ASPYRA INC
Form 424B3
April 24, 2007

Filed Pursuant to Rule 424(b)(3)
File Number 333-134926

PROSPECTUS SUPPLEMENT NO. 2

Prospectus Supplement No. 2 dated April 24, 2007
to the Prospectus dated September 22, 2006
(Registration No. 333-134926)

ASPYRA, INC.

This Prospectus Supplement No. 2 supplements information contained in, and should be read in conjunction with, our Prospectus dated September 22, 2006, as supplemented by the Prospectus Supplement No. 1 dated November 15, 2006. This Prospectus Supplement No. 2 is not complete without, and may not be delivered or used except in connection with, the Prospectus and the Prospectus Supplement No. 1.

The securities that are the subject of the Prospectus, as supplemented, have been registered for resale by certain of our investors. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering, other than the exercise price, if any, to be received upon exercise of the warrants referred to in the Prospectus. You should read this Prospectus Supplement No. 2 together with the Prospectus and the prior Prospectus Supplement No. 1 referenced above.

This Prospectus Supplement No. 2 includes the attached Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 of Aspyra, Inc., as filed by us with the Securities and Exchange Commission on April 17, 2007.

Our common stock is traded on the American Stock Exchange, under the symbol APY.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT (OR THE PROSPECTUS OR THE PROSPECTUS SUPPLEMENT NO. 1). ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement No. 2 is April 24, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2006.

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to

Commission file number 0-12551

ASPYRA, INC.

(Name of Small Business Issuer in Its Charter)

California (State or Other Jurisdiction of Incorporation or Organization)	**95-3353465** (I.R.S. Employer Identification No.)
26115-A Mureau Road **Calabasas, California** (Address of Principal Executive Offices)	**91302** (Zip Code)

Issuer s Telephone Number, Including Area Code: **(818) 880-6700**

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, no par value

(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

o

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

Yes x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

x

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

Yes o No x

Issuer s revenues for its most recent fiscal year ended December 31, 2006 were $ 12,689,217

As of March 30, 2007, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Company was approximately $11,303,000

As of March 30, 2007, the Company had 10,783,150 shares of its common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Fiscal 2005 Definitive Proxy Statement, which will be filed within 120 days of the end of the Company s fiscal year, are hereby incorporated by reference into Items 9, 10, 11, 12 and 14 of Part III of this report.

Transitional Small Business Disclosure Format (check one):

Yes o No x

Aspyra, Inc.

TABLE OF CONTENTS

Special Note Regarding Forward-Looking Statements

The following Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The SEC encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions.

Words such as anticipate, believe, estimate, expect, intend, may, plan, project, seek, will and words and terms of similar subs connection with any discussion of future events, operating or financial performance, financing sources, product development, capital requirements, market growth and the like, identify forward-looking statements. These forward-looking statements include, among others:

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

All forward-looking statements are present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The risks related to ASPYRA s business discussed under Risk Factors of this Annual Report on Form 10-KSB, among others, could cause actual results to differ materially from those described in the forward-looking statements. Such risks include, among others: whether the merger with StorCOMM and the resultant combined company will realize the potential benefits of the merger; the competitive environment; unexpected technical and marketing difficulties inherent in major product development efforts such as those described about CyberLAB 7.0; the potential need for changes in our long-term strategy in response to future developments; future advances in clinical information technology and procedures, as well as potential changes in government regulations and healthcare policies, both of which could adversely affect the economics of the products offered by ASPYRA; and rapid technological change in the microelectronics and software industries.

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

PART I

Item 1. Description of Business.

Business Description

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

ASPYRA s software and services for hospitals and clinic-based laboratories, pharmacies, orthopedic centers, and hospital imaging departments are highly scalable and can be used by a broad variety of healthcare providers. Clinical information is data that is gathered concerning each individual patient s health condition, diagnosis, and treatment that are used by doctors, nurses and other healthcare providers. Such data may include laboratory test results, transcribed reports of

3

radiological or imaging procedures, digital diagnostic images, medication administration records, and other clinical and diagnostic data. ASPYRA s products are deployed to provide automation of clinical information and digital diagnostic images that facilitate the operation of clinical departments and allows the rapid recording and processing of information that can be communicated, documented, and delivered to healthcare providers.

Currently, ASPYRA markets a product line that includes a Laboratory Information System under the trade name CyberLAB®, a general purpose PACS system under the trade name AccessNET , a Radiology Information System (RIS) under the trade name CyberRAD®, a RIS/PACS integrated system under the trade name AccessRAD , a multi-specialty PACS system under the trade name AccessMED , an Anatomic Pathology System under the trade name of CyberPATH®, a Pharmacy Information System under the trade name CyberMED®, a WebGateway portal for physician access to its CIS applications, and other related clinical and diagnostic application modules.

ASPYRA s corporate offices are located at 26115-A Mureau Road, Calabasas, California 91302. The Company s telephone number is (818) 880-6700 and its website address is www.aspyra.com. The Company s business consists of three operational areas: (1) Clinical Information Systems and Diagnostic Information System products, (2) service of its customer s installations, and (3) implementation services. The Company generates revenues from the licensing of application software, the sale of hardware, and the provision of implementation and long-term post implementation services. The Company sells its CIS and DIS systems directly through its own sales force in North America, through channel partners and distributor programs with other companies, and has reseller agreements in certain international markets.

History and Business Development

Since its inception as a California corporation in 1978, ASPYRA has been primarily engaged in the development, marketing, installation, and service of Clinical Information Systems that automate the collection and management of patient clinical data for healthcare providers.

The percentage of the Company s net sales attributable to the sale, license, and implementation of Clinical and Diagnostic Information Systems, accounted for approximately 45% of total revenues in the fiscal year ended December 31, 2006. ASPYRA expects that its service revenues, which accounted for approximately 55% of total revenues in the current fiscal year, will continue to grow as additional new installations are added to the Company s installed base. As of December 31, 2006, the Company supported approximately 400 active application installations that are used in over 600 customer sites.

By automating the collection and organization of patient clinical data and related diagnostic images, the Company s Clinical and Diagnostic Information Systems reduce operating costs, assist in meeting compliance requirements, address patient care and safety issues, improve the turnaround time of patients diagnosis and treatment, and increase the efficiency of healthcare providers overall. In addition to such factors, products such as those sold by ASPYRA have been well documented to provide significant return on investment scenarios, which further confirms the efficacy of such systems. The healthcare industry continues to operate under increasing pressure from government regulatory agencies and third party payers of medical expense, as well as from increased competition in the healthcare industry, to control costs. Management believes that there will be continuing demands to contain healthcare costs for the foreseeable future. The growing need for improved healthcare technology is evidenced by approximately 100,000 patient deaths in 2006 due to medical errors from incomplete or not easily accessible patient files, as well as a lack of standards for keeping medical records. The U.S. Department of Health and Human Service (HHS) National Coordinator for Health Information Technology has set aside $4.5 billion for the development of standards related to an Electronic Medical Record (EMR) system accessible from any medical organization at any location.

As part of its business strategy, the Company has consistently pursued the development of enhancements and new modules to its existing products, as well as the development of entirely new products and services to expand the Company s business. The Company has developed a web-based clinician portal marketed as the ASPYRA WebGateway, which provides online access to the Company s CyberLAB and CyberRAD products so that physicians, nurses and other caregivers can easily utilize them from virtually anywhere in the world, and the Company is continuing to build upon this technology platform in order to deploy other functionality. ASPYRA s WebGateway provides access to CyberLAB for order placement, patient inquiry, and results, and is compliant with security and privacy issues pertaining to the Health Insurance Portability and Accountability Act (HIPAA). WebGateway also provides access to CyberRAD for orders, scheduling, exam inquiry, electronic signature, regulatory compliance, and other functions. ASPYRA s AccessNET family of products is highly scalable and permits their deployment in small standalone operations or in large enterprise hospitals. Certain application modules can also be deployed in facilities that currently have PACS installations to provide enhanced capabilities for telemedicine using ASPYRA s thin client technology.

The board of directors and management, while deliberating the factors leading to the merger with StorCOMM, determined that the convergence of the Company s clinical systems product technology with a business offering PACS, would present significant opportunities for growth given the changes that were occurring in the healthcare market place. The board of directors believed that the integration of clinical information systems that manage clinical operational activities in healthcare with diagnostic systems such as PACS systems, was becoming more important in the healthcare information systems market. The board of directors of the Company further believed that by combining the two companies into ASPYRA it would better serve the addressable market and result in greater long-term growth opportunities than either independent company had operating alone. The Company had completed most of the integration of the two businesses by the end of the fiscal year ended December 31, 2006 and the remainder of the integration activities are set to be completed by the second fiscal quarter of 2007. As a result of the integration we believe the combined Company now:

- offers integrated applications and services to a broader sector of the healthcare provider market;
- has a broader sales and channel coverage than either company independently;
- has the advantages of financial synergies; and
- has the scale to better compete in the marketplace.

While the merger was being completed, the board of directors and management determined it was in the best interests of the companies to begin developing and executing an integration plan. In order to mitigate the delays in completing the merger and put the combined Company in the best position to immediately execute its integration plan and launch new products following the merger, management determined it was in the best interests of the Company to proceed with the development of its integration plan, which required significant investment in infrastructure and product development. This activity continued through the 2006 fiscal year and resulted in short-term increases in certain expenses but also allowed for the elimination of redundant personnel and other expenses to attain more efficient business synergies. While some of these expenses were non-recurring, others including the addition of key personnel in product management, regulatory affairs, and product development, were important additions to management in order to assure the success of the Company s integration strategy. In aggregate the Company incurred a net loss of approximately $3,570,000 in fiscal 2006; however of this amount approximately $1,900,000 were non-recurring expenses.

Business Development Strategy

Our strategy since completing the merger is to advance ASPYRA s position to become a leading company in the clinical and diagnostic sector of the healthcare information technology marketplace, which is growing rapidly. We plan to accomplish this goal through increased market penetration, internal product development efforts, and selective product licenses from third parties or acquisitions of additional technologies and/or product lines where feasible. Our goal is to evolve beyond the provision of departmental applications and become an enterprise provider of integrated technologies and services that improve the efficiency, safety, and quality of patient care.

Our business model is to establish long term relationships with our end-user customers that are essential for their operational requirements. Our products are mission critical clinical and diagnostic applications that they rely upon to help them manage patient safety, diagnosis, and treatment. This business model has the potential to generate recurring revenues from the provision of long term services, upgrades, software add-on and other revenue generating opportunities. Considering the capital budget constraints that are imposed on healthcare providers who use our products, they plan to use them typically for 5 to 10 years. In order to service them we must keep them current for competitive, clinical and diagnostic reasons, and regulatory compliance. Enhancements to our products in the form of software upgrades are an integral part of this business model and are included as a contract obligation in our warranty and extended service agreements. In order to generate such revenue opportunities our investment in software enhancements is significant and is a key component of our ongoing support obligations.

We plan to increase market penetration through the expansion of our direct sales activities domestically as well as selectively seek new channel partners for some of our products in sectors that are underserved by us, such as orthopedics. We also plan to expand into other international markets through establishing new relationships with channel partners and resellers and through the introduction of other products from our product portfolio that are now not currently being offered. We also plan to increase cross selling into our respective installed base of customers.

We plan to create new integrated products from our product portfolio. Our first integrated product, AccessRAD, which combines our RIS system and PACS system technologies, is substantially complete and is now being marketed. AccessRAD addresses a growing demand for integrating

the clinical, work flow and diagnostic activities in acute care hospitals and clinics. In the same instance there is a growing demand to integrate PACS technology with anatomic pathology and laboratory systems that we can create from our product portfolio. We also plan to continue to further develop our clinical and diagnostic applications.

We plan on licensing or acquiring software applications that enhance our clinical and diagnostic products and resell them to our end users, which will provide additional capabilities such as multidimensional image visualization in PACS and robotics in the laboratory. At present ASPYRA s systems contain a large set of the clinical data and diagnostic images that make up the EMR. Accordingly we plan on evolving our product offerings into an EMR system by acquiring, developing, or licensing the missing components.

Clinical Information Systems

The Company s Clinical Information Systems are designed to provide cost effective, robust application features to manage comprehensive clinical activities throughout most sectors of the health care provider marketplace. The Company s systems are highly user definable and scaleable, enabling a wide range of users and different types of healthcare providers to employ them.

ASPYRA s Clinical Information System applications are designed around a common open systems architecture that is based on either the UNIX or Microsoft® operating system platforms and employs thin-client technology at the point of user interface. ASPYRA s use of this technology allows easy integration into existing networks, as well as seamless integration with other systems. ASPYRA s suite of Clinical Information System applications allows for scalability and flexibility ensuring that as the needs of a healthcare provider change, the systems can easily be adapted. The Company s clinical applications are designed around flexible parameterized software, which enables the end user to tailor the software for its individual needs, adapting to the facility s internal policies, and allows us to sell across the marketplace into various niches.

For clinical laboratories, the Company has integrated its software applications and data acquisition technology into Laboratory Information Systems (LIS), which are sold under its trade name CyberLAB. Extensive applications for a wide variety of laboratory testing, compliance, and quality control procedures, including hematology, immunology, chemistry, microbiology, drug testing, toxicology, urinalysis, and cytology testing, are available with the Company s systems. Validation and reimbursement, medical error reduction, multi-site reporting and management, database management, bedside specimen collections, point of care testing, auto-verification of results, decision support tools, regulatory adherence tools, remote communications and flexible user defined reporting capabilities are also included. Additional modules are also available for complete microbiology testing and CyberPATH, ASPYRA s anatomic pathology system, can be fully integrated with CyberLAB. The Company s LIS are highly flexible and scalable and are used by laboratories of varying size and complexity. During fiscal 2006, ASPYRA migrated CyberLAB to a platform and database independent architecture so that it now is offered either on Windows® with SQL or UNIX with Oracle as its database. We also completed numerous other functional enhancements to our product offering.

