NEW MEXICO SOFTWARE, INC
Form 10QSB/A
March 24, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2005

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 #333-30176

NMXS.COM, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

DELAWARE

(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

91-1287406

(IRS EMPLOYER IDENTIFICATION NUMBER)

5021 Indian School Road, Suite 100

Albuquerque, New Mexico 87110

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)(ZIP CODE)

(505) 255-1999

(REGISTRANT S TELEPHONE NO., INCLUDING AREA CODE)

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR,

IF CHANGED SINCE LAST REPORT)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 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

NUMBER OF SHARES OF THE REGISTRANT S COMMON STOCK OUTSTANDING AS OF MAY 13, 2005 IS: 37,952,000.

TRANSFER AGENT AS OF MAY 16, 2005: Interwest Transfer Company, Inc., 1981 East 4800 South, Suite 100, Salt Lake City, Utah 84117

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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NMXS.com, Inc. and Subsidiaries

Consolidated Balance Sheets

(Rounded to the nearest thousand)

(UNAUDITED)

	March 31, 2005	2004
Assets		
Current assets:		
Cash and equivalents	$ 33,000	$ 115,000
Accounts receivable, net	620,000	415,000
Inventory	7,000	10,000
Prepaid expenses and other assets	24,000	21,000
Total current assets	684,000	561,000
Furniture, equipment and improvements, net	80,000	120,000
Security deposits	11,000	39,000
Goodwill, net		75,000
	$ 775,000	$ 795,000
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 119,000	$ 57,000
Accrued expenses	470,000	444,000
Deferred revenue	64,000	45,000
Subscriptions payable	213,000	116,000
Notes payable	201,000	276,000
Total current liabilities	1,067,000	938,000
Stockholders equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized, 105 and 135 shares issued and outstanding as of 3/31/05 and 3/31/04, respectively		
Common stock, $0.001 par value, 50,000,000 shares authorized, 36,280,782 and 30,119,979 shares issued and outstanding as of 3/31/05 and 3/31/04, respectively	36,000	30,000
Additional paid-in capital	9,536,000	8,912,000
Deferred compensation	(226,000)	(156,000)
Accumulated (deficit)	(9,638,000)	(8,929,000)
Total stockholders equity	(292,000)	(143,000)
	$ 775,000	$ 795,000

The accompanying notes are an integral part of these financial statements

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NMXS.com, Inc. and Subsidiaries

Consolidated Statements of Operations

(Rounded to the nearest thousand)

(UNAUDITED)

	For the three months ended March 31, 2005		2004	
Revenue				
Software sales and maintenance	$ 330,000		$ 270,000	
Custom programming	50,000		1,000	
License fees	8,000		25,000	
Scanning services	48,000		43,000	
Hardware sales	26,000		28,000	
Other	2,000			
	464,000		367,000	
Operating costs and expenses:				
Cost of services	131,000		85,000	
General and administrative	259,000		235,000	
Research and development	53,000		24,000	
Total operating costs and expenses	443,000		344,000	
Net operating (loss)	21,000		23,000	
Other income (expense):				
Interest income				
Interest (expense)	(8,000	)	(4,000	)
(Loss) on disposal of fixed assets				
Total other income (expense)	(8,000	)	(4,000	)
Net (loss)	$ 13,000		$ 19,000	
Earnings per share - basic	$ 0.00		$ 0.00	
Earnings per share - fully diluted	$ 0.00		$ 0.00	
Weighted average number of common shares outstanding - basic	34,806,209		29,777,864	
Weighted average number of common shares outstanding - fully diluted	37,735,940		35,096,020	

The accompanying notes are an integral part of these financial statements

NMXS.com, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Rounded to the nearest thousand)

(UNAUDITED)

	For the three months ended March 31, 2005		2004	
Cash flows from operating activities				
Net income	$ 13,000		$ 19,000	
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:				
Common stock issued for salaries	121,000		16,000	
Common stock issued for services	32,000		15,000	
Stock options issued for services				
Depreciation and amortization	16,000		21,000	
Changes in operating assets and liabilities:				
Accounts receivable	(187,000	)	35,000	
Inventory			(7,000	)
Prepaid expenses and other assets	2,000			
Security deposits				
Accounts payable	(3,000	)	(65,000	)
Accrued expenses	22,000		(21,000	)
Deferred revenue	(22,000	)	(25,000	)
Net cash (used) by operating activities	(6,000	)	(12,000	)
Cash flows from investing activities				
Acquisition of fixed assets	(11,000	)		
Disposal of fixed assets				
Net cash (used) by investing activities	(11,000	)		
Cash flows from financing activities				
Proceeds from notes payable				
Repayment of note payable	(75,000	)		
Subscriptions payable	83,000			
Net proceeds from the issuance of common stock			116,000	
Net proceeds from warrants/options exercised	42,000			
Net cash provided by financing activities	50,000		116,000	
Net increase (decrease) in cash equivalents	33,000		104,000	
Cash equivalents - beginning			11,000	
Cash equivalents - ending	$ 33,000		$ 115,000	
Supplemental disclosures:				
Interest paid	$		$	

The accompanying notes are an integral part of these financial statements

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE A BASIS OF PRESENTATION

The interim consolidated financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim consolidated financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2004 and notes thereto included in the Company's Form 10-KSB. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim periods are not indicative of annual results.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

[2] Revenue recognition:

Our revenues are generally classified into three main categories: software license revenue, custom software development revenue, and maintenance and hosting revenue. The Company recognizes revenue in accordance with Statement of Position 97-2 Software Revenue Recognition .

