NEW MEXICO SOFTWARE, INC
Form 10QSB
August 15, 2006
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarter ended June 30, 2006

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

NEW MEXICO SOFTWARE, INC.

(Exact name of Registrant as specified in charter)

NEVADA

(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

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

NUMBER OF SHARES OF THE REGISTRANT S COMMON STOCK OUTSTANDING AT AUGUST 10, 2006 IS: 65,269,766

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NMXS.com, Inc. and Subsidiaries

Consolidated Balance Sheets

(Rounded to the nearest thousand)

(UNAUDITED)

	June 30, 2006	2005
Assets		
Current assets:		
Cash and equivalents	$ 89,000	$
Accounts receivable, net	158,000	151,000
Inventory	39,000	5,000
Prepaid expenses and other assets	559,000	449,000
Total current assets	845,000	605,000
Furniture, equipment and improvements, net	93,000	76,000
Security deposits	9,000	11,000
	$ 947,000	$ 692,000
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 191,000	$ 149,000
Accrued expenses	340,000	486,000
Deferred revenue	37,000	42,000
Subscriptions payable	105,000	135,000
Notes payable	76,000	177,000
Total current liabilities	749,000	989,000
Stockholders equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized, 0 and 105 shares issued and outstanding as of 6/30/06 and 6/30/05, respectively		
Common stock, $0.001 par value, 200,000,000 shares authorized, 61,400,948 and 39,272,093 shares issued and outstanding as of 6/30/06 and 6/30/05, respectively	61,000	39,000
Additional paid-in capital	12,062,000	9,921,000
Deferred compensation	(318,000)	(316,000)

Accumulated (deficit)	(11,607,000)	(9,941,000)
Total stockholders equity	198,000	(297,000)
	$947,000	$692,000

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 June 30, 2006	2005	For the six months ended June 30, 2006	2005
Revenue				
Software sales and licenses	$68,000	$8,000	$97,000	$264,000
Software hosting and maintenance	103,000	102,000	227,000	183,000
Custom programming	32,000	18,000	43,000	68,000
XR-EXpress report fees	33,000		62,000	3,000
Scanning services		43,000	1,000	92,000
Hardware sales	10,000	(2,000)	14,000	23,000
Other		1,000	1,000	1,000
	246,000	170,000	445,000	634,000
Operating costs and expenses:				
Cost of services	124,000	125,000	225,000	256,000
General and administrative	644,000	288,000	1,059,000	547,000
Research and development	20,000	56,000	52,000	109,000
Total operating costs and expenses	788,000	469,000	1,336,000	912,000
Net operating income (loss)	(542,000)	(299,000)	(891,000)	(278,000)
Other income (expense):				
Interest income				
Interest (expense)	(7,000)	(4,000)	(17,000)	(12,000)
Gain (loss) on disposal of fixed assets				
Total other income (expense)	(7,000)	(4,000)	(17,000)	(12,000)
Net income (loss)	$(549,000)	$(303,000)	$(908,000)	$(290,000)
Earnings per share - basic and fully diluted	$(0.01)	$(0.01)	$(0.02)	$(0.01)
Weighted average number of common shares outstanding - basic and fully diluted	59,729,565	38,822,281	57,108,860	37,033,231

The accompanying notes are an integral part of these financial statements.

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NMXS.com, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Rounded to the nearest thousand)

(UNAUDITED)