The Company s Pharmacy Information Systems, which are sold under the trade name CyberMED, integrate inpatient, outpatient, and long term care applications into a highly integrated software product. CyberMED integrates unit dose, IVPB/TPN, controlled substances, floor stock, inventory control, and kinetics functions. It performs labor-intensive operations such as patient profiling, drug inventory control, drug interactions, and patient billing. An optional purchasing module can electronically place orders with suppliers and determine the fastest moving drugs, as well as track drug usage and costs. CyberMED supports several third party database services for integrated drug interactions, pricing, and patient informational disclosures that are required by regulation. Extensive reporting capabilities are supported including a user defined parameterized medication administration reporting module.

CyberRAD, the Company s Radiology Information System, is also hybrid in its design, which allows for its deployment in inpatient, outpatient and multi-site settings. Applications include extensive scheduling, reporting, film tracking, transcription, billing, and clinical functionality. In addition, Document Imaging for storage and retrieval of important patient information, such as signed HIPAA Consent and Authorization Notices, Medical Necessity (Advanced Beneficiary Notice (ABN), and other patient information is included in CyberRAD. CyberRAD has also been designed with easy to deploy built-in communication interface capabilities for diagnostic modalities and Picture Archive Communication Systems.

Diagnostic Information Systems

ASPYRA s AccessNET PACS and clinical image management systems achieve true enterprise-wide connectivity for all types of images and equipment, while providing leading edge product capabilities, support, and integration. ASPYRA S customers include hospitals of all sizes with associated remote locations; independent and hospital-managed imaging centers; orthopedic facilities and specialists; teaching and children s facilities; and radiology groups serving multiple locations. The scalability of the AccessNET PACS system has enabled it to be deployed into a diverse installed base.

PACS coordinates all aspects of digital imaging in hospitals and clinics. This includes capturing images from Digital Imaging and Communications in Medicine (DICOM) and non-DICOM compliant imaging modalities and video sources, storing this clinical information in a secure environment, and distributing and displaying both clinical images and corresponding diagnostic information throughout hospitals and clinics. ASPYRA S PACS can integrate with existing hospital systems to share information as necessary. For example, if a facility has a hospital information system that manages exam appointments, this system can integrate with ASPYRA S PACS to share information about the scheduled exams. Typically, integration is accomplished using communications standards such as DICOM and Health Level Seven (HL7).

ASPYRA released version 6.0 of its AccessNET PACS software in February 2006. Among the enhancements for system administrators in version 6.0 is the Install Manager available in ASPYRA S Management Station application. This new distribution / update mechanism allows users of the system to update their MedVIEW® viewing station software. MedVIEW® will automatically detect when a newer version is available on an AccessNET server and will upgrade itself in the background without any user intervention. The Install Manager also enables system administrators to track versions installed and distributed. The system administrator can require the automatic update / upgrade or leave the installation timing to the discretion of the system user. Enhancements to annotations, reports, DICOM Interchange CDs, and support for DICOM color images with segmented color tables are available in the new version along with new features for system administrators. Also in February 2006, ASPYRA announced attainment of the Gold Certified level of the Microsoft Partner Program. As a Microsoft Certified Partner, Aspyra reached the highest level within the program by earning the ISV/Software Solutions Competency for its Picture Archive Communications System (PACS) product - AccessNET, and the Networking Infrastructure Solutions Competency.

During fiscal year ended December 31, 2006, extensive development was undertaken to provide integration between CyberRAD and AccessNET, which led to the launch of a new integrated RIS/PACS product that is sold under the trade name AccessRAD. Specifically developed to enhance workflow and provide instant availability to clinical information, AccessRAD is designed to meet the needs of acute-care hospitals, enterprise-wide delivery networks, and large imaging enterprises. Furthering increasing efficiency, AccessRAD s multisite module enables organizations to manage the workflow and reporting needs at multiple facilities with a single solution. AccessRAD provides radiologists with a central command center to manage RIS and PACS functions. All the tools for reading images, dictating, accessing images and reports, as well as electronically signing reports, are available on the AccessRAD desktop. AccessRAD also helps organizations enhance patient safety by reducing the errors that result from redundant data entry, and the solution improves care delivery by providing clinicians with real-time information.

ASPYRA s AccessMED is a version of AccessNET that was designed for the specialty PACS environment, such as orthopedics. It mirrors the workflow and tools specific to the needs of medical specialists to improve efficiency and care delivery. Work lists of patients and exams can be viewed in multiple ways based on the needs of clinicians or administrative users. In addition, clinicians can bookmark interesting and special cases for quick and easy follow up, or for collaboration with other specialists. AccessMED provides an unlimited configuration of viewing options for images, work lists, reports, prior studies and other clinical information. Content-sensitive help screens and tutorials can be viewed on screen, providing users with a virtual expert at their fingertips while they complete their tasks. Advanced workflow tools, such as embedded dictation and report generation, combine diagnostic and reporting capabilities into a single solution.

Specialized modules within AccessMED offer enhanced image viewing options. The AccessMED OrthoView module includes templates from virtually every major prosthetics manufacturer to provide clinicians with digital surgical planning capabilities. In addition, the AccessMED Image STITCH module provides the tools needed to combine multiple images into a single image for review, which is especially valuable for long bone and spinal images.

Integration

The Company has designed its products to incorporate open systems architecture and to conform to computer industry standards, which enable them to be more easily integrated with other vendors products. Healthcare industry standards, including HL7 and American Society for Testing and Materials (ASTM), and DICOM standards are employed throughout the Company s software products and in its CyberLINK connectivity application. Aspyra is an active vendor participant with IHE (Integrating the Healthcare Enterprise). IHE is an initiative by healthcare professionals and industry to improve the way computer systems in healthcare share information. IHE promotes the coordinated use of established standards such as DICOM and HL7 to address specific clinical needs in support of optimal patient care. Systems developed in accordance with IHE communicate with one another better, are easier to implement, and enable care providers to use information more effectively.

The Company s Clinical and Diagnostic Information Systems support extensive communication capabilities to various healthcare information systems including Hospital Information Systems, nursing and practice management systems, EMR Systems, for which the Company has developed over five hundred system-to-system communication interfaces. The Company s Clinical Information Systems are employed in many settings that consist of multiple sites where testing or medical procedures are seamlessly integrated. In addition, different types of enterprises, such as hospital and affiliated outreach clinics, can use the Company s systems to integrate their activities thus enabling the execution of their business strategies. The communication interfaces often support bi-directional data communications, whereby demographic and order requests are transmitted to the Clinical Information Systems and, in turn, billing information and results are re-transmitted to the host system. The Company s Clinical Information Systems support their own order communications and test subsystems that have been employed in other accounts that have relied on the Clinical Information System s communications capabilities. Management believes that communications to other systems allowing connectivity between its CIS applications and patient care, electronic medical record systems, and other administrative information systems, are very important functional requirements in the marketability of its products. The Company has focused considerable attention on the communication, networking, and connectivity capabilities of its products, and plans to further develop these capabilities as opportunities present themselves.

The Company has developed standard seamless integration and network connectivity for all its products through user selected network topologies, network protocols, and network operating systems. Although each application has been configured to operate as a stand-alone product, all can be operated as an integrated package, residing on a shared platform or network, thereby eliminating the need for multiple interfaces, duplicate information handling, and their associated costs. ASPYRA continues the development of enhancements to CyberLINK®, a software integration and communications module that integrates all of its own clinical applications and provides a single communications gateway to or from other vendors systems.

Service

The Company provides comprehensive services to its installed base of system customers through its own service organization, and provides extensive training and implementation of its systems to its customers. The Company offers software support services, through a twenty-four hour hotline, and hardware repair under extended service contracts. In most instances, the Company relies on third parties to service the hardware components that it sells but may assume responsibility for first call support. The Company services its own data acquisition products and related software, used as part of its CIS product offerings, under service contracts offered to end users. The Company s long-term inventory requirements for its service and repair business have historically been significant because it must retain a loaner pool of components used to service its customer base. However, in recent years, the Company has de-emphasized providing hardware in connection with the sale of its CIS products and currently only provides the servers and a few specialty components for which it relies on the manufacturer to service. In many instances ASPYRA s products include the hardware components that comprise a PACS system and in such cases the Company includes a direct multi-year manufacturers warranty and service with such hardware components.

The Company s service revenues for fiscal year ended December 31, 2006 increased by approximately 38% from the fiscal year ended December 31, 2005, and they are expected to continue to grow as the installed base of system customers grows. The majority of the Company s customers are under service contracts. The Company believes that the ability to offer comprehensive services to its customers is a very important facet of its business and solidifies a long-term relationship with its customer accounts. The recurring revenue stream associated with this activity is a significant part of the Company s business. The ability to offer long-term service often leads to add-on sales opportunities for peripheral components, data acquisition products, and upgrades to newer computers and software applications. In addition, the quality of service is an important aspect of the end users buying decision when making a system selection; therefore the Company is constantly fine-tuning the services it provides and its service organization as part of its marketing strategy.

The Company has deployed technology to automate a company-wide helpdesk system in order to more effectively service its customers and employs a virtual company concept by linking outside personnel via the Internet directly into its own internal network. This permits ASPYRA employees who are engaged in technical and service related activities to telecommute through this venue. During fiscal year ended December 31, 2005, the Company converted its aged helpdesk system to a new customer relationship management system (CRM) and integrated it with its current general accounting system. The Company has substantially completed the upgrade of its company-wide network infrastructure and the integration of all of its business processes into the CRM and accounting systems.

The Company believes that the service of its customers is of utmost importance to its long-term success and business strategy. Accordingly, a great deal of emphasis is placed on continuing to upgrade the service organization and on expanding the services that the Company offers towards a goal of establishing a higher degree of customer satisfaction. As

part of this effort, the Company routinely surveys its customers in an effort to obtain a report card on how the service organization performs. This proactive approach allows the Company to further understand the relationship with the customer. Surveys are based on varying subjects, including sales, implementation or support processes, and corporate communication or product development.

The Company recruited additional support and implementation personnel during fiscal 2006 and implemented new training programs.

Significant Contracts and Programs

The Company has pursued a strategy of seeking out new market opportunities to expand the distribution of its products in two specific ways, first through joint ventures with other vendors of compatible products and services that are synergistic with ASPYRA s products, and secondly by entering new markets.

ASPYRA is also seeking to expand its presence in international markets. With the completion of the merger, the Company consolidated its international activities in its United Kingdom offices. Currently most of the Company s installations are in the United States; however, the Company also has systems placed in the United Kingdom, South Africa, Hungary, Russia, Canada, the Caribbean, Malaysia, Indonesia, and Singapore.

As part of its overall marketing strategy, the Company is also pursuing strategic relationships with organizations that operate multiple entity enterprises where the Company may have the opportunity to offer its array of products and services to the group.

During the fiscal year ended December 31, 2006, there were no customers, contracts or programs that generated over 10% of the Company s net sales other than through a distribution arrangement with Merry X-Ray that generated approximately $2.3 million in aggregate sales or 18% of total revenues.

Product Development

The market for the Company s products is characterized by rapid and significant technological change. The Company s ability to compete in the market, and to operate successfully, depends in part on its ability to react to such change. During the Company s fiscal years ended December 31, 2006, and 2005, amounts (exclusive of capitalized software) equal to approximately 15.6%, and 18%, respectively, of the Company s net sales were expended for research and development. The Company continues to expend a significant amount of resources for the development of new products, and for the development of additional enhancements to existing products and intends to continue to expend such resources in the future.

The Company s development plans are focused on evolving its clinical and diagnostic application products to a common user interface based on industry standard thin client technology. Utilization of this common user interface architecture allows for easier deployment in a traditional enterprise environment as well as projecting the applications natively over the Internet. Management believes that the total cost of ownership inherent in thin client architecture is very attractive to both current and future users. As the product suite continues to migrate to a common look and feel, ASPYRA is also migrating its products to an independent operating platform and relational database technology. This architectural approach allows the product suite to take advantage of all current and any potential future relational database technologies. Management s goal is to drive the product suite to a total open systems environment, therefore allowing ASPYRA to take advantage of new technologies as they appear.

In addition to the preceding, ASPYRA has planned product development projects over the next three years that include additional enhancements to all of its products. The Company also continues to develop enhancements to its WebGateway that will provide for greater functionality, and expanded use of its CIS products for physician users.

Research and development expenditures, net of capitalized software, amounted to approximately $1,981,000 in fiscal year ended December 31, 2006, and $1,301,000 in fiscal year ended December 31, 2005. Such expenditures were attributable to systems development, including the development of new Laboratory, Radiology, and Pharmacy Information Systems applications, and enhancements to those products. The Company s Clinical Information Systems are programmed using an OBJECT COBOL language that provides a standard code structure for the business logic while the graphical presentation is written in JAVA® and HTML. By employing run-time modules for UNIX and Windows, the Company has been able to port to a variety of hardware platforms with ease. The Company s Diagnostic Information Systems are built upon the Microsoft® .net platform and are programmed using C# and C++. The Company currently supports its software applications on Intel® based Hewlett Packard® servers, Dell® servers and IBM® RISC 6000 servers, the most popular computer providers in healthcare. This capability has allowed the Company to become platform independent in vending its software products where some customers may be

predisposed to certain hardware brands. The Company also takes

advantage of using off the shelf software such as Microsoft® Word® for transcription and document production and delivery. All of the Company s products are open database compliant (ODBC), and the data structures support the use of standard query language (SQL) report generators that allows a wide range of reporting capabilities.

Distribution and Marketing

ASPYRA sells its CIS and DIS systems directly through its own sales force in North America, through channel partners and distributor programs with other companies, and has reseller agreements in certain international markets. It also sells directly in the United Kingdom through its offices located in East Grinstead, West Sussex. At present, the Company s domestic direct field sales force consists of six regional salespersons, and two clinical software consultants, that are managed by a vice president of sales.

At the time of the conclusion of the merger, the Company launched a new corporate identity campaign in order to introduce the merged Company under the new name ASPYRA to the marketplace, which included the creation of a new corporate identity strategy including a new name, tagline, logo and branding.

In addition, the Company commenced new promotional activities and is compiling a significant database of accounts throughout the healthcare marketplace that is helping to position the Company s sales activities. In addition to direct marketing, the Company promotes its products by attending national industry trade meetings, through media advertising, publishing articles in industry publications, telemarketing campaigns, and through its website. Because of the opportunity to meet larger audiences at national industry meetings, the Company intends to upgrade its participation at such meetings for fiscal 2007 with new larger exhibits and other promotional programs. The Company has also formed joint marketing arrangements with other companies that have compatible products and services, which has increased sales penetration in the marketplace.

The Company has established and supports a periodic user symposium in order to encourage users of its Clinical Information Systems to participate in helping the Company to better serve its customers. The focus of the symposium is to encourage open group communications with the Company about a range of subjects, including service and support and new product enhancements. Since the Company has experienced success in vending multiple products to its customers, the national symposium proves to be a good forum to discuss general topics, such as the Company s strategy and product direction, and provides an opportunity to focus on specific application issues in breakout sessions, special interest groups (SIGs) and roundtable discussions. The Company also schedules advanced training courses as part of the symposium agenda that have had considerable attendance by its customers.

The Company also publishes newsletters and articles, which are intended to expand communications with existing and potential customers. During fiscal 2007, the Company expects to substantially increase expenditures associated with its marketing plan which include additional web site enhancements, collateral materials, including new product marketing literature, and intends to expand its direct marketing and telemarketing activities.

Competition

The Company has several significant competitors including McKesson, GE Medical Systems, Siemens, Cerner, Merge Healthcare, Amicas, Misys, Phillips, and others, in the Clinical Information Systems business, many of which are much larger companies that may offer a wider array of products and services in addition to competitive clinical applications. These competitors have significantly greater resources than we have, including greater name recognition, larger sales operations, greater ability to finance research and development and proceedings for regulatory approval, and more developed regulatory compliance and quality control systems. Management believes, however, that few competing CIS products offer the Company s hybrid multisite capabilities, variety of data interfaces, add-on capability, and flexibility that allows the systems to be user definable, so that they can be employed in different types of settings. The multisite and multi-disciplinary or hybrid nature of the Company s products are a strong selling point. The Company has also received very good references about its service organization and the ability to respond to customers needs on a timely and cost effective basis.

The principal competitive factors in the Company s business are technological competence, diversity of product line, price and performance characteristics, product quality, capability and reliability, marketing and distribution networks, service and support, ability to attract and retain trained technical employees and business reputation. The Company believes that it has competitive advantages in many of these areas. ASPYRA has also positioned itself to focus on large multi-specialty clinics and community based and rural hospitals. Such entities typically have diverse outpatient populations and operate in a number of locations that require special features designed in the Company s products that assist them in maximizing their operating potential.

Manufacturing and Suppliers

The Company has utilized computers manufactured by several suppliers for its Clinical Information Systems in the past, and primarily uses computers manufactured by Hewlett Packard ®, Dell, and IBM®. Management believes that other computers, which can be used in the Company s systems, are readily available from several suppliers. As part of a strategy to limit the amount of hardware that the Company carries, it has migrated to a just in time inventory program whereby it has relied on purchasing inventory when it has received an order from a customer rather than stocking inventory on a routine basis. The Company still maintains an inventory supply of certain items including spare parts and components for both its CIS product line and for its data acquisition product line. In addition, the Company maintains a long-term inventory pool of components and parts to service customer s hardware pursuant to its long term extended service agreements.

ASPYRA s DIS systems are frequently integrated with a variety of third party specialized hardware and software components, which are readily available from a variety of manufacturers and distributors. To integrate the majority of our system configurations the hardware is shipped to our location in Jacksonville Florida where it is configured with third party software and then installed with the software manufactured by ASPYRA. Any other ancillary components that do not require additional application software will be shipped direct to an installation. When the DIS system has received all of the required software components, it is then shipped to the customer s site where it is installed, integrated and tested at the customer site.

ASPYRA s vendor relationships are intended to provide affordable hardware, software, and integration solutions that have been successfully tested with the AccessNET system. ASPYRA s vendors include:

- Ciprico. Ciprico provides NAS storage with high redundancy, high speed, and high volume capabilities. Ciprico has been a provider for the entertainment industry and is moving into the healthcare arena. They specialize in handling large volumes of image data.

- IDC. IDC is a manufacturer/distributor of Digital Radiography (DR) systems for diagnostic use in hospitals, imaging centers and clinics. Aspyra resells and promotes IDC s DR systems nationally to new and existing ASPYRA AccessNET and AccessMED PACS customers.

- InSite One. ASPYRA and InSite One, Inc. have formed an alliance to provide ASPYRA s software to InSite One customers and InSite One s remote and on-site archive and disaster recovery capabilities to ASPYRA customers. This partnership offers facilities another method of compliance with HIPAA s requirements for the protection of patient information. It also provides a high level of redundancy and disaster recovery capabilities at an affordable price.

- Konica Minolta Medical Imaging USA. Konica is a manufacturer/distributor of digital and traditional imaging products for diagnostic use by hospitals, imaging centers, clinics and private practice physicians - the same audience Aspyra markets its RIS and PACS product solutions to. Aspyra resells Konica Minolta s Xpress CR product line nationally to new and existing Aspyra PACS customers.

- Meridian Technique. ASPYRA has formed a partner relationship with Meridian Technique to provide customers with their OrthoView® product for orthopedic templating. Meridian s OrthoView provides access to templates from prosthetic manufacturer.

- Microsoft®. ASPYRA has recently attained the Gold Certified level of the Microsoft® Partner Program. As a Microsoft® Certified Partner, the Company reached the highest level within the program by earning the ISV/Software Solutions Competency for its AccessNET PACS, and the Networking Infrastructure Solutions Competency.

- NAI Tech Products. NAI Tech Products provides DICOM connectivity solutions for non-DICOM compliant imaging modalities.

- Barco / Voxar®. Post processing options provide additional methods to review patient information and make a diagnosis. MedVIEW® 5.0 integrates with Voxar s 3D Plug n View to provide image post-processing options

including 3D imaging, Multi-planar reconstruction and Maximum intensity projection.

Warranties and Product Liability

The Company warrants that its products conform to their respective functional specifications for periods that vary according to product category. The Company warrants its application software incorporated in its CIS and DIS products for one year after installation. The warranty periods may differ depending on the program that the products are sold under. However, customers may elect to enter into extended service agreements with the Company that further extends such

warranties. The computers and other hardware components that the Company currently sells as part of its CIS and DIS products are subject to the warranties of their manufacturers. The manufacturers generally warrant their products against faulty material and workmanship for one to three years. The Company passes through the manufacturers warranties to the end users and in most cases contracts with the manufacturers who are to provide onsite warranty services through the manufacturer s service network. The Company s data acquisition products and components are warranted against faulty materials and workmanship for 90 days.

The Company currently carries an aggregate of $4,000,000 in product liability insurance. Management believes that this amount of insurance is adequate to cover its risks. To further mitigate its risks, the Company s standard hardware sales/software license agreement as well as its service agreement expressly limits its liabilities and the warranties of its products and services in accordance with accepted provisions of the Uniform Commercial code as adopted in most states.

Copyrights, Patents and Trade Secrets

The Company holds patents protecting some of its proprietary technology, which it has either filed directly or received through assignment. The Company has copyrighted the designs of its proprietary components and application software. Patent or copyright protection may not be available for many of the Company s products. A significant portion of the Company s proprietary technology is in the form of software. The Company has relied primarily on copyright and trade secret protection of its software. Management believes that its business is more dependent upon marketing, service, and knowledge than on patent or copyright protection. The Company has registered trademarks for CyberLAB CyberMED, CyberRAD, CyberPATH, CyberPRINT, CyberTERM, CyberLINK, CyberMATE, WebGateway, ImageWEB and MedVIEW, and has applied to register its trademarks on its other trade and company names. The Company has retained special intellectual property counsel to advise management on the appropriate course to follow with respect to these issues and has continued to pursue measures to protect its intellectual property.

Governmental Regulation

ASPYRA s products are subject to stringent government regulation in the United States and other countries. These laws and regulations govern product testing, manufacture, labeling, storage, record keeping, distribution, sale, marketing, advertising and promotion. The Company is also required to register as a medical device manufacturer with the Federal Drug Administration (FDA) and comply with FDA regulations. The regulatory process can be lengthy, expensive and uncertain, and securing clearances or approvals often requires the submission of extensive testing and other supporting information. If we do not comply with regulatory requirements, we may be subject to fines, recall or seizure of products, total or partial suspension of production, withdrawal of existing product approvals or clearances, refusal to approve or clear new applications or notices and criminal prosecution.

The Federal Food, Drug and Cosmetic Act, more commonly known for its regulation of drugs in interstate commerce, was amended by the Medical Device Amendments of 1976 (the Amendments) to cover devices used in medical practice. These include instruments and reagents used in biomedical laboratory testing. In 1987, the Federal Drug Administration (FDA) first classified a number of clinical software products as medical devices, but exempted most of them from routine regulations. Subsequently, the FDA amended the policy.

The Company is informed that the FDA requires most Class I and Class II medical devices, which include the Company s Clinical Information System and Picture Archive Communications System products, to comply with its Quality System Regulation (QSR). Additionally, the FDA requires all medical devices utilizing software to meet the design control requirements of the QSR. The Company completed an updated quality policy and a modification of its internal policies to comply with this directive. Management believes that the QSR procedures have an impact on its business to the extent that there are lengthened development cycles of new software and additional costs are incurred. However, all of its competitors are faced with the same requirements. The Company s Quality System will, however, allow for a higher level of customer satisfaction, as the internal processes and software must go through more rigorous audits and testing.

The FDA from time to time reevaluates its rules and classifications relevant to computer products used in connection with medical devices and software used in clinical applications. No assurance can be given that the Company s current or new products developed will not be subject to the provisions of the Amendments and implementing rules. From time to time the Company has retained special counsel to advise it in such matters. The likelihood of such changes and their effect on the business of the Company cannot be ascertained. If the FDA were to determine that additional provisions should apply to all or some of the Company s products, it is uncertain whether compliance with such interpretation would have a material adverse effect on the Company or its products or operations.

In general, the Company and its products are subject to direct governmental regulations applicable to manufacturers, including those regulations promulgated under the Occupational Safety and Health Act, and by the Environmental Protection Agency. The Company s customers, however, are subject to significant regulation by the FDA, the Centers for Medicare and

12

Medicaid Services, the Department of Health and Human Services , the Centers for Disease Control, and by state and local governmental authorities. Such regulations require the Company to comply with certain requirements in order to sell its systems, and are a major focus of its development efforts in order to maintain the regulatory compliance of its products. In addition, the new HIPAA requirements indirectly and directly are applicable to the Company and have been a focus of its new product development efforts during the last two fiscal years.

Backlog

The Company s backlog at December 31, 2006 was approximately $800,000 for software, hardware and interface products, and approximately $1,500,000 for deferred services, compared to approximately $1,200,000 for software, hardware and interface products, and $1,600,000 for deferred services, at December 31, 2005. The Company also has annually renewable extended service agreements under contracts aggregating in excess of $6,500,000.

Employees

At March 30, 2007, the Company had 99 full time and 2 part time employees of whom 26 are involved in product development, 16 in sales and marketing, 47 in technical services, training, and support, and 12 in administration. The Company is not subject to any collective bargaining agreements and considers its employee relations to be good.

Item 2. Description of Property.

ASPYRA s headquarters are located in a leased facility in Calabasas, California. The facility was constructed in 1991 and comprises approximately 16,800 square feet with an effective base rental of approximately $24,537 per month, plus common area maintenance costs and property taxes. The facility is leased under an extension of the original lease that has a five year term that ends in October 2012 and is subject to cost of living adjustments in each year. All other provisions of the original lease substantially remained the same.

The Calabasas facility is used as general offices and operations headquarters that includes warehousing, service and support, training, development, and assembly. The Company considers the facility to be adequate for its intended purposes. The Company carries adequate general liability insurance, as required by the respective leases, to cover any risks concerning the facility.

ASPYRA also operates out of a leased facility in Jacksonville, Florida. The facility in Jacksonville was constructed in 1991 and comprises approximately 8,422 square feet with an effective base rental of approximately $11,405 per month, plus common area maintenance costs and property taxes. The Jacksonville location is leased under an extension of the original lease which has a five year term that ends in January 2012 and is subject to cost of living adjustments in each year.

The Jacksonville facilities are used as general offices and for operations that includes service and support, training, development, and product integration. The Company carries adequate general liability insurance, as required by its respective leases, to cover any risks concerning the facilities.

ASPYRA s United Kingdom subsidiary Aspyra Technologies, Ltd. is located in East Grinstead, West Sussex, United Kingdom. In June 2005, a new lease was entered into for 3 years with the option to terminate after two years. The combined space in the United Kingdom office is 640 square feet with a monthly rent of $3,366. The facilities are used for general offices.

Item 3. Legal Proceedings.

There are no material active, pending, or threatened legal proceedings to which the Company is a party.

From time to time we may be involved in other litigation relating to claims of alleged infringement, misuse or misappropriation of intellectual property rights of third parties. We may also be subject to claims arising out of our operations in the normal course of business. As of the date of this Form 10-KSB, we are not a party to any such other litigation that would have a material adverse effect on us or our business.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company did not submit any matter to a vote of its security holders during the fourth quarter of its fiscal year ended December 31, 2006.

13

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

(a) Market information.

The Company s common shares trade publicly on the American Stock Exchange under the symbol APY . The following table sets forth for the periods indicated, the range of the high and low sale prices for the common shares as reported by the American Stock Exchange. The prices do not include retail markups, markdowns, or commissions.

	High	Low
Fiscal 2005 ending December 31,		
First Quarter	$ 3.98	$ 1.85
Second Quarter	2.35	1.69
Third Quarter	2.90	1.68
Fourth Quarter	3.00	2.10
Fiscal 2006 ending December 31,		
First Quarter	2.75	2.05
Second Quarter	2.55	1.35
Third Quarter	2.45	1.62
Fourth Quarter	2.25	1.50

(b) Holders.

The number of shareholders of record of Common Shares of the Company as of March 30, 2007 was approximately 550. The Company also has approximately 900 beneficial holders of record whose shares are held in street name as of March 30, 2007.

(c) Dividends.

Holders of Common Shares are entitled to receive such dividends as may be declared by the Company s Board of Directors. The Company has never paid a cash dividend on its Common Shares and the Board of Directors currently intends to retain any earnings for use in the Company s business.

(d) Securities authorized for issuance under equity compensation plans.

The following table represents securities authorized for issuance under our equity compensation plans as of December 31, 2006:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of options, warrants and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)
Equity Compensation Plans approved by security holders	1,290,875	$ 2.45	820,227
Equity Compensation Plans not approved by security holders	0		0
Total			

(e) Recent sales of unregistered securities.

From time to time the Company has issued restricted common shares to its employees in lieu of compensation for vacation pay. However, there were no such issuances of unregistered Common Shares during the years ended December 31, 2006 and 2005.

(f) Small business issuer purchase of equity securities.

During the years ended December 31, 2006 and 2005, there were no repurchases of Common Shares.

Item 6. Management s Discussions and Analysis or Plan of Operation.

Overview

The following discussion relates to the merged business of ASPYRA, which includes the operations of its wholly owned subsidiary Aspyra Diagnostic Solutions, Inc. (ADSI) formerly StorCOMM, Inc. and its wholly owned subsidiary Aspyra Technologies, Ltd. (ATI) formerly StorCOMM Technologies, Ltd.. The merger, which resulted in the acquisition of ADSI, was consummated on November 22, 2005 and this is the first full annual report since the merger was consummated.

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

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

ASPYRA s results of operation for the fiscal year ended December 31, 2006 were marked by an increase in sales and an operating loss that are more fully discussed in the following section Results of Operations. The Company s increase in revenues was due to the addition of the revenues from ASPYRA s wholly owned subsidiary ADSI. Aspyra s operating loss was attributable to two primary factors, the Company experienced volatility in sales quarter to quarter due to the Company s reliance on third party distributors for its PACS products which attributed to its operating loss. Second, the Company underwent significant integration activities which were costly and time consuming.

Generally, sales cycles for CIS and DIS products are lengthy and on average exceed six months from inception to closure. Because of the complexity of the sales process, a number of factors that are beyond the control of the Company can delay the closing of transactions. Furthermore, the Company has been primarily reliant on distributors and channel partners for the sales of its diagnostic systems and has been subject to inconsistencies in the performance of such third parties and the

timely consummation of orders. ASPYRA completed a unification of its sales force to focus more on a direct sales model for some of the diagnostic system products to supplement the distribution and channel network so that it is less reliant on third parties in the sale of its diagnostic systems. ASPYRA also has completed new versions of its laboratory and radiology information systems products, as well as its new AccessRAD Radiology Information System (RIS) / Picture Archive Communication Systems (PACS) which it has begun marketing and anticipates increased sales related to such new product releases in the future.

The operating losses incurred by the Company during the fiscal year ended December 31, 2006 were also attributable to the costs associated with integration activities in addition to the uneven sales performance previously discussed. The Company completed the integration and restructuring of the merged businesses and incurred certain costs associated with such activities which were only partially offset by reductions in redundant personnel and other expenses during the 2006 fiscal year. The Company expects to achieve synergies and cost reductions in its business as it completes further integration and restructuring through the first half of fiscal 2007. In sum approximately $1.9 million in non recurring expenses were incurred during the 2006 fiscal year as a result of the integration and restructure of the merged business.

ASPYRA concluded the merger on November 22, 2005 and has accounted for the transaction as a purchase. Accordingly only the operations of ADSI for the period beginning November 23, 2005 through December 31, 2005 have been consolidated in the audited financial statements for the fiscal year ended December 31, 2005. However the operations for the entire Company are included in the results of operations for the fiscal year ended December 31, 2006. In addition, ASPYRA elected to change its fiscal year end from August 31 to December 31 in January 2005 and filed a transitional report on Form 10-QSB for the four months ended December 31, 2004.

This management s discussion and analysis compares the results of operation for the fiscal year ended December 31, 2006 with the fiscal year ended December 31, 2005.

Results of Operations

Year Ended December 31, 2006 Compared to Year Ended December31, 2005

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

	Fiscal Year Ended December 31, 2006	Fiscal Year Ended December 31, 2005
Revenues:		
System sales	44.6 %	29.3 %
Service revenues	55.4	70.7
Total revenues	100.0	100.0
Cost of products and services sold:		
System sales	30.8	25.2
Service revenues	22.8	26.1
Total cost of products and services	53.6	51.3
Gross profit	46.4	48.7
Operating expenses:		
Selling, general and administrative	57.1	54.0
Research and development	15.6	18.0
Total operating expenses	72.7	72.0
Operating loss	(26.3)	(23.3)
Loss before provision for income taxes	(28.1)	(23.5)
Provision for income taxes		(11.2)
Net loss	(28.1)	(34.7)

16

Revenues

Sales for the fiscal year ending December 31, 2006 were $12,689,217, as compared to $7,205,757 for the fiscal year ending December 31, 2005, an overall increase of $5,483,460 or 76.1%. When analyzed by revenue category, sales of Clinical Information Systems (CIS) and Diagnostic Information Systems (DIS) increased by $3,552,847 or 168.2%, and services increased by $1,931,013 or 37.9%. The increase in sales of CIS and DIS products during the current period was positively affected by the consolidation of the reporting of the former entities results of operation for the full fiscal year. In addition, the Company has invested additional funds into marketing activities to rebuild its CIS sales pipeline, which was beginning to show improvement by the end of the 2006 fiscal year. Secondly, the DIS products have been sold through distributors and channel partners since the inception of ADSI s business and accounted for approximately 90% of the sales in fiscal year ended December 31, 2005. Shortly after the merger with ADSI was consummated, its primary distributor announced that it had changed ownership and subsequently went through a management and operational restructure, which temporarily caused a cessation in new order flow. Although the distributor has since resumed representation, new order flow is not at the historical levels and management is developing other sources of lead generation. As part of its future growth strategy management is emphasizing direct sales activities of its DIS products while it continues to utilize distributors and channel partners for some products and market sectors.

The increase in service revenues is attributable to a greater number of customer accounts under contract. As part of the assets acquired in the merger, ASPYRA gained the service relationship with ADSI s customers and continues to integrate all of its service policies, procedures and operational activities including the utilization of ASPYRA s customer relationship management system throughout the Company. At present, the Company has approximately $6.5 million in annual renewable service agreements under contract and also has some customers that it supports under billable arrangements. Service revenues are expected to continue to increase as the Company s installed base of CIS and DIS installations increases.

The Company continues to expand its sales and marketing activities, directing its focus towards larger customers and multi-product sales as well as selling new products into its installed customer base. The Company continues to seek strategic joint marketing partnerships with other companies, and channel partners, which has improved the Company s market penetration and has initiated more marketing activities internationally. ASPYRA s pipeline of working CIS and DIS transactions continues to improve, and management views the near term outlook for the continued sale of such products as cautiously optimistic during the first half of the 2007 fiscal year. The Company s future operating results will continue to be subject to annual and quarterly variations based upon a wide variety of factors, including the volume mix and timing of orders received during any quarter or annual period. In addition, the Company s revenues associated with CIS and DIS transactions may be delayed due to customer related issues such as availability of funding, staff availability, IT infrastructure readiness, and the performance of third party contractors, all of which are issues outside of the control of ASPYRA.

Cost of Products and Services Sold

Cost of products and services sold overall increased by $3,109,500 or 84.1% for the fiscal year ended December 31, 2006 as compared to the fiscal year ended December 31, 2005. The overall increase in cost of sales was primarily attributable to an increase in labor costs of $1,047,003 or 51.6%, an increase of $1,187,436 or 296.6% in material costs, and an increase in other costs of sales of $875,061 or 69.2%. The increase in labor costs and other costs of sales was primarily attributable to additional personnel hired during the fiscal year and the absorption of the former ADSI operations department into ASPYRA following the merger. The increase in material costs was attributable to a higher volume of transactions that included hardware components that were provided in connection with sales of DIS products. On a going forward basis sales of DIS products are expected to include a higher percentage of hardware components as the average sale of a typical PACS system includes specialized viewers, storage devices and other hardware components that are specifically configured for the system and required for optimum operation. The increase in other costs of sales was attributable to the absorption of overhead including the Jacksonville and UK facilities and infrastructure.

Cost of sales as a percentage of sales increased to 54% for the fiscal year ended December 31, 2006, as compared to 51% for the fiscal year ended December 31, 2005. The overall percentage increase in cost of sales, as a percentage of sales, was primarily attributable to the absorption of the former ADSI operations departments into ASPYRA and the volume and mix of sales. Management believes the gross profit margin will improve in fiscal 2007 for the full year of operations; however, the Company could experience quarterly variations in gross margin as a result of the factors discussed above. Management was able to eliminate redundant personnel and achieve operational synergies that yielded reductions in operating expenses during fiscal 2006 which we expect to be evident in 2007.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses increased in aggregate by $3,353,738 or 86.2% for the fiscal year ended December 31, 2006 as compared to the fiscal year ended December 31, 2005. Of the total increase, approximately $678,000 was attributable to expenses incurred by ASPYRA and the balance of approximately $2,676,000 is attributable to the expenses of ADSI absorbed post merger and was primarily attributable to the personnel and overhead expenses associated with the sales, general and administrative departments. The approximately $678,000 increase incurred by ASPYRA consisted of approximately $617,000 of increases in general and administrative expenses and approximately $61,000 in increases in selling and marketing expenses. The increases in general and administrative expenses were primarily attributable to additional expenditures for legal and auditing of about $232,000, expenses associated with corporate governance of $142,000 including filing fees, board of director expenses, and investor relations, depreciation expense of about $67,000, section 123R expenses associated with stock options of about $87,000, and various other expenses of about $89,000 in aggregate that were partially offset by savings in other expense categories . The increases in selling and marketing expenses of approximately $61,000 were primarily attributable to a user symposium of about $45,000 and tradeshow expenses of about $16,000. The increased trade show expenses were primarily attributable to the launch of the merged Company and new products. A significant portion of the overall increased expenses was merger related and nonrecurring.

The Company plans to continue to make investments in sales and marketing programs in fiscal 2007 associated with increased activities related to programs that target sales opportunities in the community hospital and multi-specialty clinic sectors. During fiscal 2007, the Company plans to complete the implementation of its new customer relationship management system and accounting systems throughout the ADSI operation and expects to incur expenses associated with that implementation; a portion of such costs will be expensed. However we also expect to reduce certain personnel expense as the systems implementations will provide for additional synergies.

Research and Development Expenses

Research and development expenses increased $680,704 or 52.3% during the fiscal year ended December 31, 2006, as compared to the fiscal year ended December 31, 2005. Of this amount approximately $157,000 was attributable to increased expenses incurred by ASPYRA, and the balance of approximately $524,000 represents the expenses absorbed related to ADSI post merger which was primarily attributable to development personnel and attendant overhead of the research and development department. The increase of $157,000 attributable to ASPYRA is associated with increases in salaries and expenses of new personnel in product development added during the period. Such increased expenses were attributable to the development of AccessRAD, enhancements and new modules for the Company s CIS products, and new applications under development. For its current fiscal year ended December 31, 2006 and fiscal year ended December 31, 2005, the Company capitalized software costs of $930,810 and $687,738, respectively, which are generally amortized over the estimated useful life not to exceed five years. Management anticipates its overall research and development activities to remain fairly constant in fiscal 2007.

Interest and other income was $99,962 for the fiscal year ended December 31, 2006 as compared to $26,461 for the fiscal year ended December 31, 2005 due to increased interest earned on money market deposits, and an increase in finance charges levied on customers who were late in their payments on accounts receivable.

Interest and other expense was $321,679 for the fiscal year ended December 31, 2006 as compared to $37,934 for the fiscal year ended December 31, 2005. Of this amount approximately $192,000 was associated with a penalty imposed as a result of a delay in the registration of the securities underlying the private equity placements. The balance was primarily attributable to an increased level of borrowings on the Company s line of credit with its bank and interest expense on the debt assumed post merger.

Income tax provision was $4,810 for the fiscal year ended December 31, 2006 as compared to $807,013 for the fiscal year ended December 31, 2005. The decrease was primarily a result of the Company recording an additional valuation allowance of $793,877 in the third quarter of fiscal year ended December 31, 2005 and during 2006, maintaining the full valuation allowance.

As a result of the factors discussed above, the Company had a net loss of $3,570,438 for the fiscal year ended December 31, 2006, compared to a net loss of $2,501,915 for the fiscal year ended December 31, 2005. The Company s basic and diluted loss per share was $0.36 for fiscal year ended December 31, 2006 as compared to basic and diluted loss per share of $0.62 in fiscal year ended December 31, 2005.