Revenue from proprietary software sales that does not require further commitment from the company is recognized upon shipment. These sales are generally direct purchases of a software product and there is no other involvement by the Company.

The Company offers with certain sales of its software products a software maintenance, upgrade and support arrangement. These contracts may be elements in a multiple-element arrangement or may be sold in a stand-alone basis. Revenues from maintenance and support services are recognized ratably on a straight-line basis over the term that the maintenance service is provided. Maintenance contracts typically provide for 12-month terms with maintenance contracts. The Company typically charges 17% to 21% of the software purchase price for a 12-month contract with discounts available for longer-term agreements. Charges for hosting are likewise spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis.

Should the sale of its software involve an arrangement with multiple elements (for example, the sale of a software license along with the sale of maintenance and support to be delivered over the contract period), the Company allocates revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. The fair value of the separate elements is determined from vendor-specific objective evidence (VSOE), which is based on the price charged for each element when it is sold separately. The Company defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For contracts and revenues related exclusively to custom software development services, the Company recognizes revenue and profit as work progresses on custom content service contracts using the percentage-of-completion method. This method relies on estimates of total expected contract revenue and costs as each job progresses throughout the relevant contract period. The Company follows this method since reasonably dependable estimates of the costs applicable to various stages of a custom content service contract can be made.

From time to time, the Company effects sales of its enterprise-level software in return for barter credits for advertising. The software is valued at the same price it would have been valued if it had been sold for cash. The revenue is recognized when the software is transferred to the customer, along with a corresponding receivable for the barter credits. The advertising expense is recognized as the ads are placed. The value of any remaining barter credits is reviewed at the end of each fiscal year for possible impairment, and any such impairment loss is recorded at that time. During the fiscal year ended December 31, 2004, the Company recognized $135,000 in revenue from barter transactions. At December 31, 2004, the Company had $135,000 in barter credits receivable.

The Company also derives revenue from the sale of third party hardware and software. Revenue from installation, training and consulting services is recognized when the services are rendered.

Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred revenue.

Due to uncertainties inherent in the estimation process it is at least reasonably possible that completion costs for contracts in progress will be further revised in the near- term.

The cost of services, consisting of staff payroll, outside services, equipment rental, communication costs and supplies, is expensed as incurred.

[3] Cash and cash equivalents:

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

[4] Inventory:

Inventory, which is composed of component parts and finished goods, is valued at cost on a specific identity basis for those items with serial numbers. The remainder of the inventory is valued at the lower of first-in-first-out (FIFO) cost or market. On a quarterly basis, management compares the inventory on hand with our records to determine whether write-downs for excess or obsolete inventory are required.

[5] Furniture, equipment and improvements:

Furniture, equipment and improvements are recorded at cost. The cost of maintenance and repairs is charged against results of operations as incurred. Depreciation is charged against results of operations using the straight-line method over the estimated economic useful life. Leasehold improvements are amortized on a straight-line basis over the life of the related lease.

[6] Income taxes:

The Company recognizes 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 on the basis of the differences between the tax basis of assets and liabilities and their respective financial reporting amount ("temporary differences") at enacted tax rates in effect for the years in which the differences are expected to reverse.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

[7] Per share data:

The basic and diluted per share data has been computed on the basis of the net loss available to common stockholders for the period divided by the historic weighted average number of shares of common stock. All potentially dilutive securities have been excluded from the computations since they would be antidilutive, however, these dilutive securities could potentially dilute earnings per share in the future. Options and warrants exercisable for 260,000 shares of common stock have been excluded from the diluted loss per share calculation for the year ended March 31, 2005, because inclusion of such would be antidilutive.

[8] Research and development expenses:

Costs of research and development activities are expensed as incurred.

[9] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $3,000 and $7,000 for the quarters ended March 31, 2005 and 2004, respectively.

[10] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

[11] Stock-based compensation:

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") allows companies to either expense the estimated fair value of stock options and warrants, or to continue following the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") but disclose the pro forma effects on net loss had the fair value of the options and warrants been expensed. The Company has elected to apply APB 25 in accounting for grants to employees under its stock based incentive plans. Equity instruments issued to non-employees are measured based on their fair values.

Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148) provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation.

Common stock:

During the three month period ended March 31, 2005, the Company effected the following stock transactions:

The Company issued a total of 1,325,000 shares of its $0.001 par value common stock to Brian McGowan as part of a five year consulting agreement in the amount of $80,000. The entire amount is considered deferred compensation. During the quarter ended March 31, 2005, $15,000 of the compensation was earned.

