Incorporation in order to increase our authorized number of shares of Common Stock to 40,000,000 shares. Failure to obtain such shareholder approval would constitute an event of default under the Notes. An event of default under the Notes would allow the holders to declare all amounts under the Notes immediately due and payable, and the interest rate on the principal balance of the Note would increase from 8% to 24% per annum (or the maximum lawful rate).**

In connection with the Private Placement, we agreed with the Purchasers, that, among other things, (i) we would ob



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Accordingly, we are now seeking shareholder approval with respect to potential issuances of shares under the Notes and the Warrants as well as Proposal No. 3 regarding the amendment of our Articles of Incorporation. In the event that this Proposal No. 2 is not approved by the shareholders, we will be in default under the Notes. If an event of default under the Notes were to occur, the holders of the Notes could declare all amounts under the Notes immediately due and payable, and the interest on the principal under the Notes will increase substantially.

### **Why the Company Needs Shareholder Approval**

We are seeking shareholder approval in order to comply with the AMEX rules and to fulfill an obligation under our agreement with the Purchasers to seek any required shareholder approvals with respect to applicable issuances of shares of our Common Stock issuable upon conversion of the Notes and exercise of the Warrants.

AMEX Rule 713 requires shareholder approval for the issuance of securities (other than in a public offering) at a price per share less than the greater of the book or market value of a company's stock, where the amount of securities being issued represents 20% or more of an issuer's outstanding Common Stock. Although the Conversion Price of the Notes was above the market value per share of our Common Stock as of the Closing Date, the Conversion Price is less than the book value of the shares as of such date. Accordingly, the issuance of shares in excess of the Issuance Cap under the Notes and the Warrants requires shareholder approval.

We are seeking shareholder approval so that we can avoid an event of default under the Notes and avoid an obligation of ours that would arise to pay increased interest on the Notes. If any required shareholder approvals are not obtained, we would be obligated to pay interest at a significantly higher rate (24% or the maximum lawful rate, as opposed to 8%) on the Notes principal, which will increase our borrowing costs and indebtedness and potentially materially impair the Company's operations and financial position. In addition, an event of default under the Notes would allow the holders to declare all amounts under the Notes immediately due and payable. This would require us to use our limited working capital and/or raise additional funds. If we fail to make required payments, the holders of the Notes could, subject to the rights of Western Commercial Bank, the holder of the first position lien on our assets, take title to and sell all of our assets in satisfaction of principal and interest then owing under the Notes.

#### **Terms of the Transaction**

*General.* On March 26, 2008, we entered into a Securities Purchase Agreement (the "Purchase Agreement") by and among the Company, Jay Weil as collateral agent, and the Purchasers named in the Purchase Agreement for the private placement of Notes in the principal amount of \$2,775,000 and corresponding Warrants to purchase and additional 5,045,454 shares of the Company's Common Stock at \$0.55 per share. The proceeds from the Private Placement are to be used, and in accordance with the Purchase Agreement, may only be used, for the Company's working capital purposes, including the payment of the Company's current liabilities as of the Closing Date. The Private Placement closed, and the Notes and Warrants were issued on March 26, 2008. Pursuant to the terms of the Purchase Agreement, we agreed to obtain, within 120 days after the Closing Date, shareholder approval for (i) for the issuance and/or potential issuance of all shares of Common Stock which may be issued pursuant to the conversion of the Notes and the exercise of the Warrants in excess of 19.99% of our Common Stock in connection with the Private Placement, in accordance with the AMEX rule described above, and (ii) to amend our Articles of Incorporation in order to increase our authorized number of shares of Common Stock to 40,000,000 shares. Failure to obtain such shareholder approval would constitute an event of default under the Notes, allowing the holders to declare all amounts under the Notes immediately due and payable, and increasing the interest rate on the Notes from 8% to 24% (or the maximum lawful rate).

*The Notes and Warrants.* The Notes accrue interest at a rate of 8% per annum, subject to adjustment, compounded on each July 15 and January 15. The term of the Notes is two years, and the Notes are convertible into shares of Common Stock at the Conversion Price of \$0.55, subject to certain adjustments. At the current Conversion Price, the Notes would be convertible into an aggregate of 5,427,273 shares of our Common Stock, or approximately 44% of the shares currently issued and outstanding. Each Purchaser received Warrants at \$0.55 per share equal to the total number of shares of Common Stock initially issuable upon conversion of the corresponding Note, which terminate on the third anniversary of the Warrant issuance. The Warrants, if exercised in full at their current exercise price, would be exercisable for an additional 5,496,646 shares of the Company's Common Stock. Accordingly, the Notes and Warrants together are currently convertible or exercisable for an aggregate of 10,923,919 shares, or approximately 88% of the shares of the Company's Common Stock currently issued and outstanding. Nevertheless, because of the Issuance Cap, the Notes and Warrants are convertible or exercisable at the Purchasers' discretion only into 2,474,993 shares of Common Stock, or 19.9% of our issued and outstanding shares.