At December 31, 2006, the Company had state and federal net operating loss carryforwards available to offset future taxable income of approximately $30,600,000 and $37,449,000, respectively, that are subject to Internal Revenue Code Section 382 limitations. These operating loss carryforwards expire at various dates through 2026, and general business tax credit carryforwards available to offset future state and federal income tax payable of approximately $341,000 and $781,300, respectively. While the Federal general business tax credits expire at various dates through 2026, the state general business tax credits can be carried forward indefinitely. The Company also has alternative minimum tax (AMT)

18

net operating loss carryforwards of approximately $35,261,000 to offset future AMT taxable income that expires through various dates through 2026. Internal Revenue Code Section 382 imposes limitations on the utilization of net operating loss and tax credit carryovers pursuant to an ownership change as a consequence of the merger with ADSI. The annual loss limitation amount is $885,000.

The major temporary tax differences that are expected to reverse next year are deferred revenue, allowance for doubtful accounts, accrued vacation, Section 263A Unicap inventory, amortization of intangible assets, and component inventory reserve. However, the Company expects new temporary differences to be established in these years, which will either reduce or exceed the reversing temporary differences.

The Company annually evaluates the realization of the net deferred tax asset, taking into consideration prior earnings history, projected operating results and the reversal of temporary tax differences. In conjunction with the merger, the Company purchased intangible assets that were not deductible for tax purposes, and a deferred tax liability of $1,806,734 was recorded. In addition, the Company recorded a deferred tax asset of $1,806,734 which is expected to be realized over the term of the deferred tax liability. The deferred tax asset and deferred tax liability were included in goodwill. At December 31, 2006, the Company evaluated the net deferred tax asset taking into consideration operating results and determined that a valuation allowance of approximately $4,643,500 should be maintained.

Capital Resources and Liquidity

Historically, the Company s primary need for capital has been to invest in software development, and in computers and related equipment for its internal use. The Company invested $930,810 and $687,738 respectively during fiscal 2006 and 2005 in software development. These expenditures related to investment in the Company s new RIS/PACS integrated system AccessRAD, and the new version of the Company s LIS product, CyberLAB, and other product enhancements. The Company anticipates expending additional sums during fiscal 2007 on product enhancements to all its products and the further development of AccessRAD. During fiscal 2006, the Company invested an aggregate of $285,837 in fixed assets primarily consisting of computers and software, as compared to an investment of $325,718 in fixed assets primarily consisting of computers and software in fiscal 2005.

As of December 31, 2006, the Company s working capital amounted to a deficit of $2,256,352.At December 31, 2006, the Company s credit facilities with its bank consisted of a revolving line of credit of $1,000,000, of which $1,000,000 was outstanding. The bank credit agreement was due to expire on May 19, 2007 and the line of credit was secured by a $1,000,000 time deposit account. On February 27, 2007, ASPYRA entered into a new banking relationship whereby the bank provided a revolving line of credit in the aggregate amount of $1,300,000. The revolving line of credit matures on February 27, 2008 and is secured by the Company s accounts receivable and inventory. The line of credit is subject to certain covenants. Advances under the revolving line of credit are on a formula based on eligible accounts receivable and inventory balances. The Company used the initial advance on the revolving line of credit to pay in full its note from a prior bank that was secured by a $1,000,000 certificate of deposit recorded on the December 31, 2006 balance sheet under restricted cash. The payoff released the certificate of deposit previously held by the former bank. Management is considering additional financing to accelerate its business development plans which in turn may improve its working capital position.

Cash used in operating activities was $2,231,102 for the fiscal year ended December 31, 2006, compared to cash used in operating activities of $638,130 for the fiscal year ended December 31, 2005. The increase in cash used for operating activities was primarily attributable to the net loss incurred and net change in accounts payable and deferred revenues which was partially offset by net change in receivables and inventories.

Net cash used in investing activities totaled $1,216,647 for the 2006 fiscal year, compared to $2,661,469 used in investing activities during the 2005 fiscal year. The change was primarily the result of an increase in software capitalization costs compared to the prior fiscal year, which were offset by the purchase of ADSI in the previous fiscal year.

Cash provided by financing activities amounted to $3,174,669 during the 2006 fiscal year compared to cash by financing activities of $2,976,979 in fiscal 2005. The change in fiscal 2006 resulted primarily from the net proceeds from a private placement completed in May 2006.

The Company s primary source of working capital has been generated from private placements and from borrowings. The Company s results of operations for the current fiscal year ended December 31, 2006 produced negative operating cash flow of approximately $2,231,102, which was not sufficient to fund its product development activities, and to invest in new marketing programs, which required the Company to seek financing. An unanticipated decline in sales, delays in implementations where payments are tied to delivery and/or performance of services, or cancellations of contracts could have a negative effect on cash flow from operations and could in turn create short-term liquidity problems. We believe that

our current cash and cash equivalents, and cash flow from operations, will be sufficient to meet our current anticipated cash needs, including for working capital purposes, capital expenditures and various contractual obligations, for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these sources are insufficient to satisfy our cash requirements, we may seek to sell debt securities or additional equity securities or to obtain a credit facility. The sale of convertible debt securities or additional equity securities could result in additional dilution to our stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. In addition, there can be no assurance that any additional financing will be available on acceptable terms, if at all. Although there are no present understandings, commitments or agreements with respect to the acquisition of any other businesses, applications or technologies, we may, from time to time, evaluate acquisitions of other businesses, applications or technologies.

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2006 and the effects such obligations are expected to have on liquidity and cash flow in future periods:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	$ 1,164,275	$ 420,000	$ 386,264	$ 344,276	$ 13,735
Debt (1)	$ 1,538,177	$ 1,538,177	$	$	$
Capital lease	$ 876,402	$ 227,262	$ 417,493	$ 231,648	$

(1) Includes payment of interest of $114,660 in 2007.

On March 15, 2007, the Company signed an amendment to its lease for its headquarters in Calabasas, California. The amendment extended the expiration date of its lease to October 2012. The Company s contractual obligations increased as follows:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	$ 1,766,647	$ 55,460	$ 678,962	$ 719,633	$ 312,592

Seasonality, Inflation and Industry Trends

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

Critical Accounting Policies and Estimates

Management s discussion and analysis of ASPYRA s financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates estimates, including those related to the valuation of inventory and the allowance for uncollectible accounts receivable. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the

basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Inventory

The Company s inventory is comprised of a current inventory account that consists of items that are held for resale and a long-term inventory account that consists of items that are held for repairs and replacement of hardware components that are serviced by the Company under long-term extended service agreements with its customers. Current inventory is valued at the lower of cost to purchase or the current estimated market value of the inventory items. Inventory is evaluated

on a continual basis and reserve adjustments are made based on management s estimate of future sales value, or in the case of the long-term component inventory, on management s estimation of the usage of specific inventory items and net realizable value. Management reviews inventory quantities on hand and makes determination of the excess or obsolete items in the inventory, which are specifically reserved. In addition, reserve adjustments are made for the difference between the cost of the inventory and the estimated market value and charged to operations in the period in which the facts that give rise to the adjustments become known. At December 31, 2006 the inventory reserve was $115,504.

Accounts Receivable

Accounts receivable balances are evaluated on a continual basis and allowances are provided for potentially uncollectible accounts based on management s estimate of the collectability of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance may be required. Allowance adjustments are charged to operations in the period in which the facts that give rise to the adjustments become known. The accounts receivable balance at December 31, 2006 was $1,334,153, net of an allowance for doubtful accounts of $82,840.

Revenue Recognition

Revenues are derived primarily from the sale of CIS and DIS products and the provision of services. The components of the system sales revenues are the licensing of computer software, installation, and the sale of computer hardware and sublicensed software. The components of service revenues are software support and hardware maintenance, training, and implementation services. The Company recognizes revenue in accordance with the provisions of Statement of Position (SOP) No. 97-2, Software Revenue Recognition, as amended by SOP No. 98-4, SOP 98-9 and clarified by Staff Accounting Bulletin (SAB) 104 Revenue Recognition in Financial Statements. SOP No 97-2, as amended, generally requires revenue earned on software arrangements involving multiple-elements to be allocated to each element based on the relative fair values of those elements. The Company allocates revenue to each element in a multiple-element arrangement based on the element s respective fair value, with the fair value determined by the price charged when that element is sold seperately and specifically defined in a quotation or contract. Deferred revenue related to CIS and DIS sales are comprised of deferrals for license fees, hardware, and other services for which the implementation has not yet been completed and revenues have not been recognized. Revenues are presented net of discounts. At December 31, 2006 deferred revenue was $777,800.

Post Implementation software and hardware maintenance services are marketed under monthly, quarterly and annual arrangements and are recognized as revenue ratably over the contracted maintenance term as services are provided. The Company determines the fair value of the maintenance portion of the arrangement based on the renewal price of the maintenance charged to customers, professional services portion of the arrangement, other than installation services, based on hourly rates which the Company charges for these services when sold apart from a software license, and the hardware and sublicense of software based on the prices for these elements when they are sold separately from the software. At December 31, 2006, deferred service contract income was $1,509,042.

Software Development Costs

Costs incurred internally in creating computer software products are expensed until technological feasibility has been established upon completion of a program design. Thereafter, applicable software development costs are capitalized and subsequently reported at the lower of amortized cost or net realizable value. Capitalized costs are amortized based on current and expected future revenue for each product with minimum annual amortization equal to the straight-line amortization over the estimated economic life of the product not to exceed five years. For the years ended December 31, 2006 and December 31, 2005, the Company capitalized $930,810 and $687,738, respectively. For the years ended December 31, 2006, the balance of capitalized software costs was $2,487,307 net of accumulated amortization of $875,165.

Intangible Assets

Intangible assets, with definite and indefinite lives, consist of acquired technology, customer relationships, channel partners, and goodwill. They are recorded at cost and are amortized, except goodwill, on a straight-line basis based on the period of time the asset is expected to contribute directly or indirectly to future cash flows, which range from four to 15 years.

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

21

Stock-based Compensation

We have two stock-based compensation plans, the 2005 Equity Incentive Plan and the 1997 Stock Option Plan, under which we may issue shares of our common stock to employees, officers, directors and consultants. Upon effectiveness of the 2005 Equity Incentive Plan on November 22. 2005, the 1997 Stock Option Plan was terminated for purposes of new grants. Both of these plans have been approved by our shareholders.

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

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

Income Taxes

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

Risk Factors

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

RISKS RELATED TO OUR BUSINESS

We have incurred losses recently that may adversely impact liquidity.

We have experienced operating losses and cash outflows. For the fiscal year ended December 31, 2006, our net loss was $3,570,438. At December 31, 2006, our cash and cash equivalents, including restricted cash, totaled $2,014,632 and our working capital deficit was $2,256,352. We cannot be certain that Aspyra will become profitable and sustain profitability. If Aspyra does not become profitable and sustain profitability, the market price of our common stock will decline. The Company s primary source of working capital has been generated from the private placements and borrowings. The Company s results of operations for the fiscal year ended December 31, 2006 produced negative operating cash flow of approximately $2,231,102. Any decline in sales, delays in implementations where payments are tied to delivery and/or performance of services or cancellations of contracts could have a negative effect on cash flow from operations and could in turn increase our liquidity problem. If sales are not as expected, the Company will consider certain cost cutting measures. We may require additional cash resources to sustain our business. The sale of convertible debt securities or additional equity securities could result in additional dilution to our shareholders. The incurrence of additional indebtedness would result in

incurring debt service obligations and could result in operating and financial covenants that would restrict our operations. There can be no assurance that any additional financing will be available on acceptable terms, if at all.

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

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

- failure to successfully manage relationships with customers and other important relationships;
- failure of customers to accept new services or to continue using the products and services of the combined company;
- difficulties in successfully integrating the management teams and employees of ASPYRA and Aspyra Diagnostic Solutions, Inc.;
- challenges encountered in managing larger, more geographically dispersed operations;
- the loss of key employees;
- diversion of the attention of management from other ongoing business concerns;
- potential incompatibilities of technologies and systems;
- potential difficulties integrating and harmonizing financial reporting systems; and
- potential incompatibility of business cultures.

If the combined company s operations do not meet the expectations of customers of ASPYRA or ADSI then these customers may cease doing business with the combined company altogether, which would harm the results of operations and financial condition of ASPYRA.

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

- the integration of ASPYRA and ADSI is unsuccessful;
- the combined company does not achieve the expected benefits of the merger as quickly as anticipated or the costs of or operational difficulties arising from the merger are greater than anticipated;
- the combined company s financial results are not consistent with the expectations of financial or industry analysts;
- the anticipated operating and product synergies of the merger are not realized; or
- the combined company experiences the loss of significant customers or employees as a result of the merger.

23

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

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

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

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

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

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

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

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

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

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

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

24

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

While we believe that we currently have adequate internal control procedures in place, we are still exposed to potential risks from recent legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002. We are evaluating our internal controls system in order to allow management to report on, and our independent registered public accounting firm to attest to, our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002 beginning in our fiscal year 2008.

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

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

- deterioration in economic conditions in any of the healthcare information technology industry, which could reduce customer demand and ability to pay for our products and services;

- political and military instability, which could slow spending within our target markets, delay sales cycles and otherwise adversely affect our ability to generate revenues and operate effectively;

- budgetary constraints of customers, which are influenced by corporate earnings and spending objectives;

- earthquakes, floods or other natural disasters affecting our headquarters located in Calabasas, California, an area known for seismic activity, or our other locations worldwide;

- acts of war or terrorism; and

- inadvertent errors.