The Company issued a total of 180,000 shares of its $0.001 par value common stock to Brian McGowan as part of a separate seven year consulting agreement in the amount of $23,000. The entire amount is considered deferred compensation. During the quarter ended March 31, 2005, $10,000 of the compensation was earned.

The Company issued a total of 774,140 shares of the Company s $0.001 par value common stock to employees in lieu of salary, which was valued at $121,000.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company issued a total of 46,667 shares the Company s $0.001 par value common stock to outside contractors in exchange for services rendered of $7,000.

The Company issued a total of 520,517 shares of the Company s $0.001 par value common stock which were related to the exercise of options/warrants in exchange for $41,000 cash.

The Company issued a total of 600,000 shares of the Company s $0.001 par value common stock which were related to the conversion of 30 shares of Series A convertible preferred stock.

Warrants:

During the three month period ended March 31, 2005 there were no warrants issued and none exercised.

The following is a summary of warrants outstanding as of March 31, 2005:

Number of Warrants	Exercise Price	Expiration Date
1,161,545	$0.21	July 24, 2012

Stock options:

Disclosures required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), including pro forma operating results had the Company prepared its financial statements in accordance with the fair value based method of accounting for stock- based compensation prescribed therein are shown below. Exercise prices and weighted-average contractual lives of stock options outstanding as of March 31, 2005 are as follows:

Options Outstanding				Options Exercisable	
		Weighted Average	Weighted Average		Weighted Average
Exercise Prices	Number Outstanding	Remaining Contractual Life	Exercise Prices	Number Exercisable	Exercise Price

$0.10-$0.30	3,914,500	6.00	$0.06	3,310,167	$0.06
$0.31-$0.50	160,000	4.13	$0.36	160,000	$0.36
$0.54-$0.83	60,000	1.08	$0.61	60,000	$0.61

Summary of Options Granted and Outstanding:

	For the three months ended March 31,			
	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	4,183,030	$0.08	6,042,824	$0.12
Granted	-	$ -	-	$ -
Cancelled	(48,530)	$0.06	(73,520)	$0.26
Exercised	-	-	-	-
Outstanding at end of year	4,134,500	$0.08	5,969,304	$0.12

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes the pro forma operating results of the Company for March 31, 20045 and 2004 had compensation costs for the stock options granted to employees been determined in accordance with the fair value based method of accounting for stock based compensation as prescribed by SFAS No. 123.

	2005	2004
Net income as reported	13,000	19,000
Pro forma effects of stock-based compensation	(6,000)	(8,000)
Net (loss) pro forma	7,000	11,000
(Loss) per share as reported	$0.00	$0.00
Pro forma effects of stock-based compensation	-	-
(Loss) per share pro forma	$0.00	$0.00

As of March 31, 2005, the Company has reserved 1,000,000 shares of its common stock for issuance upon exercise of stock options and warrants.

NOTE C - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of March 31, 2005 consisted of the following:

Computers	$ 308,000
Furniture, fixtures and equipment	112,000
Automobiles	38,000
Leasehold improvements	10,000
	468,000
Accumulated depreciation	(389,000)
	$ 79,000

NOTE D - NOTE PAYABLE

During January 2001, the Company borrowed $300,000. The loan is collateralized by substantially all of the Company's assets and personally guaranteed by an officer of the Company. Additional collateral was provided by a letter of credit issued by a then unrelated third party. The letter of credit expired on January 19, 2002. The note was renewed with a due date of July 24, 2002 at a current interest rate of 7%. On July 24, 2002, the Company paid $50,000 of principal and $10,525 of interest. The remaining $250,000 of principal was extended to October 24, 2002 at a current interest rate of 7%. On October 24, 2002 the Company paid $25,000 of principal and $4,555 of interest. The remaining $225,000 of principal was extended until April 24, 2003 at a current interest rate of 7%. On April 24, 2003, the Company paid $12,224 of principal and

$12,768 of interest. The remaining $212,776 of principal was extended until October 15, 2003 at a current interest rate of 7%. On October 20, 2003, the Company negotiated a payment of $25,000 in principal and $7,500 in interest and extended the note to April 23, 2004. On March 27, 2004, the Company received a notice from the bank to extend the note to October 15, 2004 upon payment of an additional $25,000 of principal and approximately $6,000 of accrued interest, which was paid on April 5, 2004. On October 8, 2004, the Company paid $25,000 of principal and $6,000 of interest, and the remaining $138,168 was extended until April 15, 2005. As of March 31, 2005, the Company had a balance due of $138,000 plus accrued interest of $5,000.

On April 22, 2002, the Company borrowed $50,000. The loan was due on April 23, 2003 at a current interest rate of 10% per annum. This note is secured by 500,000 shares of the Company s $0.001 par value common stock. As of March 31, 2004, the Company is in default and is negotiating with the note holder.