	For the six months ended June 30, 2006	2005
Cash flows from operating activities		
Net income (loss)	$(908,000)	$(290,000)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Common stock issued for salaries	327,000	257,000
Common stock issued for services	336,000	62,000
Common stock issued for interest		1,000
Stock options issued for salaries	118,000	
Depreciation and amortization	16,000	26,000
Changes in operating assets and liabilities:		
Accounts receivable	(7,000)	(153,000)
Inventory	11,000	2,000
Prepaid expenses and other assets	48,000	12,000
Security deposits	4,000	
Accounts payable	39,000	27,000
Legal settlements	(150,000)	
Accrued expenses	(97,000)	47,000
Deferred revenue	(40,000)	(44,000)
Net cash (used) by operating activities	(303,000)	(53,000)
Cash flows from investing activities		
Acquisition of fixed assets	(38,000)	(17,000)
Disposal of fixed assets		
Net cash (used) by investing activities	(38,000)	(17,000)
Cash flows from financing activities		
Proceeds from notes payable		
Repayment of note payable	(25,000)	(24,000)
Subscriptions payable		
Net proceeds from the issuance of common stock	298,000	53,000
Net proceeds from warrants/options exercised		41,000
Net cash provided by financing activities	273,000	70,000
Net increase (decrease) in cash equivalents	(68,000)	
Cash equivalents - beginning	157,000	
Cash equivalents - ending	$89,000	$
Supplemental disclosures:		
Interest paid	$8,000	$6,000
Supplemental schedule of noncash operating and investing activities:		
Inventory converted to fixed asset	9,000	

The accompanying notes are an integral part of these financial statements.

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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, 2005 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: 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 scanning services, hardware sales, XR-EXpress customer usage fees, and other services such as consulting, training and installation. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2 *Software Revenue Recognition* as amended.

Revenue from proprietary software sales that does not require further commitment from the company is 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. 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. The Company typically charges 17% to 21% of the software purchase price for a 12-month maintenance contract with discounts available for longer-term agreements. The complexity of the software determines the percentage that is charged to any individual customer, and that percentage remains consistent upon renewal unless there is a change in the software or the terms of the agreement.

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. The Company sells some hosting contracts in conjunction with the sale of software, and some hosting contracts without an associated software sale. When the hosting arrangement is sold in conjunction with a software sale, the Company allocates a portion of the fee to the software license. Hosting services do not require the customer to purchase the software license, and for those hosting contracts that are sold without an associated software sale, the customer does not have the right or the ability to operate the software on its own.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. Fair values for the ongoing maintenance and support obligations are based upon separate sales of renewals of maintenance contracts. Fair value of services, such as training or consulting, is based upon separate sales of these services to other customers.

The Company follows the guidance in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for custom software development arrangements that require significant production, customization or modification to its 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 91 of SOP 97-2. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At June 30, 2006 there were no custom software development arrangements in progress.

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 quarters ended June 30, 2006 and 2005, the Company recognized $0 and $0 in revenue from barter transactions. At June 30, 2006, the Company had $545,000 in prepaid barter credits.

The Company also derives revenue from the sale of third party hardware, which is billed as a separate deliverable under consulting or custom development contracts. Revenue from installation, training and consulting services is recognized when the services are rendered. They include services that are not essential to the functionality of the software. If these services are included in a software agreement with multiple elements, amounts are allocated to these categories based on the estimated number of hours required to complete the work, which is the same criteria used to bill for the services separately.

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, the Company has approved extended payment arrangements for certain customers. These arrangements generally do not exceed 120 days, therefore collectibility is considered probable at the time of delivery. If an installment payment is allowed which exceeds twelve months, revenue for that installment is recognized at the time payment is received.

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.

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.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[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] Trade Accounts Receivable:

The Company extends unsecured credit to customers under normal trade agreements which generally require payment within 30 - 45 days. Accounts not paid within 15 days after their original due date are considered delinquent. Unless specified by the customer, payments are applied to the oldest unpaid invoice. Accounts receivable are presented at the amount billed.

The Company also estimates an allowance for doubtful accounts, which amounted to $15,000 and $40,000 at June 30, 2006 and 2005, respectively. The estimate is based upon management s review of all accounts and an assessment of the Company s historical evidence of collections. Specific accounts are charged directly to the reserve when management obtains evidence of a customer s insolvency. Charge-offs, net of recoveries, for the quarters ended June 30, 2006 and 2005 totaled $0 and $0, respectively.

