NMXS COM INC
Form SB-2/A
November 04, 2004

**As filed with the Securities and Exchange Commission on**

November 3, 2004

**REGISTRATION NO.**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 4 TO FORM SB-2**

**REGISTRATION STATEMENT**

**UNDER THE**

**SECURITIES ACT OF 1933**

**NMXS.COM, INC.**

(Name of Small Business Issuer in its Charter)

| | | |
|---|---|---|
| DELAWARE | 7389 | 91-1287406 |

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(State or other jurisdiction (Primary Standard Industrial (I.R.S. Employer

of Classification Code Number) Identification No.)

incorporation or organization)

5021 Indian School Road, Suite 100

Albuquerque, New Mexico 87110

(505) 255-1999

(Address, including zip code, and telephone number, including

area code,

of registrant's principal executive offices)

**RICHARD GOVATSKI**

**PRESIDENT AND DIRECTOR**

**NMXS.COM, INC.**

**5021 INDIAN SCHOOL ROAD, SUITE 100**

**ALBUQUERQUE, NEW MEXICO 87110**

(505) 255-1999

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of communications to:

**RICHARD I. ANSLOW, ESQ.**

**ANSLOW & JACLIN, LLP**

**195 ROUTE 9 SOUTH, SUITE 204**

**MANALAPAN, NEW JERSEY 07726**

TELEPHONE NO.: (732) 409-1212

FACSIMILE NO.: (732) 577-1188

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. |X|

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this Form is a post-effective amendment filed pursuant to Rule

462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If this Form is a post-effective amendment filed pursuant to Rule

462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |_|

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. |_|

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**CALCULATION OF REGISTRATION FEE**

| | | PROPOSED MAXIMUM | PROPOSED MAXIMUM | AMOUNT OF |
|---|---|---|---|---|
| TITLE OF EACH CLASS OF | AMOUNT TO BE | OFFERING PRICE | AGGREGATE | REGISTRATION |
| SECURITIES TO BE REGISTERED | REGISTERED | PER SHARE | OFFERING PRICE | FEE |
| Common Stock, par value $.001 per share (1) | 2,010,000 | $.28 | $ 562,800 | $ 71.31 |

| | | | | |
|---|---|---|---|---|
| Common Stock, par value | | | | |
| $.001 per share (2) | 4,000,000 | $.25 | $1,000,000 | $126.70 |
| Common Stock, par value | | | | |
| $.001 per share (3) | 1,000,000 | $.28 | $ 280,000 | $ 35.48 |
| Common Stock, par value | | | | |
| $.001 per share (4) | 2,800,000 | $.28 | $ 784,000 | $ 99.33 |
| | | | ---------- | -------- |
| Total | 9,810,000 | | $2,626,800 | $332.82 |

(1) Represents Selling Security Holders shares being sold to the public. The price of $.28 per share is being estimated solely for the purpose of computing the registration fee pursuant to Rule 457(c) of the Securities Act and based on the last trade price reported on the OTC Bulletin Board on October 12, 2004.

(2) Represents shares being sold to the public. The price of $.25 per share is based on a 10% discount to the closing sales price of the shares to the public. On October 12, 2004 our share price closed at $.28 per share.

(3) Represents shares of common stock issuable in connection with the conversion of warrants issued to First Mirage, Inc. The price of $.28 is being estimated solely for the purpose of computing the registration fee pursuant to Rule 457(c) of the Securities Act and is based on the last trading price reported on the OTC Bulletin Board on October 12, 2004.

(4) Represents shares of common stock issuable in connection with the conversion of preferred stock. The price of $.28 is being estimated solely for the purpose of computing the registration fee pursuant to Rule 457(c) of the Securities Act and is based on the last trading price reported on the OTC Bulletin Board on October 12, 2004.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.



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**PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION DATED , 2004**

**NMXS.COM, INC.**

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**4,000,000 SHARES OF COMMON STOCK**

**2,010,000 SELLING SECURITY HOLDER SHARES OF COMMON STOCK**

**1,000,000 SHARES OF COMMON STOCK ISSUABLE IN CONNECTION WITH CONVERSION OF WARRANTS**

**2,800,000 SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF PREFERRED SHARES**

We are offering 4,000,000 shares of our common stock at $0.25 per share. In addition, our selling security holders are offering to sell 2,010,000 shares of our common stock, 1,000,000 shares of our common stock issuable in connection with their conversion of our warrants, and 2,800,000 shares of our common stock issuable in connection with their conversion of our preferred shares.