In April 2002, the Company borrowed $12,500. The loan is due on demand and bears no interest. As of March 31, 2004, the Company had a balance due of $12,500.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

On March 1, 2003, the Company borrowed $25,000. The loan was due on September 30, 2003 at a current interest rate of 7% per annum until the due date and 18% per annum thereafter. On August 29, 2003, the note was extended to December 31, 2003. On December 31, 2003, the note was extended to April 15, 2004. On April 15, 2004, the note was extended to June 30, 2004. On May 21, 2004, the Company borrowed an additional $50,000. The loan was due on demand at a current interest rate of 8% per annum. The loans were secured by 400,000 shares of NMXS.com, Inc. common stock owned by the Company s President/CEO. On January 12, 2005, the Company received a letter requesting payment of the loans. On March 31, 2005, the Company elected to surrender the 400,000 shares owned by the President/CEO as payment in full of the loan and accumulated interest of approximately $9,000. The Board of Directors has approved the issuance of 400,000 shares of restricted common stock to the President/CEO to replace the shares surrendered.

NOTE E - RELATED PARTY TRANSACTIONS

Consulting agreement:

The Company entered into a consulting agreement with Brian McGowan to advise the CEO on business strategy and to formulate marketing ideas. The term of the employment agreement is for approximately five years commencing on July 1, 2003 and terminating on December 31, 2008. Mr. McGowan will receive a total of 5,500,000 shares of the Company s $0.001 par value common stock valued at $330,000. As of March 31, 2005, he was paid a total of 5,500,000 shares of common stock, but he has earned only 1,750,000 shares and the difference of 3,750,000 shares is considered deferred compensation. During the three month period ended March 31, 2005, the Company has expensed $15,000 in consulting fees.

On January 27, 2005, the Company entered into a second consulting agreement with Brian McGowan to assist the Company s CEO in the structure, formation, marketing and growth of two joint venture partnerships involving the Company s consumer products division and the Company s wholly-owned subsidiary (Working Knowledge, Inc.). The term of the employment agreement is for approximately seven years commencing on January 27, 2005 and terminating on December 31, 2011. Mr. McGowan will receive a total of 3,220,000 shares of the Company s $0.001 par value common stock valued at $419,000. As of March 31, 2005, the shareholder was paid a total of 180,000 shares of common stock, but he has earned only 77,000 shares and the difference of 103,000 shares is considered deferred compensation. During the three month period ended March 31, 2005, the Company has expensed $10,000 in consulting fees.

NOTE F- MAJOR CUSTOMERS

During the three month period ended March 31, 2005, two customers accounted for 74% of the Company's revenue. The Company recognized $300,000 as revenue and $0 as expense from barter agreements for the three-month period ended March 31, 2005.

As of March 31, 2005, balances due from two customers comprised 79% of total accounts receivable.

NOTE G - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate legal entities. On January 1, 2005, the Company reorganized its segments to more clearly reflect the Company s direction and growth. In addition to having a variety of products and services available, management has formulated a business strategy for the next two years that will take advantage of opportunities to market these products. The current business strategy is to form up to twenty joint venture projects over the next two to three years. These joint venture projects would be formed to develop, market and distribute various digital lifecycle management applications built around our core Roswell technology.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In the past, Working Knowledge, Inc. provided data maintenance services related to the NMS digital asset management system. The data maintenance services have been absorbed into New Mexico Software, and Working Knowledge, Inc. has been redefined to include those product divisions for which joint venture projects are being formed. Therefore, at this time, Working Knowledge, Inc. includes the healthcare division and the Sox Advisors division. These divisions are centered around the products XR-EXpress and SOXtrac. Information related to the Company's reportable segments for the three months ended March 31, 2005 is as follows:

	NMS	WKI	Total
Revenue	$ 461,000	$ 3,000	$ 464,000
Cost of services	123,000	8,000	131,000
General and administrative	251,000	8,000	259,000
Research and development	51,000	2,000	53,000
Operating income (loss)	36,000	(15,000)	21,000
Total assets	$765,000	$ 10,000	$ 775,000

WKI revenue consists primarily of software maintenance and scanning services.

A reconciliation of the segments' operating loss to the consolidated net loss/comprehensive loss is as follows:

Segment s operating income	$ 21,000
Other income	(8,000)
Consolidated net loss/comprehensive loss	$ 13,000

Prior to acquisition of Working Knowledge, Inc., in April 2000, the Company operated within one business segment.

For the three months ended March 31, 2005, amortization and depreciation expense amounted to $16,000 and $0 for NMS and WKI, respectively. Also, total fixed asset additions amounted to $10,000 and $1,000 for NMS and WKI, respectively, while fixed asset disposals amounted to $8,000 and $0 for NMS and WKI, respectively.