[5] 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.

[6] 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.

[7] 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.

[8] 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 2,376,545 shares of common stock have been excluded from the diluted loss per share calculation for the quarter ended June 30, 2006, because inclusion of such would be antidilutive.

[9] Research and development expenses:

Costs of research and development activities are expensed as incurred.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $60,000 and $4,000 for the quarters ended June 30, 2006 and 2005, respectively.

[11] 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.

[12] Stock-based compensation:

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), effective January 1, 2006. SFAS 123R requires the recognition of the fair value of stock-based compensation in net income. Stock-based compensation primarily consists of stock options. Stock options are granted to employees at exercise prices equal to the fair market value of our stock at the dates of grant. The Company now recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. The Company provides newly issued shares to satisfy stock option exercises. There were no option awards granted in the six months ended June 30, 2006. However, prior option awards were not fully vested prior to January 1, 2006 and the effect of the implementation of SFAS 123R in the six-month period ended June 30, 2006 related to those awards was $118,000.

The following table summarizes the pro forma operating results of the Company for June 30, 2005 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
Net income as reported	(290,000)
Pro forma effects of stock-based compensation	(12,000)

Net (loss) pro forma	(302,000)
(Loss) per share as reported	($0.01)
Pro forma effects of stock-based compensation	
(Loss) per share pro forma	($0.01)

As of June 30, 2006, the Company has reserved 1,000,000 shares of its common stock for issuance upon exercise of stock options and warrants.

[13] Software development:

The Company accounts for computer software development costs in accordance with Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed . As such, all costs incurred prior to the product achieving technological feasibility are expensed as research and development costs. Technological feasibility is generally achieved upon satisfactory beta test results. Upon achieving technological feasibility, programming costs are capitalized and amortized over the economic useful live which is estimated to be two years. There were no capitalized software development costs as of June 30, 2006 and 2005.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE C - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of June 30, 2006 consisted of the following:

Computers	$ 351,000
Furniture, fixtures and equipment	112,000
Automobiles	38,000
Leasehold improvements	20,000
	521,000
Accumulated depreciation	(428,000)
	$ 93,000

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. In May 2005, the Company paid $25,000 of principal and $5,000 of interest. The remaining $114,000 was extended until October 15, 2005. In October 2005, the Company paid $25,000 in principal and $5,000 in interest. The remaining $88,000 was extended until April 15, 2006. In April 2006, the Company paid $25,000 in principal and $3,000 in interest. As of June 30, 2006, the Company had a balance due of $63,000 plus accrued interest of approximately $1,000.

In April 2002, the Company borrowed $12,500. The loan is due on demand and bears no interest. As of June 30, 2006, the Company had a balance due of $12,500.

NOTE E CAPITAL TRANSACTIONS

Common stock:

During the six month period ended June 30, 2006, the Company effected the following stock transactions:

The Company issued a total of 825,000 shares of its $0.001 par value common stock to Brian McGowan as part of a seven year consulting agreement in the amount of $73,000. The entire amount is considered deferred compensation. During the six months ended June 30, 2006, $45,000 of the compensation was earned.

The Company issued a total of 2,740,388 shares of the Company s $0.001 par value common stock to employees in lieu of salary, which was valued at $327,000.

The Company issued a total of 2,276,857 shares the Company s $0.001 par value common stock to outside contractors in exchange for services rendered of $216,000.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE E CAPITAL TRANSACTIONS (CONTINUED)

The Company issued a total of 1,428,571 shares of the Company s $0.001 par value common stock which were related to the conversion of 75 shares of Series A convertible preferred stock.

The Company issued a total of 3,014,091 shares of the Company s $0.001 par value common stock in exchange for cash of $298,000.

