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 June 30, 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 AUGUST 11, 2005 IS: 42,040,349.

TRANSFER AGENT AS OF AUGUST 11, 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)

	June 30, 2005	2004
Assets		
Current assets:		
Cash and equivalents	$	$ 56,000
Accounts receivable, net	586,000	602,000
Inventory	5,000	6,000
Prepaid expenses and other assets	14,000	41,000
Total current assets	605,000	705,000
Furniture, equipment and improvements, net	76,000	111,000
Security deposits	11,000	40,000
Goodwill, net		75,000
	$ 692,000	$ 931,000
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 149,000	$ 73,000
Accrued expenses	486,000	417,000
Deferred revenue	42,000	30,000
Subscriptions payable	135,000	71,000
Notes payable	177,000	301,000
Total current liabilities	989,000	892,000
Stockholders equity/(deficit):		
Preferred stock, $0.001 par value, 500,000 shares authorized, 95 and 135 shares issued and outstanding as of 6/30/05 and 6/30/04, respectively		
Common stock, $0.001 par value, 50,000,000 shares authorized, 39,272,093 and 30,827,479 shares issued and outstanding as of 6/30/05 and 6/30/04, respectively	39,000	31,000
Additional paid-in capital	9,921,000	9,017,000
Deferred compensation	(316,000)	(157,000)
Accumulated (deficit)	(9,941,000)	(8,852,000)
Total stockholders equity/(deficit)	(297,000)	39,000
	$ 692,000	$ 931,000

The accompanying notes are an integral part of these financial statements

NMXS.com, Inc. and Subsidiaries

Consolidated Statements of Operations

(Rounded to the nearest thousand)

(UNAUDITED)

	For the three months ended June 30, 2005	2004	For the six months ended June 30, 2005	2004
Revenue				
Software sales and maintenance	$103,000	$220,000	$432,000	$490,000
Custom programming	18,000	37,000	68,000	38,000
License fees	7,000	85,000	15,000	110,000
Scanning services	43,000	45,000	92,000	88,000
Hardware sales	(2,000)	22,000	23,000	50,000
Other	1,000		4,000	1,000
	170,000	409,000	634,000	777,000
Operating costs and expenses:				
Cost of services	125,000	90,000	256,000	175,000
General and administrative	288,000	205,000	547,000	440,000
Research and development	56,000	35,000	109,000	59,000
Total operating costs and expenses	469,000	330,000	912,000	674,000
Net operating income/(loss)	(299,000)	79,000	(278,000)	103,000
Other income (expense):				
Interest income				
Interest (expense)	(4,000)	(3,000)	(12,000)	(7,000)
(Loss) on disposal of fixed assets				
Total other income (expense)	(4,000)	(3,000)	(12,000)	(7,000)
Net income(loss)	$(303,000)	$76,000	$(290,000)	$96,000
Earnings per share - basic	$(0.01)	$0.00	$(0.01)	$0.00
Earnings per share - fully diluted	$(0.01)	$0.00	$(0.01)	$0.00
Weighted average number of common shares outstanding - basic	38,822,281	30,233,770	37,033,231	30,005,817
Weighted average number of common shares outstanding - fully diluted	38,822,281	35,820,049	37,033,231	35,083,248

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 six months ended June 30, 2005	2004
Cash flows from operating activities		
Net income	$(290,000)	$96,000
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Common stock issued for salaries	257,000	16,000
Common stock issued for services	62,000	21,000
Common stock issued for interest	1,000	
Depreciation and amortization	26,000	42,000
Changes in operating assets and liabilities:		
Accounts receivable	(153,000)	(152,000)
Inventory	2,000	(3,000)
Prepaid expenses and other assets	12,000	(20,000)
Security deposits		(1,000)
Accounts payable	27,000	(49,000)
Accrued expenses	47,000	(48,000)
Deferred revenue	(44,000)	(40,000)
Net cash (used) by operating activities	(53,000)	(138,000)
Cash flows from investing activities		
Acquisition of fixed assets	(17,000)	(12,000)
Disposal of fixed assets		
Net cash (used) by investing activities	(17,000)	(12,000)
Cash flows from financing activities		
Proceeds from notes payable		50,000
Repayment of note payable	(24,000)	(25,000)
Net proceeds from the issuance of common stock	53,000	170,000
Net proceeds from warrants/options exercised	41,000	
Net cash provided by financing activities	70,000	195,000
Net increase (decrease) in cash equivalents		45,000
Cash equivalents - beginning		11,000
Cash equivalents - ending	$	$56,000
Supplemental disclosures:		
Interest paid	$6,000	$