NOTE H COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico and California. Future minimum lease payments as of March 31, 2005 are as follows:

Year	Amount
2005	$ 68,000
2006	$ 73,000
2007	$ 60,000
2008	$ 60,000
2009	$ 20,000

Rent expense for the three months ended March 31, 2005 and 2004 amounted to $25,000 and $7,000, respectively.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Employment agreement:

The Company entered into an employment and non-competition agreement with a stockholder to act in the capacity of President and Chief Executive Officer (CEO). The term of the employment agreement is for three years commencing on January 1, 2003. The agreement allows for a one-year renewal option unless terminated by either party. Base salary is $44,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $11,000 is included in general and administrative expenses for the quarter ended March 31, 2005. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of March 31, 2005, there was a total of $107,000 in accrued payroll for this executive.

Outstanding Payroll Taxes:

The Company has estimated unpaid Federal and State payroll taxes totaling $269,000 as of March 31, 2005, including estimated penalties and interest. The penalties and interest associated with this liability is estimated to be in excess of 20% of the total payroll taxes due, and the Company has accrued $75,000 in penalties and interest.

On June 1, 2003, the Company settled with the State of New Mexico and agreed to pay $1,000 per month of past due payroll taxes plus the current amount due. During the quarter ended March 31, 2005, the Company paid a total of $3,000 of past due payroll taxes.

On October 17, 2003, the Company settled with the IRS and agreed to pay $5,000 per month of past due payroll taxes plus the current amount due. During the quarter ended March 31, 2005, the Company paid a total of $15,000 of past due payroll taxes.

NOTE I BARTER TRANSACTIONS

During the three months ended March 31, 2005, the Company had one barter transaction totaling $300,000 for the sale of software to Forbes.com in return for advertising credits. In this barter transaction customized software was transferred to the customer in return for print advertising. The software and customization was valued at the same price it would have been valued if it had been sold for cash, so no impairment was recorded before the asset was transferred. The revenue was recognized when the software was transferred to the customer in accordance with paragraph 8 of SOP 97-2, and a corresponding receivable for the barter credits was recorded at that time. The advertising expense will be recognized as the ads are placed. The value of any remaining barter credits will be reviewed at the end of each fiscal year for possible impairment, and any such impairment loss will be recorded at that time.

NOTE J LEGAL PROCEEDINGS

Grossman Lawsuit: Kurt Paul Grossman and Ann Grossman filed a complaint for Breach of Contract on a Promissory Note against us on November 25, 2003, in the Superior Court of California, Orange County Division, case # 03CC14074. There was a question of whether the complaint was properly served and whether the California courts have jurisdiction over us. The Grossmans filed an Application for Writ of Attachment which was denied on January 30, 2004. The Grossmans asked for $55,000 ($50,000 on the promissory note plus $5,000 interest); $304.40 in costs; and $24,000 in attorney s fees. The Grossmans, through a separate entity, Doctors Telehealth Network, purchased software from us, and it has not been paid for. We filed a motion to quash the service of summons for lack of personal jurisdiction and to vacate a default judgment against us. The court tentatively ruled in favor of the Grossmans. However, after our oral argument on April 23, 2004, the court withdrew its tentative ruling and ruled in favor of us. Specifically, the court ruled that we do not have sufficient contact with California to warrant the exercise of personal jurisdiction. Based on this ruling, there is no action pending against us at this time.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Internal Revenue Service Payments: In October 2003 we entered into an interim agreement with the Internal Revenue Service concerning the repayment of federal tax deposits which we failed to pay for the six operating quarters ended September 30, 2003. We have agreed to pay $5,000 per month beginning November 1, 2003. During this interim period the IRS has agreed to withhold the filing of a federal tax lien. Consideration of filing a lien in the future will be based upon a determination of how long it may take to pay the taxes. Also, our failure to make timely federal tax deposits will default this interim agreement and necessitate the filing of the lien. Our unpaid tax returns for these quarters are being assessed by the IRS, and we expect to receive an assessment notice for each period upon completion of this assessment. We estimate that these assessments will total approximately $269,000, including penalties and interest.

Manhattan Scientifics Lawsuit: On March 9, 2004, our legal counsel received a letter from an attorney representing Manhattan Scientifics. The letter threatened litigation against us for alleged breach of contract and against Richard Govatski for alleged tortious interference with contract. This is based on the fact that we were alleged to have declined to honor Manhattan Scientifics request for a cashless exercise of 150,000 of our Common Stock Purchase Warrants (the Warrants) allegedly issued to Manhattan Scientifics. It is our position that the Warrants, among other things, were issued in a transaction that was not an arms-length transaction and therefore, the Warrants should be cancelled, and that in any event, the alleged cashless exercise was not properly done and itself is a nullity. In May 2004, Manhattan Scientifics filed a suit in Federal Court in New York against us and Mr. Govatski for damages in this matter. The case was dismissed by the Federal Court due to a lack of diversity jurisdiction. On June 25, 2004, we were served with a complaint filed in the Supreme Court of the State New York, County of New York, Index No. 601793/04, asserting the same claims. Manhattan Scientifics seeks damages against us for an alleged breach of contract for failure to allow the cashless exercise, in an amount of $1.5 million, and alleges a tortious interference claim against Mr. Govatski.