Warrants:

The following is a summary of warrants outstanding as of June 30, 2006:

Number of Warrants	**Exercise Price**	**Expiration Date**
1,161,545	$ 0.21	July 24, 2012
110,000	$ 0.25	July 24, 2008
700,000	$ 0.15	June 29, 2011

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 June 30, 2006 are as follows:

		Options Outstanding		**Options Exercisable**	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Prices**	**Number Exercisable**	**Weighted Average Exercise Price**
$0.06-$0.30	8,485,000	7.56	$0.08	3,485,000	$0.06
$0.31-$0.50	100,000	4.75	$0.39	100,000	$0.39

Summary of Options Granted and Outstanding:

	For the six months ended June 30, 2006 Shares	Weighted Average Exercise Price	2005 Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	8,879,500	$0.12	4,183,030	$0.08
Granted				
Cancelled	(294,500)	$0.22	(48,530)	$0.06
Exercised				
Outstanding at end of year	8,585,000	$0.12	4,134,500	$0.08

The weighted average remaining contractual lives in years for the options outstanding and exercisable on June 30, 2006 were 7.52 and 4.53, respectively.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE E CAPITAL TRANSACTIONS (CONTINUED)

Aggregate intrinsic value represents total pretax intrinsic value that would have been received by the option holders had all option holders exercised their options on June 30, 2006. This amount changes based on the fair market value of New Mexico Software s stock. The total intrinsic value of options outstanding as of June 30, 2006 was $205,090. The total intrinsic value of options exercisable on June 30, 2006 was $134,000. The total intrinsic value of options exercised for the second quarter of 2006 was 0. The Company issues new shares of common stock upon the exercise of stock options.

At June 30, 2006, 0 shares were available for future grants under the Company s 2005 Stock Compensation Plan.

At June 30, 2006, the Company had approximately $349,000 of total unamortized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 9.46 years.

NOTE F - RELATED PARTY TRANSACTIONS

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 June 30, 2006, he was paid a total of 5,500,000 shares of common stock, but he has earned only 3,000,000 shares and the difference of 2,500,000 shares is considered deferred compensation. During the six month period ended June 30, 2006, the Company has expensed $30,000 in consulting fees.

On October 4, 2005, the Company entered into a third consulting agreement with Brian McGowan to coordinate a number of material events for the purpose of presenting the Company and its products to potential investors and customers. The term of the agreement is for five years commencing on October 4, 2005 and terminating on September 30, 2010. Mr. McGowan will receive a total of 5,000,000 shares of the Company s $0.001 par value common stock valued at $450,000. As of June 30, 2006 he was paid a total of 2,625,000 shares of common stock, but he has earned only 750,000 shares and the difference of 1,875,000 shares is considered deferred compensation. During the six month period ended June 30, 2006, the Company has expensed $45,000 in consulting fees pursuant to this contract.

NOTE G- MAJOR CUSTOMERS

As of June 30, 2006, balances due from two customers comprised 33% of total accounts receivable.

NOTE H - REPORTABLE SEGMENTS

Management has identified the Company s reportable segments based on separate legal entities. At this time, Working Knowledge, Inc. includes the healthcare division, which is centered around the product XR-EXpress. Information related to the Company s reportable segments for the six months ended June 30, 2006 is as follows:

	NMS	WKI	Total
Revenue	$261,000	$184,000	$445,000
Cost of services	200,000	25,000	205,000
General and administrative	1,017,000	42,000	1,013,000
Research and development	52,000		73,000
Operating income (loss)	$(1,008,000)	$117,000	$(891,000)
Total assets	$820,000	$127,000	$947,000

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE H - REPORTABLE SEGMENTS (CONTINUED)

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

Segment s operating income	$(891,000)
Other income	(17,000)
Consolidated net loss/comprehensive loss	$(908,000)

For the six months ended June 30, 2006, amortization and depreciation expense amounted to $16,000 and $0 for NMS and WKI, respectively. Also, total fixed asset additions amounted to $28,000 and $10,000 for NMS and WKI, respectively, while fixed asset disposals amounted to $0 and $0 for NMS and WKI, respectively.