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 1,567,000 shares of common stock have been excluded from the diluted loss per share calculation for the year ended June 30, 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 $12,000 and $7,000 for the six months ended June 30, 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 six-month period ended June 30, 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 $79,000. The entire amount is considered deferred compensation. During the six months ended June 30, 2005, $30,000 of the compensation was earned.

The Company issued a total of 1,005,000 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 $131,000. The entire amount is considered deferred compensation. During the six months ended June 30, 2005, $25,000 of the compensation was earned.

The Company issued a total of 1,702,385 shares of the Company s $0.001 par value common stock to employees in lieu of salary, which was valued at $257,000.

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 $42,000 cash.

The Company issued a total of 640,000 shares of the Company s $0.001 par value common stock which were related to the conversion of 40 shares of Series A convertible preferred stock.

The Company issued a total of 1,193,066 shares of the Company s $0.001 par value common stock for cash in the amount of $132,000.

Warrants:

During the six-month period ended June 30, 2005 there were no warrants issued and 520,517 exercised.

The following is a summary of warrants outstanding as of June 30, 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 June 30, 2005 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
$0.10-$0.30	3,914,500	5.75	$0.06	3,310,167	$0.06
$0.31-$0.50	160,000	3.88	$0.36	160,000	$0.36
$0.54-$0.83	60,000	.83	$0.61	60,000	$0.61

Summary of Options Granted and Outstanding:

	For the six months ended June 30, 2005 Shares	Weighted Average Exercise Price	2004 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	(322,049)	$0.26
Exercised	-	-	-	-
Outstanding at end of year	4,134,500	$0.08	5,720,775	$0.12

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table summarizes the pro forma operating results of the Company for the six months ended June 30, 2005 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	(290,000)	96,000
Pro forma effects of stock-based compensation	(12,000)	(16,000)
Net (loss) pro forma	(303,000)	80,000
(Loss) per share as reported	($0.01)	$0.00
Pro forma effects of stock-based compensation	-	-
(Loss) per share pro forma	($0.01)	$0.00

As of June 30, 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 June 30, 2005 consisted of the following:

Computers	$ 313,000
Furniture, fixtures and equipment	112,000
Automobiles	38,000
Leasehold improvements	12,000
	475,000
Accumulated depreciation	(399,000)
	$ 76,000

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 $24,000 of principal and $6,000 of interest, and the remaining $114,112 was extended until October 15, 2005. As of June 30, 2005, the Company had a balance due of $114,000 plus accrued interest of $1,000.

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 June 30, 2005, 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 June 30, 2005, the Company had a balance due of $12,500.

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 June 30, 2005, he was paid a total of 5,500,000 shares of common stock, but he has earned only 2,000,000 shares and the difference of 3,500,000 shares is considered deferred compensation. During the six-month period ended June 30, 2005, the Company has expensed $30,000 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 June 30, 2005, the shareholder was paid a total of 1,005,000 shares of common stock, but he has earned only 192,000 shares and the difference of 813,000 shares is considered deferred compensation. During the six-month period ended June 30, 2005, the Company has expensed $25,000 in consulting fees.

NOTE F- MAJOR CUSTOMERS

During the six-month period ended June 30, 2005, two customers accounted for 60% of the Company's revenue. The Company recognized $300,000 as revenue and $0 as expense from barter agreements for the six-month period ended June 30, 2005.

As of June 30, 2005, balances due from two customers comprised 77% 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 six months ended June 30, 2005 is as follows:

	NMS	WKI	Total
Revenue	$ 615,000	$ 19,000	$ 634,000
Cost of services	229,000	27,000	256,000
General and administrative	537,000	10,000	547,000
Research and development	107,000		