We served our Answer to the Complaint on August 16, 2004. Mr. Govatski is seeking dismissal of the claim against him for lack of personal jurisdiction and for failure to state a claim. Mr. Govatski s motion to dismiss has been fully submitted to the court, but has not yet been decided. Along with our Answer, we are asserting Counterclaims against Manhattan Scientifics for monies owed by Manhattan Scientifics and for a declaratory judgment, and against a former Company Director, Marvin Maslow for fraud and breach of fiduciary duty due to his persuading the Company to enter into the Warrant transaction with Manhattan Scientifics, which we contend was done for the benefit of Maslow and Manhattan Scientifics, and not for the benefit of the Company. We believe that due to the fact that Mr. Maslow and a second former Company director (Scott Bach), were also Directors of Manhattan Scientifics at the time of the transactions in dispute, and constituted two of the Company s three Directors at the time, Mr. Maslow and Mr. Bach should have excused themselves from participating in negotiating and voting on the issue of whether to approve the Warrants. Messrs. Maslow and Bach resigned as our Directors in December 2002. It is our position that such financial conflicts include Mr. Maslow s causing the Company to pay for third-party consulting services provided to Manhattan Scientifics, while stating that such services would be provided to, and were needed by, the Company as part of the transaction. It is our position that Mr. Maslow also misrepresented the fairness of the transaction in dispute at the time to us, which we contend was being done for the benefit of Mr. Maslow and Manhattan Scientifics, to the detriment of the Company In our counterclaims, we are seeking, among other relief, a determination that the Warrants should be declared null and void from inception, plus damages against Mr. Maslow. It is further our position that even if the Warrants were properly issued (we contend they were not), the Warrants were never properly exercised by Manhattan Scientifics. Manhattan Scientifics and Mr. Maslow have moved to dismiss certain of our Counterclaims alleged against them. That motion too has been fully submitted to the court, but not yet decided.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

OVERVIEW

New Mexico Software develops a variety of products centered around the concept of digital lifecycle management systems. The digital lifecycle is the IT (information technology) strategy that associates database information with both paper and digital files including text, email, images, audio, graphics, video and animation files, and coordinates access to a common repository of these processes and files. The digital lifecycle encompasses creation, approval, sharing, storage, retrieval, usage, capture and archiving of the database information. Our core product, Roswell, is an enterprise-level platform that manages digital files. It manages assets by creating folders, or groups of files, catalog hierarchies, users, user groups, and user permissions. The files are managed by a database that maintains both the membership of the file in a folder(s) and information about the file. Roswell s main user interface is a web browser, which makes it accessible and more intuitive to a greater number of users. It can be used on Windows, Macintosh or Linux operating systems.

In addition to developing the software itself, New Mexico Software also provides services such as web hosting, data storage, custom programming, technical support, database development, image scanning and other support services. Since our core technology is based on internet browsers and the majority of our services are either Internet-based or performed via the Internet, the market conditions surrounding the Internet industry directly impact our business.

One of the most significant issues affecting our type of business is that the Internet as a commercial industry is less than ten years old. Therefore, the entire industry is subject to intense competition and rapidly changing conditions, causing uncertainty and inconsistencies for the individual companies operating within that industry. According to the Standard & Poors Industry Survey Computers: Consumer Services & The Internet dated March 3, 2005, two key factors in analyzing Internet-related companies are that because many Internet-related companies do not generate consistent and substantial earnings, and some have only a small base of revenues, such firms often are valued largely on their prospects for future growth , and that for Internet-related companies qualitative assessments are crucial in helping to determine the competitive position, growth opportunities, and value of an Internet company . According to Standard & Poors, some of the qualitative items investors should look at in addition to financial statement analysis are business models, competitive positioning, management s vision and execution, diversification of revenue streams, capital requirements, ability to recruit and retain skilled software programmers, ability to convert new ideas into saleable offerings quickly, ability to capitalize on the unique benefits offered by the Internet, and the ability to generate new ideas, market new products and foster an entrepreneurial and innovative corporate structure. We believe that these subjects apply to New Mexico Software.

We have spent the last two years positioning our business for future growth. Our focus has been on creating a stable team of software engineers, completing the development of our core product (Roswell), streamlining our expenses and clearing up old obligations on the balance sheet.

Although the development of our core technology has taken several years, its adaptability to any industry provides us with numerous opportunities for growth and market penetration as more creative applications are discovered and developed from within our core intellectual property (Roswell). These new applications will have low capital requirements and provide additional revenue diversification.

One of the challenges of operating in this industry is creating a balance between sustaining a consistent vision and business strategy and yet maintaining the flexibility required to adapt to the rapidly changing market conditions. We believe that our product structure allows us to do that. Since our core technology is useful to literally any company that manages digital assets and has access to browser and search functions, it is the backbone of our product framework. As such, it provides the consistency and stability aspect of the business strategy. The next generation of our products primarily consists of derivative products, new technological combinations, and enhancements to the core product. These have the advantage of taking less than a year to develop into a marketable product, thus providing the flexibility necessary to be able to respond quickly to new market opportunities.

Some challenges we face in the next year are continuing to develop a sales force and distribution channels in order to market our products, as well as educating potential customers about the benefits of digital lifecycle systems. We have hired two executive managers to focus on marketing XR-EXpress, and we have hired a manager to focus on the consumer products division (Santa Fe, White Sands, Taos and Trinity Mothership). We also have made the same commitment for our Sox Advisors products and services. These executive managers are known as SME s (Subject Matter Experts) who have had the experience to understand the broad range of requirements needed to successfully manage complex IT structures, technology, client relationships and products.

Another possible opportunity for our business can be found in the current expansion of the open-source software market. The growth in this market was discussed in a May 10, 2004 article in Business Week Online entitled Software Shift . According to this article, the market for software products using open source programming is expanding beyond the Linux operating system to include software products such as databases, search engines, programming tools and desktop PC software. Since our products have all been developed with open source code, we may be in a position to take advantage of this expansion by identifying opportunities to integrate our software with some of the newly emerging open source products.

We presently realize revenues from four primary sources: (i) software sales, maintenance and hosting; (ii) custom programming services; (iii) license fees; and (iv) scanning and other services. We also occasionally realize revenues from hardware sales when the hardware is sold together with the software, and occasionally from other services. To date, license fees and software sales have been directly related. With each sale of our products, the end user enters into a license agreement for which an initial license fee is paid. The license agreement also provides that in order to continue the license, the licensee must pay an annual software maintenance fee for which the party receives access to product upgrades and bug fixes or product patches. With the marketing of the new prepackaged products, management anticipates that revenues for direct software sales and technical support will increase as those products are sold and the associated technical support programs are purchased. The change in focus to include our newer products reflects management s belief that a broader range of products and customers will provide greater stability in revenues.

Software maintenance consists primarily of hosting and managing our customers data on our servers, and to a lesser extent includes technical support programs for our products. This hosting and licensing structure will continue with both our Roswell and XR-EXpress products; therefore, we anticipate a positive impact on license fees, software maintenance, and custom programming revenues from sales of these products.

Scanning services are performed principally for our entertainment clients. To date, management has anticipated that these services will be reserved in the future primarily for existing customers and customers of our core products, although revenue could be generated from unsolicited customers. Accordingly, in 2004 management did not focus on developing this segment of our business, but we are currently assessing the importance of scanning services as part of an overall focus on client services during the coming year.

Cost of services consists primarily of engineering salaries and compensation-related expenses, engineering supplies, connectivity expenses, hardware purchases and equipment rental. General and administrative expenses consist primarily of salaries and benefits of personnel responsible for business development and operating activities, and include corporate overhead expenses. Corporate overhead expenses relate to salaries and benefits of personnel responsible for corporate activities, including acquisitions, administrative, and reporting responsibilities. We record these expenses when incurred.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management s initial estimates as reported. A summary of our significant accounting policies is detailed in the notes to the financial statements which are an integral component of this filing.

Revenue Recognition

The Company derives revenues from three main activities: the sale of software licenses to end users, software hosting and maintenance contracts, and software licenses that require us to provide significant production, customization or modification to our core software product. The Company also derives revenue from third party hardware and software sales, and from installation, training and consulting services.

Our software recognition policies are in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition* as amended.

The Company sells software licenses directly to its end user customers. These sales do not require further commitment from the Company and are recognized upon persuasive evidence of an arrangement as provided by agreements executed by both parties, delivery of the software, and determination that collection of a fixed or determinable fee is probable, in accordance with paragraph 8 of SOP 97-2.

In connection with the sales of software licenses for our enterprise-level products, we sell hosting and maintenance contracts that vary in terms. For these hosting contracts, the customer has possession of the software, which resides on the customer s hardware, and we host the customer s data. These hosting arrangements fall within the scope of SOP 97-2. However, although a fee may be charged at the beginning of the contract for the software license and any customization of the software, the hosting portion of the arrangement is billed and recognized on a monthly basis for the term of the contract. The Company has established vendor-specific objective evidence (VSOE) of fair value per paragraph 10 of SOP 97-2 for the hosting services. The VSOE for the hosting portion of contracts with multiple elements is the price charged for hosting when it is sold separately.

However, in some of our hosting arrangements both the software application and the customer s data reside on our hardware. The customer accesses and uses the software on an as-needed basis over the internet, and the customer does not have the right to take possession of the software. Therefore, according to paragraph 5 of EITF 00-3, these hosting arrangements do not fall within the scope of SOP 97-2. Accordingly, we recognize revenue from these hosting services on a straight-line basis over the life of the respective contracts.

Maintenance contract revenue also is recognized on a straight-line basis over the life of the respective contracts, as this format best approximates the timing of the services rendered per paragraph 57 of SOP 97-2. If a maintenance contract is sold as part of a contract with multiple elements, the amount allocated to the maintenance portion is based on VSOE of fair value, which is the price charged for software maintenance services sold separately.