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

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

We expect to generate approximately 10% of our revenues from customers located outside of the United States in the fiscal year ending December 31, 2007. We may expand our international operations and such expansion is contingent upon the successful growth of our international revenues. Our international operations are subject to risks in addition to those faced by our domestic operations, including:

- potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of our intellectual property rights;

- imposition of foreign laws and other governmental controls, including trade and employment restrictions;

- enactment of additional regulations or restrictions on imports and exports;

- fluctuations in currency exchange rates and economic instability such as higher interest rates and inflation, which could make our products more expensive in those countries;

- limitations on future growth or inability to maintain current levels of revenues from international sales if we do not invest sufficiently in our international operations;

- longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;
- difficulties in staffing, managing and operating our international operations;
- difficulties in coordinating the activities of our geographically dispersed and culturally diverse operations; and
- political unrest, war or terrorism, particularly in areas in which we have facilities.

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

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

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

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

ADSI currently relies on third party distribution arrangements to distribute its products. The loss of any of these relationships, or a material change in any of them, could materially harm our business.

For the fiscal years ended December 31, 2006 and 2005, ADSI received approximately 90% of its revenues, respectively, through third party distribution arrangements. We expect that we will continue to generate a significant portion of our revenues through a limited number of distribution arrangements for the foreseeable future. A significant portion of the Company s outstanding accounts receivable is with such third party distributors, which will result in a concentration of our credit risk. If any of these third party distributors decides not to market or distribute our products or decides to terminate or not renew its agreement with us, we may be unable to replace the affected agreements with acceptable alternatives, which could materially harm our business, operating results and financial condition.

Risks Related to Our Common Stock

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

Future sales of substantial amounts of shares of our common stock in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. In addition, we may be required to issue additional shares upon exercise of previously granted options or warrants such as the warrants to purchase up to 1,650,000 shares of ASPYRA common stock that ASPYRA issued in two private placements completed in November 2005 and May 2006. Increased sales of our common stock in the market after exercise of stock options or warrants could exert significant downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

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

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

- announcements of quarterly operating results and revenue and earnings forecasts by us, our competitors or our customers;
- failure to achieve financial forecasts, either because expected sales do not occur or because they occur at lower prices or on terms that are less favorable to us;
- rumors, announcements or press articles regarding changes in our management, organization, operations or prior financial statements;
- changes in revenue and earnings estimates by securities analysts;
- announcements of planned acquisitions by us or by our competitors;
- announcements of new or planned products by us, our competitors or our customers;
- gain or loss of a significant customer;
- inquiries by the SEC, American Stock Exchange, law enforcement or other regulatory bodies; and
- acts of terrorism, the threat of war and economic slowdowns in general.

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

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

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

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

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

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

- weakness or uncertainty in general economic or industry conditions.

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

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities , which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial

instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company as of January 1, 2008. We have not completed our evaluation of SFAS No. 159 but do not expect the adoption of SFAS No. 159 to have a material effect on our operating results or financial position.

In November 2006, the FASB issued FASB Staff Position No. EITF 00-19-2, Accounting for Registration Payment Arrangements , which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured. Additionally, this guidance further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable GAAP without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years. The Company elected to early adopt FSP 00-19-2, effective for the audited consolidated financial statements as of December 31, 2006, which had no impact on the consolidated financial statements.

In September 2006, the SEC Staff issued Staff Accounting Bulletin No. 108 (SAB No. 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, which addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB No. 108 will require companies to quantify misstatements using both the balance sheet and income statement approaches to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the initial adoption is determined to be material, SAB No. 108 allows companies to record that effect as a cumulative effect adjustment to beginning-of-the-year retained earnings. The accounting provisions of SAB No. 108 are effective for the Company s fiscal year ending December 31, 2006. The Company has determined that the effect of the adoption of SAB No. 108 did not have a material effect on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company does not currently believe that the adoption of SFAS 157 will have a material impact on the consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48) an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption, the cumulative effect of applying the recognition and measurement provisions of FIN 48, if any, shall be reflected as an adjustment to the opening balance of retained earnings. FIN 48 requires that subsequent to initial adoption a change in judgment that results in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the period in which the change occurs. Currently, we record such changes in judgment, including audit settlements, as a component of the Company s income tax provision. Thus, the Company s reported quarterly income tax rate may become more volatile upon adoption of FIN 48. This change will not impact the manner in which we record income tax expense on an annual basis. FIN 48 also requires expanded disclosures including identification of tax positions for which it is reasonably possible that total amounts of unrecognized tax benefits will significantly change in the next twelve months, a description of tax years that remain subject to examination by major tax jurisdiction, a tabular reconciliation of the total amount of unrecognized tax benefits at the beginning and end of each annual reporting period, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate and the total amounts of interest and penalties recognized in the statements of operations and financial position. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts, or any other off-balance sheet arrangements.

Item 7. Financial Statements.

For a list of financial statements filed as part of this report, see index to Financial Statements and Financial Statement Schedules on page 34.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 8B. Other Information

Not Applicable.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Incorporated by reference from Directors, Executive Officers, Promoters and Control Persons in the Definitive Proxy Statement to be filed with the Securities and Exchange Commission for the 2007 Annual Meeting of the Company s Shareholders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (1934 Act) requires the Company s directors and officers, and persons who own more than 10% of a registered class of the Company s equity security, 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, 2006, all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent beneficial owners were complied with.

Item 10. Executive Compensation.

Incorporated by reference from Executive Compensation in the Definitive Proxy Statement to be filed with the Securities and Exchange Commission for the 2007 Annual Meeting of the Company s Shareholders.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference from Security Ownership of C">

Service cost

$5,040 $4,299 $101 $94

Interest cost

8,786 9,065 1,600 1,713

Expected return on plan assets

(10,193) (9,504)

Amortization of prior service credit

(23) (59) (82) (87)

Actuarial losses

4,995 4,475 876 738

Net periodic benefit cost			
$8,605	$8,276	$2,495	$2,458

Note 12: Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

The following table summarizes total comprehensive income (loss):

	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
	(In thousands)			
Net income (loss)	$ 29,068	$ (38,778)	$ 80,805	$ 27,887
Foreign currency translation gain (loss)	4,536	13,084	(10,733)	(5,988)
Foreign currency hedging instruments, net of $0.0 million, $0.5 million, $0.0 million, and $1.6 million tax, respectively		1,007		2,467
Amortization of pension and other postretirement benefit plan losses, net of $0.7 million, $0.0 million, $2.2 million, and $0.0 million tax, respectively	1,172		3,546	
Total comprehensive income (loss)	$ 34,776	$ (24,687)	$ 73,618	$ 24,366

The accumulated balances related to each component of other comprehensive income (loss), net of tax, are as follows:

	Foreign Currency Translation Component	Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Balance at December 31, 2012	$ 28,516	$ (59,081)	$ (30,565)
Other comprehensive loss before reclassifications	(10,733)		(10,733)
Amounts reclassified from accumulated other comprehensive income (loss)		3,546	3,546
Net current period other comprehensive income (loss)	(10,733)	3,546	(7,187)
Balance at September 29, 2013	$ 17,783	$ (55,535)	$ (37,752)

The following table summarizes the effects of reclassifications from accumulated other comprehensive income (loss) for the nine months ended September 29, 2013:

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Statements of Operations and Comprehensive Income
	(In thousands)	
Amortization of pension and other postretirement benefit plan items:		
Actuarial losses	$ 5,871	(1)
Amortization of prior service credit	(105)	(1)
Total before tax	5,766	
Tax benefit	(2,220)	
Total net of tax	$ 3,546	

(1) The amortization of these accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit costs (see Note 11).

Note 13: Share Repurchases

In 2011, our Board of Directors authorized a share repurchase program, which allows us to purchase up to $150.0 million of our common stock through open market repurchases, negotiated transactions, or other means, in accordance with applicable securities laws and other restrictions. In 2012, our Board of Directors authorized an extension of the share repurchase program, which allows us to purchase up to an additional $200.0 million of our common stock. The program does not have an expiration date and may be suspended at any time at the discretion of the Company. This program is funded by cash on hand and cash flows from operating activities.

During the three months ended September 29, 2013, we entered into a prepaid variable share repurchase agreement for $31.25 million. Under this agreement, we repurchased 0.3 million shares as of September 29, 2013 and an additional 0.3 million shares subsequent to the end of our fiscal third quarter on September 30, 2013, for a total of 0.5 million shares repurchased at an average price per share of $60.71. Our treasury stock balance as of September 29, 2013 includes a receivable of $15.9 million for the amount of the shares repurchased subsequent to the end of our fiscal third quarter. In 2013, we repurchased 1.7 million shares of our common stock under the program through prepaid variable share repurchase agreements for an aggregate cost of $93.8 million and an average price per share of $54.76. From inception of the program through September 30, 2013, we have repurchased 5.4 million shares of our common stock under the programs for an aggregate cost of $218.8 million and an average price of $40.37.

Note 14: Subsequent Event

Subsequent to September 29, 2013, we entered into a Credit Agreement that provides a new $400 million multi-currency asset-based revolving credit facility. The Credit Agreement is secured by assets of Belden Inc. and certain of its U.S. and foreign subsidiaries, and it matures in 2018. In addition, we borrowed $250.0 million under a new Term Loan Credit Agreement. The borrowings under the new Term Loan Credit Agreement are scheduled to mature in 2020 and require quarterly amortization payments. Interest under the Term Loan Credit Agreement is variable, based upon the three-month LIBOR plus an applicable spread.

The Credit Agreement replaced our existing Senior Secured Facility. There were no outstanding borrowings under the revolver component of our Senior Secured Facility at the time of the refinancing. We utilized the proceeds from the new Term Loan Credit Agreement to repay the amounts outstanding under the Term Loan of our Senior Secured Facility. We expect to incur a loss on these refinancing activities of approximately $2 million in our fiscal fourth quarter for the write-off of certain unamortized debt issuance costs.

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

Overview

Belden designs, manufactures, and markets signal transmission solutions for the broadcast, enterprise, and industrial markets. Our products are designed and manufactured to strict quality standards resulting in an industry leading reputation for worldwide reliability.

We consider revenue growth, operating margin, cash flows, return on invested capital, and working capital management metrics to be our key operating performance indicators.

Trends and Events

The following trends and events during 2013 have had varying effects on our financial condition, results of operations, and cash flows.

Change in Segments

In 2013, we re-organized the Company around four global business platforms: Broadcast, Enterprise Connectivity, Industrial Connectivity, and Industrial IT. The re-organization was executed as a result of our transformation into a global provider of comprehensive signal transmission solutions. We have determined that each of the global business platforms represents a reportable segment. We have revised the prior period segment information to conform to the change in the composition of our reportable segments.

Commodity Prices

Our operating results can be affected by changes in prices of commodities, primarily copper and compounds, which are components in some of the products we sell. Generally, as the costs of inventory purchases increase due to higher commodity prices, we raise selling prices to customers to cover the increase in costs, resulting in higher sales revenue but a lower gross profit percentage. Conversely, a decrease in commodity prices would result in lower sales revenue but a higher gross profit percentage. Selling prices of our products are affected by many factors, including end market demand, capacity utilization, overall economic conditions, and commodity prices. Importantly, however, there is no exact measure of the effect of changing commodity prices, as there are thousands of transactions in any given quarter, each of which has various factors involved in the individual pricing decisions. Therefore, all references to the effect of copper prices or other commodity prices are estimates.

Channel Inventory

Our operating results also can be affected by the levels of Belden products held as inventory by our channel partners and customers. Our channel partners and customers purchase and hold our products in their inventory in order to meet the service and on-time delivery requirements of their customers. Generally, as our channel partners and customers change the level of Belden products owned and held in their inventory, it impacts our revenues. Comparisons of our results between periods can be impacted by changes in the levels of channel inventory. All references to the effect of channel inventory changes are estimates.

Acquisitions and Dispositions

We completed the acquisitions of Miranda Technologies Inc. (Miranda) in July 2012, PPC Broadband, Inc. (PPC) in December 2012, and Softel Limited (Softel) in January 2013. The results of Miranda, PPC, and Softel have been included in our Consolidated Financial Statements from their respective acquisition dates and are reported within the Broadcast segment. We sold our cable operations that primarily conducted business in the consumer electronics end market on December 31, 2012.

Restructuring Activities

As a result of recently completed acquisitions, we are consolidating certain operating facilities. For the nine months ended September 29, 2013, we recognized $9.5 million of severance and other restructuring costs, such as relocation and equipment transfer costs, and $4.9 million of accelerated depreciation expense, primarily as a result of facility consolidation in New York and other acquisition integration activities. We expect to incur additional severance and other restructuring costs in 2013 of approximately $4 million as a result of these activities. We continue to review our business strategies and evaluate potential new restructuring actions. This could result in additional restructuring costs in future periods.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows that are or would be considered material to investors.

Critical Accounting Policies

During the nine months ended September 29, 2013:

- We did not change any of our existing critical accounting policies from those listed in our 2012 Annual Report on Form 10-K;
- No existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate; and
- There were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

Results of Operations

Consolidated Continuing Operations

	Three Months Ended		%	Nine Months Ended		%
	September 29, 2013	September 30, 2012	Change	September 29, 2013	September 30, 2012	Change
	(In thousands, except percentages)					
Revenues	$ 522,478	$ 465,234	12.3%	$ 1,559,442	$ 1,363,052	14.4%
Gross profit	182,841	138,813	31.7%	529,390	416,260	27.2%
Selling, general and administrative expenses	96,197	98,273	-2.1%	281,682	256,137	10.0%
Research and development	21,141	18,812	12.4%	62,497	47,434	31.8%
Operating income (loss)	53,935	(13,269)	506.5%	152,088	76,894	97.8%
Income (loss) from continuing operations before taxes	34,768	(77,573)	144.8%	98,928	(11,266)	978.1%
Income (loss) from continuing operations	29,068	(55,686)	152.2%	80,805	3,758	2050.2%

Revenues increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 primarily due to acquisitions, which contributed $81.3 million and $278.6 million of the increases, respectively.

Revenues were also impacted by the following factors:

- Increases in unit sales volume, including changes in channel inventory, resulted in approximately a $3.2 million increase in revenues for the three months ended September 29, 2013. We believe market share gains in industrial end markets partially mitigated the impact of uncertain economic conditions in enterprise end markets, including weak spending on non-residential construction and information technology projects. Additionally, we believe market share gains in the United States partially offset decreases in volume in China. Decreases in unit sales volume, including changes in channel inventory,

resulted in approximately a $1.4 million decrease in revenues for the nine months ended September 29, 2013.

Favorable currency translation resulted in revenue increases of approximately $2.0 million and $1.7 million for the three and nine months ended September 29, 2013, respectively.

The disposal of our cable operations that primarily conducted business in the consumer electronics end market in 2012 resulted in decreases in revenues of $24.3 million and $73.5 million for the three and nine months ended September 29, 2013, respectively.

Decreases in sales prices due to lower copper costs resulted in estimated revenue decreases of approximately $5.0 million and $9.0 million for the three and nine months ended September 29, 2013, respectively.

Gross profit increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to the increases in revenues as discussed above. In addition, the increase in our gross profit was due to the impact of our acquisitions of Miranda and PPC, improved product mix, favorable input costs, and improved productivity due to our Lean Enterprise initiatives. Gross profit for the three months ended September 29, 2013 was negatively impacted by $2.2 million of accelerated depreciation expense and $1.9 million of severance and other restructuring costs. Gross profit for the nine months ended September 29, 2013 was negatively impacted by $6.6 million of cost of sales arising from the adjustment of inventory to fair value related to our acquisition of PPC, $5.0 million of severance and other restructuring costs, and $4.9 million of accelerated depreciation expense. The severance and other restructuring costs and accelerated depreciation expense primarily resulted from our decision to consolidate manufacturing facilities as we integrate PPC. Gross profit for both the three and nine months ended September 30, 2012 was negatively impacted by $7.2 million of cost of sales arising from the adjustment of inventory to fair value related to our acquisition of Miranda and $6.4 million of severance and other restructuring costs. The decrease in the costs discussed above contributed to the increase in gross profit in the three months ended September 29, 2013 from the comparable period of 2012.

Selling, general and administrative expenses decreased in the three months ended September 29, 2013 and increased in the nine months ended September 29, 2013 from the comparable periods of 2012. Selling, general and administrative expenses for the three and nine months ended September 29, 2013 included $1.6 million and $3.2 million of severance and other restructuring costs, respectively, compared to $10.0 million of severance and other restructuring costs for both the three and nine months ended September 30, 2012. Excluding the impact of the severance and other restructuring costs, the increase in selling, general and administrative expenses was primarily due to the impact of our acquisitions completed in 2012. Excluding the impact of the costs discussed above and the selling, general and administrative costs of the companies acquired in 2012, our selling, general and administrative expenses decreased due to improved productivity and our previously completed restructuring activities.

The increases in research and development costs in the three and nine months ended September 29, 2013 from the comparable periods of 2012 were primarily due to increased investments in new product development and our recent technology intensive acquisitions.

Amortization of intangibles increased by $4.7 million and $25.3 million in the three and nine months ended September 29, 2013, respectively, from the comparable periods of 2012 due to the impact of our acquisitions completed in 2012.

Operating income increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to the increases in revenues and gross profit as discussed above. Operating income for the three months ended September 29, 2013 included $3.8 million of severance and other restructuring costs and $2.2 million of accelerated depreciation expense. Operating income for the nine months ended September 29, 2013 included $9.5 million of severance and other restructuring costs, $6.6 million of cost of sales arising from the adjustment of inventory to fair value related to our acquisition of PPC, and $4.9 million of accelerated depreciation expense. Operating income (loss) for both the three and nine months ended September 30, 2012

included $29.9 million of asset impairments, $17.4 million of severance and other restructuring costs, and $7.2 million of cost of sales arising from the adjustment of inventory to fair value related to our acquisition of Miranda. The decrease in the costs discussed above contributed to the increase in operating income in the three and nine months ended September 29, 2013 from the comparable periods of 2012. In addition, operating income increased due to an improved business portfolio, improved end-market mix, improved productivity as a result of the successful execution of our Lean Enterprise strategies, and our previously completed restructuring activities.

Interest expense increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to our increase in total debt incurred to finance our 2012 acquisitions. Our effective interest rate on outstanding borrowings as of September 29, 2013 was 5.2%. Interest expense for the nine months ended September 29, 2013 includes $1.5 million of interest expense associated with an uncertain tax position for a foreign tax audit.

Income from continuing operations before taxes increased in the three and nine months September 29, 2013 from the comparable periods of 2012 due to the increases in operating income discussed above. In addition, both the three and nine months ended September 30, 2012 included a loss on debt extinguishment of $50.6 million in income (loss) from continuing operations before taxes. There were no debt extinguishment losses in the three and nine months ended September 29, 2013.

Our effective tax rate for the nine months ended September 29, 2013 was 18.3%, compared to (133.4%) for the nine months ended September 30, 2012. Income tax expense for the nine months ended September 29, 2013 included a $5.2 million tax benefit due to the impact of tax law changes in the U.S and $3.7 million of income tax expense for an uncertain tax position liability related to a foreign tax audit. For the nine months ended September 30, 2012, we recorded tax benefits of $5.2 million due to reductions of our valuation allowance for certain deferred tax assets.

Broadcast Solutions

	Three Months Ended		%	Nine Months Ended		%
	September 29, 2013	September 30, 2012	Change	September 29, 2013	September 30, 2012	Change
	(In thousands, except percentages)					
Revenues	$ 176,062	$ 96,549	82.4%	$ 498,199	$ 240,941	106.8%
Operating income (loss)	7,541	(11,334)	166.5%	10,900	(7,699)	241.6%
as a percent of total revenues	*4.3%*	*-11.7%*		*2.2%*	*-3.2%*	

Broadcast revenues increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 primarily due to acquisitions, which contributed $81.3 million and $278.6 million to the increases in revenues, respectively. The increases in revenues were partially offset by decreases in unit sales volume, including the impact of changes in channel inventory, of approximately $0.9 million and $19.0 million for the three and nine months ended September 29, 2013, respectively. The decreases in volume were due in part to the favorable impact of the Olympics and the U.S. presidential election cycle in 2012. In addition, the decreases in volume for the nine months ended September 29, 2013 were due to product rationalization decisions made as we integrate acquired companies. Decreases in sales prices due to lower copper costs resulted in estimated revenue decreases of approximately $1.0 million and $2.0 million for the three and nine months ended September 29, 2013, respectively. Unfavorable currency translation resulted in approximately a $0.3 million decrease in revenues for the nine months ended September 29, 2013. Favorable currency translation resulted in approximately a $0.1 million increase in revenues for the three months ended September 29, 2013.

Operating income increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to the increases in revenues discussed above. In addition, operating income increased due to the impact of our acquisitions of Miranda and PPC, improved productivity as a result of the successful execution of our Lean Enterprise strategies, and our previously completed restructuring activities.

Operating income for the three months ended September 29, 2013 was negatively impacted by $11.2 million of amortization of intangibles, $3.2 million of severance and other restructuring costs, and $2.2 million of accelerated depreciation expense. Operating income for the nine months ended September 29, 2013 was negatively impacted by $34.9 million of amortization of intangibles, $7.6 million of severance and other restructuring costs, $6.6 million of cost of sales arising from the adjustment of inventory to fair value related to our acquisition of PPC, and $4.9 million of accelerated depreciation expense. The severance and other restructuring costs and accelerated depreciation expense primarily resulted from our decision to consolidate manufacturing facilities as we integrate PPC. Operating loss for both the three and nine months ended September 30, 2012 included $7.2 million of cost of sales arising from the adjustment of inventory to fair value related to our acquisition of Miranda and $4.4 million of severance and other restructuring costs. Operating loss for the three and nine months ended September 30, 2012 included $6.4 million and $8.4 million of amortization of intangibles, respectively.

Enterprise Connectivity Solutions

	Three Months Ended		%	Nine Months Ended		%
	September 29, 2013	September 30, 2012	Change	September 29, 2013	September 30, 2012	Change
	(In thousands, except percentages)					
Revenues	$ 123,406	$ 128,715	-4.1%	$ 372,962	$ 382,542	-2.5%
Operating income	13,984	8,311	68.3%	37,494	32,347	15.9%
as a percent of total revenues	*11.3%*	*6.5%*		*10.1%*	*8.5%*	

Enterprise Connectivity revenues decreased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to decreases in unit sales volume of approximately $3.4 million and $7.0 million, respectively. The decreases in unit sales volume were due in part to uncertain economic conditions, including weak spending on non-residential construction and information technology projects, and changes in channel inventory. Lower copper costs resulted in estimated revenue decreases of approximately $2.0 million and $3.0 million for the three and nine months ended September 29, 2013, respectively. These revenue decreases were partially offset by favorable currency translation, which resulted in revenue increases of approximately $0.1 million and $0.4 million for the three and nine months ended September 29, 2013, respectively.

Operating income increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012. Operating income in both the three and nine months ended September 30, 2012 included $3.2 million of severance and other restructuring costs and $1.5 million of asset impairment. There were no significant severance and other restructuring costs in the three and nine months ended September 29, 2013. The decrease in the costs discussed above contributed to the increase in operating income in the three and nine months ended September 29, 2013 from the comparable periods of 2012. In addition, operating income increased due to improved productivity due to our Lean Enterprise initiatives and favorable input costs.

Industrial Connectivity Solutions

	Three Months Ended		%	Nine Months Ended		%
	September 29, 2013	September 30, 2012	Change	September 29, 2013	September 30, 2012	Change
	(In thousands, except percentages)					
Revenues	$ 167,008	$ 159,342	4.8%	$ 515,621	$ 502,615	2.6%
Operating income	22,926	7,017	226.7%	71,719	52,715	36.1%
as a percent of total revenues	*13.7%*	*4.4%*		*13.9%*	*10.5%*	

Industrial Connectivity revenues increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to increases in unit sales volume, including changes in channel inventory, of approximately $10.0 million and $18.5 million, respectively. We believe sales volume benefited from gains in market share due to the execution of our Market Delivery System. Decreases in sales prices due to lower copper costs partially offset the increases in revenues by an estimated $2.0 million and $4.0 million for the three and nine months ended September 29, 2013, respectively. Unfavorable currency translation resulted in

decreases in revenues of approximately $0.3 million and $1.5 million for the three and nine months ended September 29, 2013, respectively.

Operating income increased in the three and nine months ended September 29, 2013 from the comparable periods of 2012 due to leveraging the increases in revenues discussed above. Operating income in both the three and nine months ended September 30, 2012 included $9.2 million of severance and other restructuring costs and $2.4 million of asset impairment. There were no significant severance and other restructuring costs in the three and nine months ended September 29, 2013. The decrease in the costs discussed above contributed to the increase in operating income in the three and nine months ended September 29, 2013 from the comparable periods of 2012. In addition, operating income increased due to improved productivity due to our Lean Enterprise initiatives and favorable input costs.

Industrial IT Solutions

	Three Months Ended		%	Nine Months Ended		%
	September 29, 2013	September 30, 2012	Change	September 29, 2013	September 30, 2012	Change
	(In thousands, except percentages)					
Revenues	$ 56,002	$ 56,309	-0.5%	$ 172,660	$ 163,422	5.7%
Operating income	9,193	8,446	8.8%	27,935	23,941	16.7%
as a percent of total revenues	*16.4%*	*15.0%*		*16.2%*	*14.6%*	

Industrial IT revenues decreased in the three months ended September 29, 2013 from the comparable period of 2012 due to a decrease in unit sales volume of approximately $2.3 million. The decrease in sales volume was due in part to the favorable impact of several significant projects in China in 2012. Favorable currency translation partially offset the decrease in revenues by approximately $2.0 million for the three months ended September 29, 2013.

Operating income increased in the three months ended September 29, 2013 from the comparable period of 2012. Operating income in the three months ended September 30, 2012 included $0.5 million of severance and other restructuring costs. There were no significant severance and other restructuring costs in the three months ended September 29, 2013. The decrease in severance and other restructuring costs contributed to the increase in operating income in the three months ended September 29, 2013 from the comparable period of 2012. In addition, operating income increased due to improved productivity due to our Lean Enterprise initiatives.

Industrial IT revenues increased in the nine months ended September 29, 2013 from the comparable period of 2012 due to increases in unit sales volume, including changes in channel inventory, of approximately $6.2 million. We believe sales volume benefited from gains in market share due to the execution of our Market Delivery System. Revenues also increased by approximately $3.0 million due to favorable currency translation for the nine months ended September 29, 2013.

Operating income increased in the nine months ended September 29, 2013 from the comparable period of 2012 due to leveraging the increase in revenues discussed above and improved productivity due to our Lean Enterprise initiatives. Operating income in the nine months ended September 29, 2013 included $1.5 million of severance and other restructuring costs, compared to $0.5 million of severance and other restructuring costs in the comparable period of 2012.

All Other

	Three Months Ended		%	Nine Months Ended		%
	September 29, 2013	September 30, 2012	Change	September 29, 2013	September 30, 2012	Change
	(In thousands, except percentages)					
Revenues	$	$ 24,319	-100.0%	$	$ 73,532	-100.0%
Operating income (loss)		(27,659)	100.0%	1,278	(29,839)	104.3%
as a percent of total revenues	*n/a*	*-113.7%*		*n/a*	*-40.6%*	

All Other includes the results of our cable operations that primarily conducted business in the consumer electronics end market in China, which we sold in 2012. For the nine months ended September 29, 2013, we recorded $1.3 million of operating income due to a favorable resolution with the buyer of those assets regarding the closing date working capital.