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THE SECURITIES OFFERED IN THIS PROSPECTUS INVOLVE A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE FACTORS DESCRIBED UNDER THE HEADING "RISK FACTORS" BEGINNING ON PAGE 4.

NEITHER THE SECURITES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is ________________, 2004

Currently, we have not established an underwriting arrangement for the sale of these shares. Richard Govatski, our President and Director will be the only person that will conduct the direct public offering. He intends to offer and sell the shares in the primary offering through his business and personal contacts. All funds that are received by us in the offering are available for immediate use. There is no minimum number of shares that must be sold before we can utilize the proceeds of the offering; therefore, funds will not be placed in an escrow or similar account. There is a possibility that no proceeds will be raised or that if any proceeds are raised, they may not be sufficient to cover the cost of the offering.

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Our common stock is listed on the OTC Bulletin Board under the symbol "NMXS." The last reported sale price of our common stock on October 12, 2004 was $0.28.

This prospectus also relates to the resale by the selling stockholders of up to 2,010,000 shares of common stock, 1,000,000 shares of our common stock issuable in connection with the conversion of our warrants, and 2,800,000 shares of our common stock issuable in connection with the conversion of our preferred shares. The selling stockholders may sell the stock from time to time at the prevailing market price or in negotiable transactions.

We will receive no proceeds from the sale of the shares by the selling stockholders. However, we will receive proceeds from the sale of the 4,000,000 shares as well as the exercise of the outstanding warrants.

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## ABOUT US

### HOW WE ARE ORGANIZED AND OUR OPERATIONS

We were originally incorporated under the laws of the State of Utah on August 12, 1983. On April 28, 1997, we changed domicile to the State of Delaware by merging into a Delaware corporation incorporated on October 14, 1980. On August 3, 1999, our corporate name was changed to "NMXS.com, Inc."

Through our wholly owned subsidiaries, New Mexico Software, Inc. and Working Knowledge, Inc., we develop and market proprietary Internet technology-based software for the management of digital high-resolution graphic images, video clips, and audio recordings. Through New Mexico Software we develop and market the software, and through Working Knowledge we provide data maintenance services related to the New Mexico Software digital asset management system.

### WHERE YOU CAN FIND US

We are located at 5021 Indian School Road NE, Suite 100, Albuquerque, New Mexico 87110. Our telephone number is (505) 255-1999 and our facsimile number is (505) 255-7201.

### SECURITIES OFFERED BY US

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We are offering a maximum amount of 4,000,000 shares of common stock, $.001 par value, at $0.25 per share. Currently, we have not established an underwriting arrangement for the sale of these shares. All funds that are received by us in the offering are available for immediate use. There is no minimum number of shares that must be sold before we can utilize the proceeds of the offering. Funds will not be placed in an escrow or similar account until a minimum amount has been raised. You will be purchasing our shares from us and not our selling security holders.

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## RISK FACTORS

An investment in our common stock is highly speculative and involves a high degree of risk. Therefore, you should consider all of the risk factors discussed below, as well as the other information contained in this document. You should not invest in our common stock unless you can afford to lose your entire investment and you are not dependent on the funds you are investing.

Please note that throughout this prospectus, the words "we", "our" or "us" refer to NMXS.com, Inc. and not to the selling shareholders.

**SINCE THERE IS NO MINIMUM PURCHASE REQUIREMENT IN THIS OFFERING, WE MAY RECEIVE ONLY PARTIAL OR NO PROCEEDS FROM THIS OFFERING, WHICH WILL NOT ALLOW US TO ATTAIN OUR INTENDED USE OF PROCEEDS AND CAUSE AN INVESTOR TO POSSIBLY LOSE SOME OR ALL OF HIS INVESTMENT**

There is no minimum purchase requirement in this offering. Therefore, we may only receive a partial amount of the intended offering or no amount from the offering. If we do not receive the full amount of proceeds we may not be able to attain our intended use of proceeds, specifically, payment of our present IRS obligation, repayment of our Los Alamos National Bank loan, hiring of additional sales representatives and repurchase of our company stock. In addition, we may not even be able to pay the costs of this registration statement. This would affect our ability to grow our business. Any investor may lose some or all of his or her investment in the event that insufficient funds are raised and we are unable to grow our business.