We follow the guidance in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for custom software development arrangements that require us to provide significant production, customization or modification to our core software. Revenue is generally recognized for such arrangements under the percentage of completion method. Under percentage of completion accounting, both the product license and custom software development revenue are recognized as work progresses based on specific milestones in accordance with paragraphs 85 through 91 of SOP 97-2. We believe that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. If custom programming services are sold as part of a contract with multiple elements, a portion of the contract revenue is allocated to the custom programming services based on VSOE of fair value. VSOE for custom programming services is determined based on the price charged for these services when they are sold separately.

The sale of third party hardware and software generally is billed as a separate deliverable under consulting or custom development contracts.

Installation, training and consulting revenue is recognized as the services are rendered. These services are accounted for separately per paragraph 65 of SOP 97-2. They include services that are not essential to the functionality of the software. They are usually billed separately; however, if they are included in a software agreement with multiple elements, a portion of the contract revenue is allocated to these services based on VSOE of fair value. VSOE is determined based on the price charged for these services when they are sold separately.

Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred revenue.

The Company follows the guidance provided by SEC Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements* and SAB No. 104 *Revenue Recognition* which provide guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC.

The application of SOP 97-2, as amended, requires judgment, including a determination that collectibility is probable and the fee is fixed and determinable. On occasion, we have approved extended payment arrangements for certain customers. In all cases except one, the extended payment arrangements did not exceed 120 days, therefore we considered collectibility to be probable as per paragraph 8 of SOP 97-2. The revenue for the sale of the software licenses to these customers was recognized upon delivery of the software, in accordance with paragraph 28 of SOP 97-2. In one case, a customer was allowed to pay a second installment at the end of twelve months. Since that software license expired at the end of twelve months, the revenue from the second installment payment was recognized at the time that payment became due, in accordance with paragraph 29 of SOP 97-2.

Income Taxes

Management evaluates the probability of the utilization of the deferred income tax assets. The Company has estimated a $8,754,000 deferred income tax asset at December 31, 2004, related primarily to net operating loss carryforwards at December 31, 2004. Management determined that because the Company has not yet generated taxable income it was not appropriate to recognize a deferred income tax asset related to the net operating loss carryforward. Therefore, the fully deferred income tax asset is offset by an equal valuation allowance. If the Company begins to generate taxable income, Management may determine that some, if not all of the deferred income tax asset may be recognized. Recognition of the asset could increase after tax income in the future. Management is required to make judgments and estimates related to the timing and utilization of net operating loss carryforwards, utilization of other deferred income tax assets, applicable tax rates and feasible tax planning strategies.

Goodwill

Goodwill was recognized in the Company s acquisition of Working Knowledge, Inc. In December 2004, based upon the Company s impairment analysis, the remainder of the goodwill was written off.

Stock Based Compensation

The Company grants stock awards and stock options to employees and non-employees as consideration for services. Management believes that the best indicator of value for stock awards is the trading value of the shares of stock on the date the Company enters into the agreements. For non-employees, that date is generally the date on which the company is committed to such an agreement. At times the Company may grant stock as payment for accrued but unpaid payroll. In these cases, the Company values the shares at the trading price on the date they are granted and reduces the payroll accrual by the same amount. We have elected to apply the intrinsic value method prescribed in APB No. 25 for stock options granted to employees. For options granted to non-employees, we estimate the value of those awards using the Black-Scholes option pricing model.

Contingencies

We are subject to the possibility of various law contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an assets or the incurrence of a liability, as well as our ability to reasonably estimate the amount of the loss contingencies.

At March 31, 2005, the Company is involved in litigation related to a dispute over the validity of the issuance of 150,000 of the Company s common stock warrants. The plaintiff has made a claim of damages of $1,500,000 against the Company. We believe that we have adequate defenses and counter claims and therefore we have not accrued for any potential loss on this case nor are the 150,000 warrants included in the number of our potentially dilutive securities at March 31, 2005.

The Company is paying past due payroll taxes of approximately $269,000 (including estimated penalties and interest) at a rate of $5,000 per month. The Company has accrued its estimate of interest and penalties of $75,000 on this past due amount. However, the Company has received notices from the IRS reflecting interest and penalty amounts greater than $75,000. The Company is close to negotiating an accelerated final settlement with the IRS. This will include the payment of the full amount owed to the IRS over a period of time. Negotiations are proceeding with the assistance of tax counsel.

Software Development Costs

We account for software development costs in accordance with SFAS No. 86 *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. Product research and development expenses consist primarily of personnel, outside consulting and related expenses for development, and systems personnel and consultants and are charged to operations as incurred until technological feasibility is established. The Company considers technological feasibility to be established when all planning, designing, coding and testing have been completed to design

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specifications. After technological feasibility is established, costs are capitalized. Historically, product development has been substantially completed with the establishment of technological feasibility and, accordingly, no costs have been capitalized.

RESULTS OF OPERATIONS

A summary of operating results for the three months ended March 31, 2005 and 2004 is as follows:

	2005		2004	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	$ 464,000	100.0%	$ 367,000	100.0%
Cost of service	131,000	28.2%	85,000	23.2%