Discontinued Operations

In 2012, we sold our Thermax and Raydex cable business, and the results of operations of Thermax and Raydex in 2012 are reported in discontinued operations. Operating results from discontinued operations for the three and nine months ended September 30, 2012 include revenues of $25.1 million and $75.6 million, respectively, and income of $5.7 million ($4.5 million net of tax) and $17.8 million ($11.7 million net of tax), respectively, from Thermax and Raydex.

In 2010, we completed the sale of Trapeze Networks, Inc. (Trapeze) for $152.1 million. At the time the transaction closed, we received $136.9 million in cash, and the remaining $15.2 million was placed in escrow as partial security for our indemnity obligations under the sale agreement. As of September 29, 2013, we have collected a partial settlement of $4.2 million from the escrow, and we remain in negotiations with the buyer of Trapeze regarding the status of the escrow and certain claims raised by the buyer. Based on the current status of the negotiations, the amount of the escrow receivable on our Condensed Consolidated Balance Sheet is $3.8 million, which is our best estimate of the remaining amount to be collected.

During 2005, we completed the sale of our discontinued communications cable operation in Phoenix, Arizona. In connection with this sale and related tax deductions, we established a liability for uncertain tax positions. The statute of limitations associated with the tax positions expired during our fiscal third quarter of 2012. Therefore, we reversed the uncertain tax position liability and the associated accrued interest and penalties. For both the three and nine months ended September 30, 2012, we recognized a net gain of $14.1 million due to the reversal of the uncertain tax position liability, which is included in our gain from disposal of discontinued operations. For both the three and nine months ended September 30, 2012, we recognized a gain of $4.0 million ($2.6 million net of tax) due to the reversal of the accrued interest and penalties, which is included in our income from discontinued operations.

Liquidity and Capital Resources

Significant factors affecting our cash liquidity include (1) cash from operating activities, (2) disposals of businesses and tangible assets, (3) exercises of stock options, (4) cash used for acquisitions, restructuring actions, capital expenditures, share repurchases, dividends, and senior subordinated note repurchases, and (5) our available credit facilities and other borrowing arrangements. We expect our operating activities to generate cash in 2013 and believe our sources of liquidity are sufficient to fund current working capital requirements, capital expenditures, contributions to our retirement plans, share repurchases, senior subordinated note repurchases, quarterly dividend payments, and our short-term operating strategies. However, we would require external financing were we to complete a significant acquisition. Our ability to continue to fund our future needs from business operations could be affected by many factors, including, but not limited to: economic conditions worldwide, customer demand, competitive market forces, customer acceptance of our product mix, and commodities pricing.

The following table is derived from our Condensed Consolidated Cash Flow Statements:

	Nine Months Ended	
	September 29, 2013	September 30, 2012
	(In thousands)	
Net cash provided by (used for):		
Operating activities	$ 50,803	$ 93,335
Investing activities	(34,494)	(372,494)
Financing activities	90,252	282,703
Effects of currency exchange rate changes on cash and cash equivalents	2,181	(621)
Increase in cash and cash equivalents	108,742	2,923
Cash and cash equivalents, beginning of period	395,095	382,716
Cash and cash equivalents, end of period	$ 503,837	$ 385,639

Net cash provided by operating activities totaled $50.8 million for the nine months ended September 29, 2013, compared to $93.3 million for the nine months ended September 30, 2012. The most significant factor impacting the decrease in cash provided by operating activities was the change in operating assets and liabilities. For the nine months ended September 29, 2013, changes in operating assets and liabilities were a use of cash of $100.6 million, compared to $36.9 million for the comparable period of 2012.

The most significant use of cash for operating activities in 2013 related to taxes. Accrued taxes were a use of cash of $84.2 million for the nine months ended September 29, 2013, compared to $20.9 million for the nine months ended September 30, 2012. The primary reason for the increase in cash used for taxes for the nine months ended September 29, 2013 was the planned payments of two significant tax items. First, we paid $41.8 million of our estimated 2012 tax liability related to the sale of the Thermax and Raydex cable business in 2012. We recognized a $211.6 million pre-tax gain on the sale of this business in 2012. Second, we paid $30.0 million to settle a tax sharing agreement dispute with Cooper Industries. We reached the settlement and recognized a $21.0 million tax benefit in 2012.

Net cash used for investing activities totaled $34.5 million for the nine months ended September 29, 2013 compared to $372.5 million for the nine months ended September 30, 2012. Investing activities for the nine months ended September 29, 2013 included capital expenditures of $31.4 million, payments for acquisitions, net of cash acquired, of $10.0 million, the receipt of proceeds from previously disposed businesses of $3.7 million, and the receipt of $3.2 million of proceeds from the sale of tangible assets, primarily real estate in the Broadcast and Enterprise Connectivity segments. The most significant investing activity for the nine months ended September 30, 2012 was payments, net of cash acquired, for the acquisition of Miranda of $341.4 million. Other investing activities for the nine months ended September 30, 2012 included capital expenditures of $31.8 million, the receipt of $1.2 million of proceeds from the sale of tangible assets, primarily real estate in the Enterprise Connectivity segment, and payments for a previous acquisition of $0.6 million.

Net cash provided by financing activities for the nine months ended September 29, 2013 totaled $90.3 million compared to $282.7 million for the nine months ended September 30, 2012. The most significant financing activities for the nine months ended September 30, 2013 were the issuance of $388.2 million of 5.5% senior subordinated notes due 2023 and the subsequent repayment of $194.1 million of borrowings outstanding under the revolving credit component of our senior secured credit facility. Financing activities for the nine months ended September 29, 2013 also included payments under our share repurchase program of $93.8 million, payments of debt issuance costs of $7.8 million, and repayments under our Term Loan of $6.2 million. The most significant financing activities for the nine months ended September 30, 2012 were borrowings of $945.3 million, debt repayments of $575.8 million, and payments under our share repurchase program of $75.0 million.

Our cash and cash equivalents balance was $503.8 million as of September 29, 2013. Of this amount, $169.5 million was held outside of the U.S. in our foreign operations. Substantially all of the foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies. Our strategic plan does not

require the repatriation of foreign cash in order to fund our operations in the U.S., and it is our current intention to permanently reinvest the foreign cash and cash equivalents outside of the U.S. If we were to repatriate the foreign cash to the U.S., we may be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation.

As of September 29, 2013, there were no outstanding borrowings under the revolving credit component of our Senior Secured Facility, we were in compliance with all of the covenants of the facility, and we had $386.4 million in available borrowing capacity. Our total liquidity, consisting of our cash and available borrowing capacity, is limited by the leverage ratio covenant of the facility, which is based on debt net of cash.

Our outstanding debt obligations as of September 29, 2013 consisted of $700.0 million aggregate principal of 5.5% senior subordinated notes due 2022, $404.7 million aggregate principal of 5.5% senior subordinated notes due 2023, $233.9 million of term loan borrowings due 2017, and $5.2 million aggregate principal of 9.25% senior subordinated notes due 2019. Additional discussion regarding our various borrowing arrangements is included in Note 8 to the Condensed Consolidated Financial Statements. Subsequent to September 29, 2013, we refinanced our Senior Secured Facility, including the revolving credit component and the outstanding term loan. See Note 14 to the Condensed Consolidated Financial Statements for further discussion.

Forward-Looking Statements

This report contains forward looking statements. Forward looking statements include any statements regarding future revenues, costs and expenses, operating income, earnings per share, margins, cash flows, dividends, and capital expenditures. These forward looking statements are based on forecasts and projections about the markets and industries which we serve and about general economic conditions. They reflect management s beliefs and expectations and are not guarantees of future performance. Our actual results may differ materially from these expectations for a number of reasons, including: changes in the global economy may impact our results; turbulence in financial markets may increase our borrowing costs; our reliance on key distributors in marketing products; our ability to execute and realize the expected benefits from strategic initiatives (including revenue growth, cost control and productivity improvement programs); changes in the level of economic activity in our major geographic markets; difficulties in realigning manufacturing capacity and capabilities among our global manufacturing facilities; the competitiveness of the global broadcast, enterprise, and industrial markets; variability in our quarterly and annual effective tax rates; changes in accounting rules and interpretations of those rules which may affect our reported earnings; changes in currency exchange rates and political and economic uncertainties in the countries where we conduct business; demand for our products; the cost and availability of materials including copper, plastic compounds derived from fossil fuels, electronic components, and other materials; energy costs; our ability to achieve acquisition performance expectations and to integrate acquired businesses successfully; our ability to develop and introduce new products; having to recognize charges that would reduce income as a result of impairing goodwill and other intangible assets; security risks and the potential for business interruption from operating in volatile countries; disruptions or failures of our (or our suppliers or customers) systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, or other catastrophic event that could cause delays in completing sales, providing services, or performing other mission-critical functions; and other factors.

For a more complete discussion of risk factors, please see our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission on February 28, 2013. We disclaim any duty to update any forward-looking statements as a result of new information, future developments, or otherwise, except as required by law.

Item 3: Quantitative and Qualitative Disclosures about Market Risks

The following table provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal amounts by expected maturity dates and fair values as of September 29, 2013.

	Principal Amount by Expected Maturity			Fair
	2013	Thereafter	Total	Value
	(In thousands, except interest rates)			
Variable-rate term loan	$ 9,112	$ 224,751	$ 233,863	$ 233,863
Average interest rate		3.82%		
Fixed-rate senior subordinated notes due 2022	$	$ 700,000	$ 700,000	$ 682,262
Average interest rate		5.50%		
Fixed-rate senior subordinated notes due 2023	$	$ 404,700	$ 404,700	$ 393,320
Average interest rate		5.50%		
Fixed-rate senior subordinated notes due 2019	$	$ 5,221	$ 5,221	$ 5,710
Average interest rate		9.75%		
Total			$ 1,343,784	$ 1,315,155

Item 7A of our 2012 Annual Report on Form 10-K provides more information as to the practices and instruments that we use to manage market risks. There were no material changes in our exposure to market risks since December 31, 2012.

Item 4: Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1: Legal Proceedings

We are a party to various legal proceedings and administrative actions that are incidental to our operations. These proceedings include personal injury cases, 90 of which were pending as of October 24, 2013, in which we are one of many defendants. Electricians have filed a majority of these cases, primarily in Pennsylvania and Illinois, generally seeking compensatory, special, and punitive damages. Typically in these cases, the claimant alleges injury from alleged exposure to a heat-resistant asbestos fiber. Our alleged predecessors had a small number of products that contained the fiber, but ceased production of such products more than 20 years ago. Through October 24, 2013, we have been dismissed, or reached agreement to be dismissed, in more than 500 similar cases without any going to trial, and with only a relatively small number of these involving any payment to the claimant. In our opinion, the proceedings and actions in which we are involved should not, individually or in the aggregate, have a material adverse effect on our financial condition, operating results, or cash flows. However, since the trends and outcome of this litigation are inherently uncertain, we cannot give absolute assurance regarding the future resolution of such litigation, or that such litigation may not become material in the future.

We are a former owner of a property located in Kingston, Canada. The Ontario, Canada Ministry of the Environment is seeking to require current and former owners of the Kingston property to delineate and remediate soil and groundwater contamination at the site, which we believe was caused by Nortel (a former owner of the site). We are in the process of assessing whether we have any liability for the site, as well as the scope of contamination, cost of remediation, allocation of costs among the parties, and the other parties financial viability. Based on our current information, we do not believe this matter should have a material adverse effect on our financial condition, operating results, or cash flows. However, since the outcome of this matter is uncertain, we cannot give absolute assurance regarding its future resolution, or that such matter may not become material in the future.

Item 1A: Risk Factors

There have been no material changes with respect to risk factors as previously disclosed in our 2012 Annual Report on Form 10-K.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Set forth below is information regarding our stock repurchases for the three months ended September 29, 2013.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2013 through August 4, 2013		$		$ 162,500,000
August 5, 2013 through September 1, 2013				162,500,000
September 2, 2013 through September 29, 2013	252,227	60.71	252,227	147,187,173
Total	252,227	$ 60.71	252,227	$ 147,187,173

(1) In July 2011, our Board of Directors authorized a share repurchase program, which allows us to purchase up to $150.0 million of our common stock through open market repurchases, negotiated transactions, or other means, in accordance with applicable securities laws and other restrictions. The program does not have an expiration date and may be suspended at any time at the discretion of the Company. In November 2012, our Board of Directors authorized an extension of the share repurchase program, which allows us to purchase up to an

additional $200.0 million of our common stock through open market repurchases, negotiated transactions, or other means, in accordance with applicable securities laws and other restrictions. This program will be funded by cash on hand and free cash flow. From inception of the program to September 29, 2013, we have repurchased 5.2 million shares of our common stock under the programs for an aggregate cost of $202.8 million and an average price of $39.33.

Item 6: Exhibits

Exhibits

Exhibit 4.1	Second Supplemental Indenture, dated as of October 17, 2013, relating to 5.5% Senior Subordinated Notes due 2022
Exhibit 4.2	First Supplemental Indenture, dated as of October 17, 2013, relating to 5.5% Senior Subordinated Notes due 2023
Exhibit 10.1	Executive Employment Agreement with Doug Zink
Exhibit 31.1	Certificate of the Chief Executive Officer pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certificate of the Chief Financial Officer pursuant to § 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation
Exhibit 101.DEF	XBRL Taxonomy Extension Definition
Exhibit 101.LAB	XBRL Taxonomy Extension Label
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BELDEN INC.

Date: November 6, 2013

By: /s/ John S. Stroup
John S. Stroup
President, Chief Executive Officer and Director

Date: November 6, 2013

By: /s/ Henk Derksen
Henk Derksen
Senior Vice President, Finance, and Chief Financial Officer

Date: November 6, 2013

By: /s/ Douglas R. Zink
Douglas R. Zink
Vice President and Chief Accounting Officer