**<R>SALES BY SELLING SECURITY HOLDERS BELOW THE $.28 OFFERING PRICE MAY CAUSE OUR STOCK PRICE TO FALL AND DECREASE DEMAND IN THE PRIMARY OFFERING WHICH MAY DECREASE THE VALUE OF YOUR INVESTMENT**

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The selling security holder offering will run concurrently with the primary offering. All of the stock owned by the selling security holders will be registered by the registration statement of which this prospectus is a part. The selling security holders may sell some or all of their shares immediately after they are registered. There is no restriction on the selling security holders to address the negative effect on the price of your shares due to the concurrent primary and secondary offering. In the event that the selling security holders sell some or all of their shares, which could occur while we are still selling shares directly to investors in this offering, trading prices for the shares could fall below the offering price of the shares. In such event, it may be difficult to sell all of the shares to investors, which would negatively impact the offering. As a result, our planned operations may suffer from inadequate working capital.

**"PENNY STOCK" RULES MAY MAKE BUYING OR SELLING OUR COMMON STOCK DIFFICULT**

Trading in our securities is subject to the "penny stock" rules. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors, must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker- dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of our securities. Broker- dealers who sell penny stocks to certain types of investors are required to comply with the Commission's regulations concerning the transfer of penny stocks. These regulations require broker- dealers to:

- Make a suitability determination prior to selling a penny stock to the purchaser;

- Receive the purchaser's written consent to the transaction; and

- Provide certain written disclosures to the purchaser.

These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell our common stock.

**THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY BASED ON THE NUMBER OF SHARES WE ARE REGISTERING FOR SELLING SECURITY HOLDERS AND YOU MAY FIND IT DIFFICULT TO SELL YOUR SHARES AT OR ABOVE THE PRICE YOU PAID FOR THEM**

We do not know the extent to which the market for our shares of common stock will expand or contract upon the resale of the shares registered under this prospectus. Therefore, your ability to resell your shares may be limited. Actions or announcements by our competitors, regulatory developments and economic conditions, as well as period-to-period fluctuations in our financial results, may have significant effects on the price of our common stock and prevent you from selling your shares at or above the price you paid for them.

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**A SMALL AMOUNT OF CUSTOMERS REPRESENT A LARGE AMOUNT OF OUR REVENUES AND THE LOSS OF SUCH CUSTOMERS WILL RESULT IN A SIGNIFICANT DECREASE IN REVENUES AND THREATEN OUR ONGOING OPERATIONS**

During the quarter ended June 30, 2004, four customers accounted for 70% of our revenue (Honeywell 20%, MPG Systems 26%, Sun Healthcare 13% and Universal Studios 11%). During the year ended December 31, 2003, seven customers accounted for 85% of our revenues. The loss of such customers will result in a significant decrease in our revenues. Such decrease will negatively impact our growth and threaten our ongoing operations**.**

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**A SMALL AMOUNT OF CUSTOMERS REPRESENT A LARGE AMOUNT OF OUR ACCOUNTS RECEIVABLE AND THE FAILURE TO COLLECT THOSE BALANCES WILL RESULT IN A SIGNIFICANT DECREASE IN CASH FLOW AND THREATEN OUR ONGOING OPERATIONS**

As of June 30, 2004, five customers accounted for 78% of our accounts receivable balance (Stampede Entertainment 22%, Forbes.com 21%, MPG Systems 15%, Honeywell 12%, Universal Studios 8%). Failure to collect these balances will result in a significant decrease in our working cash flow. Such decrease will negatively impact our growth and threaten our ongoing operations.

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**OUR BUSINESS DEPENDS ON A LIMITED NUMBER OF KEY PERSONNEL, THE LOSS OF WHOM COULD NEGATIVELY AFFECT US**

Richard Govatski and Teresa B. Dickey, our senior executives are important to our success. If they become unable or unwilling to continue in their present positions, our business and financial results could be materially negatively affected.

**NOTWITHSTANDING THE STEPS WE HAVE TAKEN TO PROTECT OUR INTELLECTUAL PROPERTY, MISAPPROPRIATION OF OUR INTELLECTUAL PROPERTY CAN RESULT IN A SIGNIFICANT NEGATIVE EFFECT ON OUR REVENUES AND OPERATIONS**

We have several proprietary aspects to our software that we believe make our products unique and desirable in the marketplace. Consequently, we regard protection of the proprietary elements of our products to be of paramount importance and we attempt to protect them by relying on trademark, service mark, trade dress, copyright and trade secret laws, and restrictions on disclosure and transferring of title. We have entered into confidentiality and non-disclosure agreements with our employees and contractors in order to limit access to, and disclosure of, our proprietary information. There can be no assurance that these contractual arrangements or the other steps taken by us to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-party development of similar technologies. Such misappropriation can cause our revenues and operations to be negatively effected.

**ALTHOUGH WE BELIEVE WE HAVE NOT INFRINGED UPON ANY PROPRIETARY RIGHTS, OUR INDUSTRY IS SUBJECT TO LAWSUITS INVOLVING INFRINGEMENT OF PROPRIETARY RIGHTS WHICH COULD RESULT IN COSTLY LITIGATION**

Although we do not believe that we infringe the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by us with respect to past, current, or future technologies. We expect that participants in our markets will be increasingly subject to infringement claims as the number of services and competitors in our industry grows. Any such claim, whether meritorious or not, could be time- consuming, result in costly litigation, cause service upgrade delays, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements may not be available on terms acceptable to us or at all. As a result, any such claim could have a material adverse effect upon our business, results of operations, and financial condition.

**IF THE FEDERAL GOVERNMENT AND STATE GOVERNMENTS ENACT LAWS APPLICABLE TO THE INTERNET IT COULD IMPOSE ADDITIONAL FINANCIAL BURDENS AND OTHER BURDENS ON US**

There are currently few laws and regulations directly applicable to the Internet. It is possible that a number of laws and regulations may be adopted with respect to the Internet covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. The growth of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online.

**IF STATES DECIDE TO IMPOSE A TAX ON COMPANIES ENGAGED IN INTERNET SERVICES THIS WOULD IMPOSE AN ADDITIONAL FINANCIAL BURDEN ON US**

Tax authorities in a number of states are currently reviewing the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject us to additional state sales and income taxes. This would cause a financial burden to us and strain our cash flow.

**SINCE WE ARE IN THE PROCESS OF PROTECTING OUR TRADE NAMES, CERTAIN PARTIES MAY TRY TO MISAPPROPRIATE OUR TRADE NAMES WHICH COULD CAUSE CONFUSION IN THE MARKETPLACE AND BE COSTLY AND TIME-CONSUMING TO US**

While we have commenced the process to protect our trade names, we have not completed the process. Thus, others could attempt to use trade names that we have selected. Such misappropriation of our brand identity could cause significant confusion in the highly competitive Internet technology marketplace and legal defense against such misappropriation could prove costly and time- consuming. As part of the brand identity creation process that defines our products to be unique in the Internet technology marketplace and proprietary in nature, we have begun the process to protect certain product names and slogans as registered trademarks to designate exclusivity and ownership.

**OUR INTELLECTUAL PROPERTY RIGHTS MAY NOT BE AVAILABLE IN ALL COUNTRIES WHICH CAN CAUSE THIRD PARTIES TO INFRINGE UPON SUCH RIGHTS RESULTING IN A NEGATIVE EFFECT ON ANY INTERNATIONAL OPERATIONS WE UNDERTAKE**

Although trademarked in the U.S., effective trademark, copyright or trade secret protection may not be available in every country in which our products may eventually be distributed. There can also be no assurance that the steps taken by us to protect our rights to use these trademarked names and slogans and any future trademarked names or slogans will be adequate, or that third parties will not infringe or misappropriate our copyrights, trademarks, service marks, and similar proprietary rights. This can have a negative effect on any international operations that we undertake.

**IF WE FAIL TO ADEQUATELY MANAGE OUR GROWTH, WE MAY NOT BE SUCCESSFUL IN GROWING OUR BUSINESS AND BECOMING PROFITABLE**

We expect our business and number of employees to grow over the next 12 months.  In particular, we intend to hire 2 engineers and 3 sales/marketing people to handle our anticipated growth resulting from future sales.  We expect that our growth will place significant stress on our operation, management, employee base and ability to meet capital requirements sufficient to support our growth.  Any failure to address the needs of our growing business successfully could have a negative impact on our chance of success.

**OUR RELIANCE ON ISSUANCES OF SHARES OF OUR COMMON STOCK FOR SERVICES PERFORMED FOR US IN LIEU OF PAYING FOR SUCH SERVICES WILL RESULT IN DILUTION OF YOUR INVESTMENT AND A DEPRESSED MARKET PRICE FOR OUR SHARES OF COMMON STOCK**

We have entered into agreements with companies that perform services for us. Under the terms of such agreements, we pay for such services by issuing shares of our common stock in lieu of making cash payments. The issuance of such shares will result in the dilution of your investment in us. Furthermore, since such shares are normally registered in a Form S-8 registration statement and such registration statement has the effect of being able to issue such shares as unrestricted shares, or freely tradable upon receipt, the sale of such shares can have the effect of decreasing the price for our shares of common stock.

**SELLING SHAREHOLDERS MAY IMPACT OUR STOCK VALUE THROUGH THE EXECUTION OF SHORT SALES WHICH MAY DECREASE THE VALUE OF OUR COMMON STOCK**

Short sales are transactions in which a selling shareholder sells a security it does not own. To complete the transaction, a selling shareholder must borrow the security to make delivery to the buyer. The selling shareholder is then obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be higher or lower than the price at which the security was sold by the selling shareholder. If the underlying security goes down in price between the time the selling shareholder sells our security and buys it back, the selling shareholder will realize a gain on the transaction. Conversely, if the underlying security goes up in price during the period, the selling shareholder will realize a loss on the transaction. The risk of such price increases is the principal risk of engaging in short sales. Such short selling could impact the value of our stock in an extreme and volatile manner to the detriment of other shareholders.

**SHARES ELIGIBLE FOR PUBLIC SALE IN THE FUTURE COULD DECREASE THE PRICE OF OUR COMMON SHARES AND REDUCE OUR FUTURE ABILITY TO RAISE CAPITAL**

Sales of substantial amounts of our common stock in the public market could decrease the prevailing market price of our common stock and our ability to raise equity capital in the future.

**INCREASED LEASE OBLIGATION COULD IMPOSE AN ADDITIONAL FINANCIAL BURDEN ON US**

When we relocated our New Mexico office, our monthly lease obligation increased from $3,000 per month to $4,000 per month. In addition, our lease agreement for our California office space has expired, and we have not completed the negotiations for a new lease. We anticipate that the new lease in California will result in a monthly obligation similar to our current obligation, which is $3,333 per month; and if we are unable to renew the lease with terms satisfactory to us, we believe similar space will be available at comparable rates. However, there is no assurance that we will be able to negotiate a lease with acceptable monthly rates. Any failure to negotiate an acceptable lease for the California office space, coupled with the increased obligation for the New Mexico office space could cause a financial burden to us and strain our cash flow.

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**FAILURE TO NEGOTIATE PAYMENT EXTENSIONS ON BANK NOTE COULD RESULT IN A SIGNIFICANT FINANCIAL BURDEN ON US**

At June 30, 2004, we had an outstanding balance on a line of credit with Los Alamos National Bank (LANB) of $163,168. The original balance of $300,000 was due on July 24, 2002, however, LANB has continued to extend the note six months at a time, provided we pay an agreed-upon amount of principal and interest at the time of the extension. We believe that LANB will continue to work with us in this manner, and the company has the necessary cash to continue to reduce the note under these circumstances. However, our inability to retire this debt, negotiate an extension of the payment amount and/or date, or obtain an alternative loan would have a material negative impact on our liquidity, and could impair our ability to continue operations if the bank foreclosed on the note.

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## USE OF PROCEEDS

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The selling stockholders are selling shares of common stock covered by this prospectus for their own account. We will not receive any of the proceeds from the resale of these shares. The gross proceeds to us from the sale of up to the additional 4,000,000 shares of our common stock at a price of $0.25 per share are estimated to be $1,000,000. The proceeds, if any, may be significantly less than $1,000,000, and there is the possibility that the proceeds may not be sufficient to cover the costs associated with this offering. We expect to use the net proceeds from this offering for the purposes described in the table below. Any net proceeds would be used first to pay the offering expenses of $50,000, then the payroll tax obligation of $300,000. Any net proceeds after the offering expenses and payroll tax obligation would be prorated equally among the other items listed in the table below. We have agreed to bear the expenses relating to the registration of our own shares as well as the shares for the selling security holders.

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| | |
|---|---|
| Gross Proceeds | $ $1,000,000 |

| | Amount |
|---|---|
| Offering Expenses .......... | $ 50,000 |
| Payment of Tax Obligation (1) | $ 300,000 |
| Repayment of Los Alamos National Bank Loan (2) | $ 165,000 |
| Engineers/Sales Staff (3) | $ 300,000 |
| Repurchase of Company Stock(4) | $ 185,000 |

| | |
|---|---|
| Gross Proceeds ............ | $1,000,000 |
| Less Offering Expenses ..... | 50,000 |
| Net Proceeds .............. | $ 950,000 |

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(1) Represents past due payroll tax obligations which were not paid at the time they were due because of insufficient cash flow, plus estimated penalties and interest. The payroll taxes are for the second, third and fourth quarters of 2002 and the first, second and third quarters of 2003.