Events of default under the Notes include our failure to secure any required shareholder approval necessary for the issuance of more than 19.9% of our currently outstanding shares of Common Stock, our failure to secure shareholder approval of an amendment of our articles of incorporation to increase the authorized number of shares of our Common Stock to 40,000,000 shares (see Proposal 3 below), failure to pay

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when due any principal, interest or late charges on the Notes, certain defaults on our indebtedness, certain events of bankruptcy and our breach or failure to perform in respect of representations and obligations under the Notes. Upon the occurrence of an event of default, our obligations under the Note may become due and payable in accordance with the terms thereof.

*Security Interest.* Pursuant to a security agreement entered into in connection with the Purchase Agreement (the Security Agreement), the obligations under the Purchaser Notes are secured by a security interest in substantially all of the Company's assets in favor of the Purchasers, subordinate only to the security interest held in the Company's assets by Western Commercial Bank.

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

*Amendment of Articles of Incorporation.* As set forth in more detail in Proposal No. 3 below, we are also under an obligation pursuant to the Purchase Agreement to authorize and reserve a sufficient number of shares of Common Stock for issuance in connection with the conversion of the Notes and the exercise of the Warrants. Currently our Articles of Incorporation do not authorize a sufficient number shares of Common Stock for these issuances, and at the Annual Meeting we are soliciting the approval of our shareholders to amend our Articles of Incorporation to authorize the issuance of up to 40,000,000 shares of Common Stock.

*Preemptive Rights.* In connection with the Private Placement, the Company also granted to each Purchaser, for a period of one year after the Closing Date, the right to purchase, pro rata, all (or any part) of any equity securities or options, rights or warrants for equity securities of the Company, subject to certain exemptions ( New Securities ) that the Company may, from time to time during such period, propose to sell or issue. Each Purchaser's pro rata share of the New Securities (its Pro Rata Amount ) for purposes of this preemptive right, is equal to the ratio of (i) the sum of the number of shares of Common Stock then held by the Purchasers plus the number of shares issuable to the Purchaser assuming the entire principal amount of all of the Notes held by the Purchaser are converted into Common Stock and all of the Warrants held by the Purchaser are exercised in accordance with their respective terms (the Purchaser Shares ) to (ii) the sum of (A) the total number of shares of the Common Stock held all Purchasers as of the date of such determination, plus (B) the total number of Purchaser Shares held by all Purchasers.

*Interests of Certain Shareholders.* The Purchasers under the Purchase Agreement included J. Shawn Chalmers, who was issued a Note in the amount of \$750,000. Mr. Chalmers's \$750,000 Note included \$300,000 that was rolled over from a bridge loan previously made to the Company on March 13, 2008. Mr. Chalmers currently beneficially owns 9.99% of our outstanding Common Stock (including the exercisable portion of the Warrant issued to him). The Purchasers also included Brad Peters, a former director of the Company, who was issued a Note in the amount of \$200,000, which was rolled over from a bridge loan that closed January 28, 2008, and C. Ian Sym-Smith, a current director and director nominee, who was issued a Note in the amount of \$100,000 which was rolled over from a bridge loan previously made to the Company on January 28, 2008.

*Brokers.* We issued to Great American Investors, Inc., the placement agent for the private placement, a Note in the amount of \$210,000 (the Broker Note ), and a Warrant to purchase 451,193 shares of our Common Stock (the Broker Warrant ). The Broker Note and Broker Warrant have the same terms as the Purchaser Notes and Purchaser Warrants. One of our current directors and a director nominee, Jeffrey Tumbleson is the brother of the managing director of Great American Investors, Inc., which also acted as placement agent for two private placements of the Company's securities in November 2005 and May 2006.

*Further Information.* The terms of the Private Placement, the Notes, the Warrants and other transaction documents are complex and only briefly summarized above. For further information on the Private Placement and the rights of the Purchasers, please refer to the descriptions contained in the Company's Current Report on Form 8-K filed with the SEC on April 1, 2008, and the transaction documents filed as exhibits to such report. The discussion herein is qualified in its entirety by reference to such filed transaction documents.

#### **Effect of Proposal on Current Shareholders**

If this Proposal No. 2 is adopted, up to a maximum of 10,923,919 shares of Common Stock (without regard to any Iss