NOTE I COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico and California. Future minimum lease payments as of June 30, 2006 are as follows:

Year	**Amount**
2006	$ 37,000
2007	$ 60,000
2008	$ 60,000
2009	$ 20,000

Rent expense for the six months ended June 30, 2006 and 2005 amounted to $32,000 and $40,000, respectively.

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 $60,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $27,000 is included in general and administrative expenses for the six months ended June 30, 2006. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of June 30, 2006, there was a total of $113,000 in accrued payroll for this executive.

NOTE I COMMITMENTS AND CONTINGENCIES

Outstanding Payroll Taxes:

The Company has unpaid Federal and State payroll taxes totaling approximately $148,000 as of June 30, 2006, including assessed penalties and interest.

On September 1, 2005, the Company negotiated a final settlement with the IRS and agreed to pay $25,000 per month of past due payroll taxes plus the current amount due. During the six months ended June 30, 2006, the Company paid a total of $125,000 of past due payroll taxes.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE I COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. In November 2005, the Company began negotiations for a final settlement with the State of New Mexico. The Company has suspended payment on the remaining penalty and interest pending the results of these negotiations. No additional penalties or interest are accruing on this remaining balance.

NOTE J BARTER TRANSACTIONS

During the year ended December 31, 2005, the Company had two barter transactions totaling $600,000 for the sale of software to Forbes.com in return for advertising credits. In these barter transactions 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. During the six months ended June 30, 2006, the Company recognized approximately $55,000 in advertising expense related to these barter credits. 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.

On the comparative balance sheet provided as of June 30, 2005, the Company has reclassified $435,000 of barter credits to prepaid assets from accounts receivable for purposes of consistency between the two years.

NOTE K LEGAL PROCEEDINGS

Internal Revenue Service Payments: In September 2005 we negotiated a final settlement 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 agreed to pay $25,000 per month until the original past-due balance of $358,000 has been paid, as well as pay our current payroll taxes on time. During the six months ended June 30, 2006 we paid a total of $125,000 in past-due payroll taxes to the IRS. At June 30, 2006, the balance due to the IRS for these past-due taxes is approximately $148,000, including assessed penalties and interest. Our failure to make timely federal tax deposits will default this interim agreement and necessitate the filing of the lien.

Avodah Publishing, Inc.: On March 28, 2006 Avodah Publishing, Inc. filed a complaint in District Court in New Mexico for Breach of Contract. They are requesting $20,000 plus interest, attorney s fees and court costs pursuant to an advertising contract.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

OVERVIEW

We presently realize revenues from three primary sources: (i) software sales and license fees; (ii) software hosting and maintenance services; and (iii) custom programming. We occasionally realize revenues from hardware sales when a customer wants to process and store its data on its own site rather than on our servers and when a customer requires high-speed scanning capability to use our products. We also occasionally realize revenues from other services such as training and installation. Our products and services are designed principally for businesses enterprise level, rather than consumer use. Our typical customer enters into both a license agreement and an annual software maintenance contract covering access to product upgrades, fixes, patches and technical support. The contract may also provide for data hosting and custom programming.

Occasionally, we realize revenues from scanning services. Scanning services to date have been performed principally in an office we maintained in Santa Monica, California, which we closed in February 2006 when our scanning services were relocated to our home office in Albuquerque. We have decided to discontinue offering scanning as a separate service and continue to provide scanning only to our existing customers and to customers of our core products. We don t anticipate that scanning services will be a significant part of our future revenues.

Cost of products and services consists primarily of engineering salaries and related expenses, engineering supplies, hardware purchases and connectivity costs. General and administrative expenses consist primarily of salaries and benefits of personnel responsible for administration, business development, sales and marketing and reporting responsibilities, as well as general overhead expenses.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We license our software directly to the end users who are our customers. These licenses fall into two different categories: