

NEW MEXICO SOFTWARE, INC
Form 10-Q
August 14, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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
(I.R.S. Employer Identification No.)

5021 Indian School Road, Suite 100

Albuquerque, New Mexico 87110

(Address of principal executive offices) (Zip Code)

(505) 255-1999

(Registrant's telephone number, including area code)

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES NO

The number of shares outstanding of each of the issuer's classes of common stock at August 14, 2012 was 156,987,311.

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ITEM 1. FINANCIAL STATEMENTS

New Mexico Software, Inc.
Consolidated Balance Sheets
(Rounded to the nearest thousand)

| | June 30, 2012 (Unaudited) | December 31, 2011 |
|--|---------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 63,000 | \$ 100,000 |
| Accounts receivable, net | 596,000 | 463,000 |
| Inventory | 15,000 | - |
| Prepaid expenses and other assets | 149,000 | 41,000 |
| Total current assets | 823,000 | 604,000 |
| Furniture, equipment and improvements, net | | |
| | 66,000 | 75,000 |
| Security deposits | 4,000 | 4,000 |
| Total Assets | \$ 893,000 | \$ 683,000 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 587,000 | \$ 634,000 |
| Accrued expenses | 42,000 | 31,000 |
| Customer deposits | 12,000 | 3,000 |
| Deferred revenue | 13,000 | 15,000 |
| Notes payable | 136,000 | - |
| Notes payable - related party | 27,000 | 2,000 |
| Capital lease | 7,000 | 13,000 |
| Total current liabilities | 824,000 | 698,000 |
| Long-term liabilities | | |
| Capital lease - long-term portion | 3,000 | 4,000 |
| Total long-term liabilities | 3,000 | 4,000 |
| Total liabilities | 827,000 | 702,000 |
| Stockholders' equity (deficit): | | |
| Preferred stock, \$0.001 par value, 500,000 shares authorized, | | |

| | | |
|--|-------------------|-------------------|
| 0 shares issued and outstanding as of 6/30/12 | - | - |
| Common stock, \$0.001 par value, 200,000,000 shares authorized, 156,987,311 and 146,974,488 shares issued and outstanding as of 6/30/12 and 12/31/11, respectively | 157,000 | 147,000 |
| Paid-in capital | 15,389,000 | 15,159,000 |
| Subscriptions payable | 21,000 | 21,000 |
| Deferred compensation | (120,000) | - |
| Accumulated deficit | (15,381,000) | (15,346,000) |
| Total stockholders' equity (deficit) | 66,000 | (19,000) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 893,000 | \$ 683,000 |

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

New Mexico Software, Inc.
Consolidated Statements of Operations
(Rounded to the nearest thousand)
(Unaudited)

| | For the three months ended | | For the six months ended | |
|---|----------------------------|------------------|--------------------------|------------------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | | | | |
| Radiological services | \$ 798,000 | \$ 643,000 | \$ 1,602,000 | \$ 1,421,000 |
| Software usage fees | 90,000 | 77,000 | 175,000 | 176,000 |
| Cardiological services | 21,000 | 22,000 | 33,000 | 47,000 |
| Software hosting and maintenance | 11,000 | 16,000 | 22,000 | 39,000 |
| Specialist program services | 13,000 | - | 22,000 | - |
| Specialist program hardware sales | 16,000 | - | 16,000 | - |
| Custom programming services | 11,000 | - | 13,000 | - |
| Software sales and licenses | - | - | - | 11,000 |
| Gross revenues | 960,000 | 758,000 | 1,883,000 | 1,694,000 |
| Cost of services | 743,000 | 626,000 | 1,460,000 | 1,321,000 |
| Gross profit | 217,000 | 132,000 | 423,000 | 373,000 |
| Operating costs and expenses: | | | | |
| General and administrative | 202,000 | 181,000 | 395,000 | 363,000 |
| Legal fees | 4,000 | 7,000 | 13,000 | 33,000 |
| Depreciation and amortization | 4,000 | 4,000 | 9,000 | 8,000 |
| Research and development | 16,000 | 14,000 | 36,000 | 32,000 |
| Bad debt expense | - | 27,000 | - | 27,000 |
| Total operating costs and expenses | 226,000 | 233,000 | 453,000 | 463,000 |
| Net operating income (loss) | (9,000) | (101,000) | (30,000) | (90,000) |
| Other income (expense): | | | | |
| Interest expense | (3,000) | (3,000) | (5,000) | (4,000) |

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| | | | | |
|---|-------------|--------------|-------------|-------------|
| Total other income (expense) | (3,000) | (3,000) | (5,000) | (4,000) |
| Net income (loss) | \$ (12,000) | \$ (104,000) | \$ (35,000) | \$ (94,000) |
| Income (loss) per share - basic | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Weighted average number of common shares outstanding - fully diluted and basic | 155,173,109 | 144,935,594 | 151,123,798 | 144,639,619 |

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

New Mexico Software, Inc.
Consolidated Statements of Cash Flows
(Rounded to the nearest thousand)
(Unaudited)

| | For the six months ended June 30, | |
|---|--------------------------------------|-------------|
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ (35,000) | \$ (94,000) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Common stock issued for services to board members and officers | 40,000 | 30,000 |
| Executive services donated | 35,000 | - |
| Depreciation and amortization | 10,000 | 9,000 |
| Depreciation and amortization allocated to cost of goods sold | 4,000 | 3,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (133,000) | (41,000) |
| Inventory | (15,000) | - |
| Prepaid expenses and other assets | 45,000 | 25,000 |
| Accounts payable | (33,000) | (19,000) |
| Accrued expenses | 11,000 | 24,000 |
| Customer deposits | 9,000 | 6,000 |
| Deferred revenue | (2,000) | (4,000) |
| Net cash provided (used) by operating activities | (64,000) | (61,000) |
| Cash flows from investing activities | | |
| Acquisition of fixed assets | (5,000) | (12,000) |
| Net cash used by investing activities | (5,000) | (12,000) |
| Cash flows from financing activities | | |
| Proceeds from notes payable - related party | 25,000 | 2,000 |
| Repayment of notes payable | (31,000) | - |
| Repayment of principal under capital lease | (7,000) | (4,000) |
| Net proceeds from the issuance of common stock | 45,000 | - |
| Net cash provided by financing activities | 32,000 | (2,000) |
| Net increase in cash equivalents | (37,000) | (75,000) |
| Cash equivalents - beginning | 100,000 | 188,000 |
| Cash equivalents - ending | \$ 63,000 | \$ 113,000 |
| Supplemental disclosures: | | |
| Interest paid | \$ 3,000 | \$ 3,000 |

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| | | | | |
|-------------------------------------|----|---------|----|--------|
| Assets acquired under capital lease | \$ | - | \$ | 20,000 |
| Insurance contracts financed | \$ | 153,000 | \$ | - |

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

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE A - BASIS OF PRESENTATION

The interim 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 financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2011 and notes thereto included in the Company's Form 10-K. 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] Revenue recognition:

The Company's revenues are generally classified into six main categories: radiological services, software usage fees, software hosting and maintenance, cardiological services, specialist program services, and hardware sales associated with specialist program services. The Company also occasionally derives revenue from fees for customization or modification to our core software product, hardware sales associated with sales of our various software products, scanning services and other services such as consulting, training and installation. The Company recognizes revenue in

accordance with Statement of Position ASC Topic 985 *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, software maintenance, upgrade and support arrangements. 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.

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (continued):

Should the sale of 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 FASB ASC Topic 605, *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 FASB ASC Topic 450. 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, 2012 and June 30, 2011, there were no custom software development arrangements in progress.

The Company also occasionally derives revenue from the sale of third party hardware, which is billed as a separate deliverable under consulting or custom development contracts. Revenue from radiological services, radiological quality assurance (QA) services, software installation, and any training or consulting services is recognized when the services are rendered. These revenues 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. License revenue is recognized ratably over the term of the license.

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

The application of ASC 605, as amended, requires judgment, including a determination that collectibility is probable and the fee is fixed and determinable.

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.

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, doctors' fees, outside services, professional licenses and insurance, communication costs and supplies, is expensed as incurred.

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Cash and cash equivalents:

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2012, the Company had no cash and cash equivalents that exceeded federally insured limits.

[3] 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 \$32,000 and \$38,000 at June 30, 2012 and 2011, 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, amounted to \$0 and \$27,000 for the six months ended June 30, 2012 and 2011, respectively.

[4] Inventory:

Inventory, 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] 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 9,053,920 and 1,962,250 shares of common stock have been excluded from the diluted loss per share calculation for the years ended June 30, 2012 and 2011, respectively, because inclusion of such would be antidilutive.

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to \$0 and \$3,000 for the six months ended June 30, 2012 and 2011, respectively.

[8] 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.

[9] Stock-based compensation:

The Company adopted ASC Topic 505, Share-Based Payment, effective January 1, 2006. ASC 505 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 0 and 0 option awards granted to employees and directors in the six months ended June 30, 2012 and 2011, respectively. During the six months ended June 30, 2012 and 2011, the Company did not have expenses related to option grants to employees and directors.

[10] 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 life which is estimated to be two years. There were no capitalized software development costs as of June 30, 2012 and 2011.

[11] Recent pronouncements:

The Company's management has reviewed all of the FASB's Accounting Standard Updates through June 30, 2012 and has concluded that none will have a material impact on the Company's financial statements. Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying consolidated financial statements.

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE C - GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of approximately \$15,381,000 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company's ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of June 30, 2012 consisted of the following:

| | |
|-----------------------------------|------------------|
| Computers | \$ 478,000 |
| Furniture, fixtures and equipment | 130,000 |
| Automobiles | 41,000 |
| Leasehold improvements | <u>20,000</u> |
| | 669,000 |
| Accumulated depreciation | <u>(603,000)</u> |
| | <u>\$ 66,000</u> |

Depreciation expense for the six months ended June 30, 2012 and 2011 was \$14,000 and \$12,000, respectively.

NOTE E - NOTES PAYABLE

Notes Payable:

During the six months ended June 30, 2012, the Company financed various insurance premiums in the amount of \$153,000. The notes bear interest rates ranging from 7.0% to 10.25%, are payable in monthly principal and interest payments ranging from \$200 to \$14,000 with maturity dates beginning in December 2012 through March 2013. As of June 30, 2012, these notes totaled \$136,000.

Notes Payable - Related Party:

On May 1, 2012, the Company received a \$25,000 loan from a director of the Company. The loan bears interest at 7% per annum with principal and interest payable on or before April 30, 2013. As of June 30, 2012, the Company also owes \$2,000 to the same director. This loan is non interest bearing and due on demand.

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE F - CAPITAL TRANSACTIONS

Common stock:

During the six month period ended June 30, 2012, the Company effected the following stock transactions:

The Company issued a total of 1,500,000 shares of the Company's \$0.001 par value common stock to a director for the exercise of options in exchange for cash of \$45,000.

The Company issued a total of 8,000,000 shares of the Company's \$0.001 par value common stock to directors in exchange for services for 2012 and 2013 valued at \$160,000. These services will be performed over two years. Accordingly, deferred compensation of \$120,000 was recorded as of June 30, 2012. The Company expensed \$40,000 during the six months ended June 30, 2012.

Warrants:

During the six month period ended June 30, 2012, there were no warrants issued and none were exercised.

There are no warrants outstanding as of June 30, 2012.

Stock options:

Stock options employees and directors - During the six months ended June 30, 2012 and 2011, the Company made no grants of stock options to employees or directors.

Stock options non-employees and directors - During the six months ended June 30, 2012 and 2011, the Company made no grants of stock options for services.

Exercise prices and weighted-average contractual lives of stock options outstanding as of June 30, 2012, are as follows:

| Exercise Prices | Options Outstanding | | Weighted Average Exercise Prices | Options Exercisable | |
|-----------------|---------------------|----------------------------|----------------------------------|---------------------|---------------------------------|
| | Number Outstanding | Remaining Contractual Life | | Number Exercisable | Weighted Average Exercise Price |
| \$0.01-\$0.049 | 8,000,000 | 4.4 | \$0.03 | 8,000,000 | \$0.03 |
| \$0.05-\$0.30 | 1,053,920 | 1.2 | \$0.06 | 1,053,920 | \$0.06 |

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE F - CAPITAL TRANSACTIONS (CONTINUED)

Summary of Options Granted and Outstanding:

| | For the six months ended | |
|----------------------------------|--------------------------|------------------|
| | June 30, 2012 | Weighted Average |
| | Shares | Exercise Price |
| Options: | | |
| Outstanding at beginning of year | 10,962,250 | \$0.04 |
| Granted | - | - |
| Cancelled | (408,330) | \$0.06 |
| Exercised | (1,500,000) | - |
| Outstanding at end of period | 9,053,920 | \$0.03 |

NOTE G - MAJOR CUSTOMERS

During the six month period ended June 30, 2012, one customer accounted for 30% or approximately \$567,000 of the Company's revenue.

As of June 30, 2012, balances due from one customer comprised 28% or approximately \$174,000 of total accounts receivable.

NOTE H - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate lines of business. The parent company, New Mexico Software, operates under the trade name Net Medical Xpress Solutions, and derives revenues from the development and marketing of proprietary internet technology-based software. The Company's wholly-owned subsidiary Telerad Service, Inc., operates under the trade names Net Medical Xpress Services and Net Medical Xpress Specialists. Net Medical Xpress Services provides medical diagnostic reading services. Net Medical Xpress Specialists provides telemedicine services to remote hospitals and other medical entities.

Information related to the Company's reportable segments for the six months ended June 30, 2012 is as follows:

| | <u>Solutions</u> | <u>Services</u> | <u>Specialists</u> | <u>TOTAL</u> |
|----------------------------|------------------|-----------------|--------------------|--------------|
| Revenue | \$ 210,000 | \$ 1,635,000 | \$ 38,000 | \$ 1,883,000 |
| Cost of services | 126,000 | 1,299,000 | 35,000 | 1,460,000 |
| General and administrative | 164,000 | 206,000 | 25,000 | 395,000 |
| Legal expenses | 13,000 | - | - | 13,000 |
| Depreciation | 5,000 | 4,000 | - | 9,000 |
| Research and development | 31,000 | - | 5,000 | 36,000 |
| Operating income (loss) | \$ (129,000) | \$ 126,000 | \$ (27,000) | \$ (30,000) |

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE H - REPORTABLE SEGMENTS (CONTINUED)

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

| | |
|----------------------------|--------------------|
| Segment s operating income | \$ (30,000) |
| Other income (expense) | (5,000) |
| Consolidated net income | <u>\$ (35,000)</u> |

Information related to the Company s reportable segments for the quarter ended June 30, 2012 is as follows:

| | <u>Solutions</u> | <u>Services</u> | <u>Specialists</u> | <u>TOTAL</u> |
|----------------------------|------------------|-----------------|--------------------|--------------|
| Revenue | \$ 112,000 | \$ 819,000 | \$ 29,000 | \$ 960,000 |
| Cost of services | 65,000 | 650,000 | 28,000 | 743,000 |
| General and administrative | 37,000 | 141,000 | 24,000 | 202,000 |
| Legal expenses | 4,000 | - | - | 4,000 |
| Depreciation | 2,000 | 2,000 | - | 4,000 |
| Research and development | 15,000 | - | 1,000 | 16,000 |
| Operating income (loss) | \$ (11,000) | \$ 26,000 | \$ (24,000) | \$ (9,000) |

NOTE I - COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico expiring on April 30, 2014. The Company also leases computer equipment with lease expiration dates ranging from November 2012 to March 2013, and office equipment with a lease expiration date of June 2014. Future minimum lease payments as of June 30, 2012, are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2012 | \$ 37,000 |
| 2013 | 63,000 |
| 2014 | 21,000 |

Rent expense for the six months ended June 30, 2012 and 2011 amounted to \$32,000 and \$32,000, respectively.

New Mexico Software, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2010. 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 \$30,000 is included in general and administrative expenses for the three months ended June 30, 2012. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of June 30, 2012, there was a total of \$0 in accrued payroll for this executive. During the six months ended June 30, 2012, the executive contributed services valued at \$17,000.

NOTE J - LEGAL PROCEEDINGS

On February 18, 2009, Premier Medical Enterprise Solutions, Inc. (Premier) filed a complaint in the US District Court in Albuquerque, New Mexico against us and our chief executive officer. Prior to filing of the suit, Premier had been a slow paying customer. When it filed suit, it ceased all payments for services even though we were unable to discontinue services to Premier because of the nature of its suit against us. On January 23, 2012, the court awarded judgment to New Mexico Software in the amount of \$636,606 for payment of services, legal fees and costs. The court had previously dismissed Premier's claims against our chief executive officer. We are pursuing collection of the judgment against Premier, its principals and its successor which appears to have taken an assignment of Premier's business without consideration.

NOTE K - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 14, 2012, the date which it has made its financial statements available, and has identified no significant reportable events through that date.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

OVERVIEW

To more accurately reflect the range of our services and our commitment to the telemedicine market, we are using the following trade names for our services: Net Medical Xpress Solutions, Net Medical Xpress Services and Net Medical Xpress Specialists.

The parent company, New Mexico Software, Inc., operates under the trade name Net Medical Xpress Solutions, and derives revenues from the development and marketing of proprietary internet technology-based software. All revenues and costs from the software aspect of the business are included in this division.

Our wholly-owned subsidiary, Telerad Service, Inc., operates under the trade names Net Medical Xpress Services and Net Medical Xpress Specialists. Net Medical Xpress Services provides medical diagnostic reading services. We currently have revenues and costs from radiological and cardiological services in this division.

Net Medical Xpress Specialists is our clinical division that provides telemedicine services to rural hospitals and other medical services providers. We currently employ credentialed specialists in the field of neurology. We facilitate real-time assessment of patients through a virtual examination via video conferencing combined with our medical software. We currently have revenues and costs for neurology/stroke assessment in this division.

Through June 30, 2012, we have realized revenues from six primary sources:

1.
radiological services
2.
software usage fees
3.
cardiology services
- 4.

specialist program services

5.

software hosting and maintenance

6.

hardware sales associated with specialist program services

We also occasionally realize revenues from custom programming services and software sales.

Gross profit is our key indicator of operating progress. The gross profit percentages for our business segments, as detailed in the Reportable Segments section below, were as follows for the second quarter of 2012:

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Net Medical Xpress Solutions - 40% - software usage fees, software hosting and maintenance services

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Net Medical Xpress Services - 21% - radiological services, cardiological services

.

Net Medical Xpress Specialists - 8% - specialist program services

Our overall gross profit percentage for all business segments for the first half of 2012 was 22%.

Approximately 75% of our cost of services is doctor fees, which are directly related to the revenues in the Services and Specialists divisions. This direct relationship between revenues and cost of sales will result in a fairly stable gross profit percentage over time. However, we expect the gross profit percentage for the specialist programs to be approximately 30 - 50% higher than that of the services division. Therefore, as the specialist program grows and develops during 2012, we expect our overall gross profit percentage to increase slightly.

Our normal general and administrative expenses (including depreciation, R&D and interest expense, but not including legal fees related to the legal proceedings which were concluded in the first quarter as described in Part II) continue to be approximately \$200,000 to \$250,000 per quarter.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States 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

With each sale of our enterprise-level 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.

Software maintenance consists primarily of hosting and managing our customers' data on our servers, as well as technical support programs for our products. Software usage comprises any charges for actual usage of our software.

Currently, software usage consists of fees for customers using our XR-EXpress medical software. It is billed as a fee for each report generated by the software for the customer. These fees do not include the services of a doctor; they only include the use of our software, because the customers employ their own doctors to read and report on the images. As such, these fees are separate from the fees for Net Medical Xpress Services and Net Medical Xpress Specialists. In these business segments, we provide the doctors who perform the various medical services.

Our software recognition policies are in accordance with the ASC Topic 985, *Software Revenue Recognition* as amended. Revenue is recognized when (a) persuasive evidence of an arrangement exists, (b) delivery has occurred, (c) the fee is fixed or determinable, and (d) collectibility is probable. We follow the guidance in ASC Topic 605, *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. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred revenue.

We follow 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. Revenue from radiological services, software installation, training and consulting services is recognized when the services are rendered.

Software Development Costs

We account for software development costs in accordance with ASC Topic 985, *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. We consider technological feasibility to be established when all planning, designing, coding and testing have been completed to design 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.

See Note B to our Consolidated Financial Statements for a full discussion of our critical accounting policies and estimates.

RESULTS OF OPERATIONS

Revenues:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-----------|-----------|---------------------|-------------------|
| \$960,000 | \$758,000 | \$202,000 | 26.6% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-------------|-------------|---------------------|-------------------|
| \$1,883,000 | \$1,694,000 | \$189,000 | 11.1% |

These changes are a result of the following factors:

1. Radiological services:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-----------|-----------|---------------------|-------------------|
| \$798,000 | \$643,000 | \$155,000 | 24.1% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-------------|-------------|---------------------|-------------------|
| \$1,602,000 | \$1,421,000 | \$181,000 | 12.7% |

The increase in radiological services revenues during the three months and six months ended June 30, 2012 is primarily due to increased volume of usage by existing customers during the first half of 2012 as compared to the first half of 2011.

2. Software usage fees:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|----------|---------------------|-------------------|
| \$90,000 | \$77,000 | \$13,000 | 16.9% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-----------|-----------|---------------------|-------------------|
| \$175,000 | \$176,000 | \$(1,000) | (0.6)% |

The increase in software usage fees for the second quarter of 2012 is primarily due to increased usage by existing customers. This increase is coupled with a decrease during the first quarter of 2012 due to the loss of one customer during the end of 2011, resulting in no significant change for the first six months of 2012 as compared to the first six months of 2011.

3. Cardiological services:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|----------|---------------------|-------------------|
| \$21,000 | \$22,000 | \$(1,000) | (4.5)% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|----------|---------------------|-------------------|
| \$33,000 | \$47,000 | \$(14,000) | (29.8)% |

The decrease in cardiological service revenues during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011 is mainly due to two customers that ceased reading echocardiograms with us.

4. Software hosting and maintenance:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|----------|---------------------|-------------------|
| \$11,000 | \$16,000 | \$(5,000) | (31.3)% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|----------|---------------------|-------------------|
| \$22,000 | \$39,000 | (17,000) | (43.6)% |

This decrease is a result of our increased focus on our medical division and our decreased focus on software hosting services and services requiring technical support contracts. All of our new customers are using our medical software (we charge usage fees for the medical software, rather than hosting fees). Software maintenance now consists mainly of a few remaining technical support contracts. We expect revenues in this category to continue to decrease slightly during the remainder of 2012, as we continue to focus our efforts on growing our medical division.

5. Specialist program services:

For the Three Months Ended June 30,

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| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|------|---------------------|-------------------|
| \$13,000 | \$0 | \$13,000 | not meaningful |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|------|---------------------|-------------------|
| \$22,000 | \$0 | \$22,000 | not meaningful |

Our specialist program began operations during the first quarter of 2012 with a neurology/stroke assessment program at a regional hospital in New Mexico. Several more hospitals will become active during the third and fourth quarters of 2012, resulting in continued revenue growth in this category. Since the primary target market for this service is small rural hospitals, we expect that the main growth will come from the regular addition of new customers, rather than large customers with high volumes of transactions.

6. Specialist program hardware sales:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|------|---------------------|-------------------|
| \$16,000 | \$0 | \$16,000 | not meaningful |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|----------|------|---------------------|-------------------|
| \$16,000 | \$0 | \$16,000 | not meaningful |

Most new customers in the specialist program will be purchasing the videoconferencing hardware necessary for remote diagnoses. These will be mostly one-time purchases for new customers, with few purchases anticipated after the initial purchase. We expect revenues in this category to increase during the remainder of 2012 and into 2013 as we add new customers in the specialist program.

7. Other revenues:

For the Three Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|---------------------------|----------|------|---------------------|-------------------|
| Custom programming | \$11,000 | \$0 | \$11,000 | not meaningful |
| Software sales & licenses | \$0 | \$0 | \$0 | 0.0% |

For the Six Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|---------------------------|----------|----------|---------------------|-------------------|
| Custom programming | \$13,000 | \$0 | \$13,000 | not meaningful |
| Software sales & licenses | \$0 | \$11,000 | \$(11,000) | 100.0% |

We have performed several small custom programming projects during the first half of 2012. We anticipate undertaking a few small and medium-sized projects that may generate a modest increase in revenues in this category during the second half of 2012. We continue to offer programming services for customer database integration, and for other projects for our existing and new customers.

The decrease in software sales and licenses is due to a software upgrade for one customer during the first quarter of 2011 and is not likely to be repeated during 2012.

Cost of services:

For the Three Months Ended June 30,

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| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-----------|-----------|---------------------|-------------------|
| \$743,000 | \$626,000 | \$117,000 | 18.7% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-------------|-------------|---------------------|-------------------|
| \$1,460,000 | \$1,321,000 | \$139,000 | 10.5% |

Approximately 90% of the cost of services for the six months ended June 30, 2012 is related to telemedicine services. These costs consist of radiologist fees, cardiologist fees, neurologist fees, customer support staff, professional credentialing and professional liability insurance costs. Over 80% of these costs are directly related to revenues; as a result, they have increased primarily as the telecardiology revenues have increased during the first half of 2012.

General and administrative expenses:

For the Three Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-----------|-----------|-----------|---------------------|-------------------|
| Legal | \$4,000 | \$7,000 | \$(3,000) | (42.9)% |
| Other G&A | \$202,000 | \$181,000 | \$21,000 | 11.6% |

For the Six Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|-----------|-----------|-----------|---------------------|-------------------|
| Legal | \$13,000 | \$33,000 | \$(20,000) | (60.6)% |
| Other G&A | \$395,000 | \$363,000 | \$32,000 | 8.8% |

The decrease in legal expenses is due to the reduced activity during the current six month period in the legal proceedings described in Part II, Item 1 below. We are currently pursuing collection of the judgment awarded to us, which could possibly result in further legal fees during the second half of 2012.

The increase in other general and administrative expenses for the first half of 2012

as compared to the first half of 2011 is due to a number of factors: approximately \$15,000 is due to the hiring of additional administrative staff during the fourth quarter of 2011 to handle the increased credentialing and administrative activities, as well as hiring sales staff during the first half of 2012; approximately \$5,000 is to the result of increased credit card fees since we began allowing our Telerad Service customers to pay their account balances with credit cards during the fourth quarter of 2010; and approximately \$14,000 is due to increased marketing and travel expenses related to marketing our specialist program at trade shows.

Research and development costs:

For the Three Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|--|----------|----------|---------------------|-------------------|
| | \$16,000 | \$14,000 | \$2,000 | 14.3% |

For the Six Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|--|----------|----------|---------------------|-------------------|
| | \$36,000 | \$32,000 | \$4,000 | 12.5% |

The increase in research and development costs during the three months and six months ended June 30, 2012 as compared to the three months and six months ended June 30, 2011 is due to equipment purchases as part of our efforts to upgrade our infrastructure, including the equipment used for research and development purposes.

During the first half of 2012, approximately 80% of our research and development costs were directly associated with staffing. In the software industry it is common for research and development costs to be ongoing, since development of the next version of the software begins as soon as the current version is completed. In addition, we are constantly developing new applications for our existing software that require modification. Management anticipates that research and development costs in the future will focus both on the upgrading of our existing products and the continued development of new products using our core technology; therefore they will remain relatively steady during the coming year.

Depreciation:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|---------|---------|---------------------|-------------------|
| \$4,000 | \$4,000 | \$0 | 0% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|---------|---------|---------------------|-------------------|
| \$9,000 | \$8,000 | \$1,000 | 12.5% |

The increase in depreciation expense for the six months ended June 30, 2012 is due to the leasing of new servers and office equipment during the second half of 2011.

Bad debt expense:

For the Three Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|------|----------|---------------------|-------------------|
| \$0 | \$27,000 | \$(27,000) | (100.0)% |

For the Six Months Ended June 30,

| 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|------|----------|---------------------|-------------------|
| \$0 | \$27,000 | \$(27,000) | (100.0)% |

This decrease is due to the determination that certain customer accounts had become uncollectible during the three months ended June 30, 2011. We have determined that no material account balances are uncollectible at June 30, 2012.

Other income (expense):

For the Three Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|------------------|---------|---------|---------------------|-------------------|
| Interest expense | \$3,000 | \$3,000 | \$0 | 0% |

For the Six Months Ended June 30,

| | 2012 | 2011 | Increase (Decrease) | Percent Inc (Dec) |
|------------------|---------|---------|---------------------|-------------------|
| Interest expense | \$5,000 | \$4,000 | \$1,000 | 25.0% |

The increase in interest expense for the first half of 2012 as compared to the first half of 2011 is primarily associated with the increase in capital leases during the second half of 2011.

REPORTABLE SEGMENTS

We have identified the Company's reportable segments based on separate lines of business. Our parent company, New Mexico Software, operates under the trade name Net Medical Xpress Solutions, and derives revenues from the development and marketing of proprietary internet technology-based software. Our wholly-owned subsidiary, Telerad Service, Inc., operates under the trade names Net Medical Xpress Services and Net Medical Xpress Specialists. Net Medical Xpress Services provides medical diagnostic reading services. Net Medical Xpress Specialists provides clinical telemedicine services to rural hospitals and other medical services providers.

Information related to our reportable segments for the six months ended June 30, 2012 is as follows:

| | <u>Solutions</u> | <u>Services</u> | <u>Specialists</u> | <u>TOTAL</u> |
|----------------------------|------------------|-----------------|--------------------|--------------|
| Revenue | \$ 210,000 | \$ 1,635,000 | \$ 38,000 | \$ 1,883,000 |
| Cost of services | 126,000 | 1,299,000 | 35,000 | 1,460,000 |
| General and administrative | 164,000 | 206,000 | 25,000 | 395,000 |
| Legal expenses | 13,000 | - | - | 13,000 |
| Depreciation | 5,000 | 4,000 | - | 9,000 |
| Research and development | 31,000 | - | 5,000 | 36,000 |
| Operating income (loss) | \$ (129,000) | \$ 126,000 | \$ (27,000) | \$ (30,000) |
| Total assets | \$ 183,000 | \$ 700,000 | \$ 10,000 | \$ 893,000 |

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

| | |
|----------------------------|--------------------|
| Segment s operating income | \$ (30,000) |
| Other income (expense) | (5,000) |
| Consolidated net income | <u>\$ (35,000)</u> |

Information related to our reportable segments for the quarter ended June 30, 2012 is as follows:

| | <u>Solutions</u> | <u>Services</u> | <u>Specialists</u> | <u>TOTAL</u> |
|----------------------------|------------------|-----------------|--------------------|--------------|
| Revenue | \$ 112,000 | \$ 819,000 | \$ 29,000 | \$ 960,000 |
| Cost of services | 65,000 | 650,000 | 28,000 | 743,000 |
| General and administrative | 37,000 | 141,000 | 24,000 | 202,000 |
| Legal expenses | 4,000 | - | - | 4,000 |
| Depreciation | 2,000 | 2,000 | - | 4,000 |
| Research and development | 15,000 | - | 1,000 | 16,000 |
| Operating income (loss) | \$ (11,000) | \$ 26,000 | \$ (24,000) | \$ (9,000) |

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2012, cash and cash equivalents totaled \$63,000, representing a \$37,000 decrease from December 31, 2011. This decrease in available cash was due to the following factors during the period:

Operating activities:

For the Six Months Ended June 30,

| 2012 | 2011 | Inc (Dec) in available cash |
|---------------|---------------|-----------------------------|
| used \$64,000 | used \$61,000 | \$(3,000) |

The increase in available cash from operations during the first half of 2012 as compared to the first half of 2011 is mainly due to a combination of the following factors:

.
a \$59,000 increase in available cash due to net loss of \$35,000 during the first six months of 2012 as compared to net loss of \$94,000 during the first half of 2011

.
a \$35,000 increase in available cash due to executive services donated during the first half of 2012

.
a \$92,000 decrease in available cash due to the increase in accounts receivable during the first half of 2012 as compared to the first half of 2011.

Investing activities:

For the Six Months Ended June,

| 2012 | 2011 | Inc (Dec) in available cash |
|--------------|---------------|-----------------------------|
| used \$5,000 | used \$12,000 | \$7,000 |

We purchased \$5,000 of computer equipment during the first half of 2012 as compared to \$12,000 during the first half of 2011.

Financing activities:

For the Six Months Ended June 30,

| 2012 | 2011 | Inc (Dec) in available cash |
|-------------------|--------------|-----------------------------|
| provided \$32,000 | used \$2,000 | \$30,000 |

This increase is primarily due to the issuance of stock for \$45,000 cash and the proceeds from a note payable from a related party of \$25,000 during the first half of 2012, offset by payments of notes payable totaling \$31,000.

We do not currently have material commitments for capital expenditures and do not anticipate entering into any such commitments during the next twelve months. Our current commitments consist primarily of lease obligations for office space, computer equipment and a vehicle.

At June 30, 2012, we had a working capital deficit of \$1,000 as opposed to a working capital deficit of \$13,000 at the beginning of the period, an increase in working capital of \$12,000. We may continue to sell equity securities and incur debt as needed to meet our operating needs during 2012.

We anticipate that our primary uses of cash in the next year will continue to be for general operating purposes. We anticipate our operating cash requirements for the next twelve months again to be in the range of \$4,000,000 to \$5,000,000. This level of cash flow will allow us to maintain our current level of operations and allow for modest growth. Profitability remains our primary goal.

OFF-BALANCE SHEET ARRANGEMENTS

We currently have no off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

This report contains statements that plan for or anticipate the future. Forward-looking statements include statements about the future of operations involving the marketing and maintenance of products which manage large volumes of media or digital material, statements about our future business plans and strategies, and most other statements that are not historical in nature. In this report forward-looking statements are generally identified by the words anticipate, plan, believe, expect, estimate, and the like. Although management believes that any forward-looking statements it makes in this report are reasonable, because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements include the following:

.

Rapid changes in technology relating to the Internet

.

Continued growth and use of the Internet

.

Changes in government regulations

.

Changes in our business strategies

.

Hardware failure of a catastrophic proportion

.

Terrorist interference with the operation of the Internet or effects of terrorist activities on the economy

.

Difficulty recruiting and retaining staff of sufficient technical caliber to provide adequate and on-going customer support and product maintenance and development

.

Failure to successfully market our products through the Internet and our representatives

.

Inability to locate sources to retire our line of credit or to obtain alternative lending sources

.

Inability to solve cash flow problems

In light of the significant uncertainties inherent in the forward-looking statements made in this report, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

307 - Disclosure controls and procedures: As of June 30, 2012, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, with the participation of our principal executive and principal financial officers. Disclosure controls and procedures are defined in Exchange Act Rule 15d-15(e) as controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms [and] include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on our evaluation, our President/Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2012, such disclosure controls and procedures were not effective. The primary reasons for management's conclusions are that we did not have a plan in place for implementing controls and procedures and insufficient personnel to implement checks and balances. We believe that we will not have sufficient funds available to develop a plan in the foreseeable future. We do not anticipate that our business will need sufficient personnel in the foreseeable future that are needed to implement checks and balances.

308(c) - Changes in internal control over financial reporting: Based upon an evaluation by our management of our internal control over financial reporting, with the participation of our principal executive and principal financial officers, there were no changes made in our internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected or are reasonably likely to materially affect this control.

Limitations on the Effectiveness of Internal Control: Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also

based in part upon certain assumptions about risks and the likelihood of future events, and there is no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances and the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

PART II

ITEM 1. LEGAL PROCEEDINGS

On February 18, 2009, Premier Medical Enterprise Solutions, Inc. (Premier) filed a complaint in the US District Court in Albuquerque, New Mexico against us and our chief executive officer. Prior to filing of the suit, Premier had been a slow paying customer. When it filed suit, it ceased all payments for services even though we were unable to discontinue services to Premier because of the nature of its suit against us. On January 23, 2012, the court awarded judgment to New Mexico Software in the amount of \$636,606 for payment of services, legal fees and costs. The court had previously dismissed Premier's claims against our chief executive officer. We are pursuing collection of the judgment against Premier, its principals and its successor which appears to have taken an assignment of Premier's business without consideration.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are attached to this report:

| | |
|------|---|
| 31.1 | Rule 15d-14 (a) Certification by Principal Executive Officer |
| 31.2 | Rule 15d-14 (a) Certification by Principal Financial Officer |
| 32 | Section 1350 Certification of Principal Executive Officer and Principal Financial Officer |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW MEXICO SOFTWARE, INC.

Date: August 14, 2012

By /s/ Richard F. Govatski
Richard F. Govatski, President

Date: August 14, 2012

By /s/ Teresa B. Dickey
Teresa B. Dickey, Treasurer (Principal
Financial Officer)