(2) Represents a note payable to Los Alamos National Bank with an annual interest rate of 7%, due October 15, 2004.

(3) Represents the hiring of 2 engineers and 3 sales representatives at an annual salary of $60,000 per employee. Therefore, since we are using the initial $400,000 of proceeds for offering expenses and the IRS obligation and pro-rating the balance of proceeds received, for each $120,000 raised over $400,000, we can hire one employee.

(4) We intend to use this amount to undertake the repurchase of our shares of common stock on the open market.

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**DETERMINATION OF OFFERING PRICE**

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The price of $0.25 per share for the offering of 4,000,000 shares has been determined based on a 10% discount to the closing price of $0.28 for our shares of common stock as reported on the OTC Bulletin Board on October 12, 2004.

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**MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is currently traded on the OTC Bulletin Board under the symbol "NMXS." The following table sets forth the high and low bid prices for our common stock since the first quarter of 2002.

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| YEAR | QUARTER | HIGH | LOW |
|---|---|---|---|
| 2002 | First | 0.40 | 0.32 |
| 2002 | Second | 0.50 | 0.20 |
| 2002 | Third | 0.26 | 0.17 |
| 2002 | Fourth | 0.23 | 0.17 |
| 2003 | First | 0.19 | 0.05 |
| 2003 | Second | 0.11 | 0.05 |
| 2003 | Third | 0.17 | 0.06 |
| 2003 | Fourth | 0.71 | 0.17 |

| | | | |
|---|---|---|---|
| 2004 | First | 1.07 | 0.41 |
| 2004 | Second | .78 | .22 |
| 2004 | Third | .46 | .22 |
| 2004 | Fourth | .28 | .23 |
| | (to October 12, 2004) | | |

As of October 22, 2004, based on our transfer agent records, we had 372 shareholders holding 31,503,791shares of our common stock.

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The above quotations reflect the inter-dealer prices without retail mark-up, mark-down or commissions and may not represent actual transactions.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth certain information as of June 30, 2004, with respect to compensation plans under which our equity securities are authorized for issuance:

(a) (b) (c)

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Number of securities

remaining available

Number of securities for future issuance

| | to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 4,330,775 | $0.12 | 1,069,225(1) |
| Equity compensation plans not approved by security holders | 5,936,545(2) | $0.57 | -0- |
| Total | 10,267,320 | | |

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(1) Represents 100,712 shares available for issuance under our 1999 Stock Option Plan and 968,513 under our 2001 Stock Issuance Plan as of December 31, 2003.

(2) Includes 1,000,000 shares of common stock issuable upon exercise of Series A warrants exercisable at $1.25 per share at any time through November 14, 2003; 1,090,000 Series B warrants exercisable at $1.00 per share at any time through August 1, 2005; 1,500,000 Series C warrants exercisable at $0.50 per share at any time through February 20, 2006; 1,346,545 Series D warrants exercisable at $0.21 per share through July 22, 2009, and 1,000,000 Series E warrants exercisable at $0.08 per share at any time through August 28, 2008.

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## DIVIDENDS

We have never paid a cash dividend on our common stock. It is our present policy to retain earnings, if any, to finance the development and growth of our business. Accordingly, we do not anticipate that cash dividends will be paid until our earnings and financial condition justify such dividends. There can be no assurance that we can achieve such earnings.

## PENNY STOCK CONSIDERATIONS

Trading in our securities is subject to the "penny stock" rules. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors, must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser's written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker- dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit their market price and liquidity of our securities. Broker- dealers who sell penny stocks to certain types of investors are required to comply with the Commission's regulations concerning the transfer of penny stocks. These regulations require broker- dealers to:

- Make a suitability determination prior to selling a penny stock to the purchaser;

- Receive the purchaser's written consent to the transaction; and

- Provide certain written disclosures to the purchaser.

These requirements may restrict the ability of broker-dealers to sell our common stock and may affect your ability to resell our common stock.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with our financial statements and notes thereto appearing in this prospectus. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward- looking statements.

OVERVIEW

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

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In addition to our core product, Roswell, we are preparing to launch three new products this fall. The three products, Santa Fe, White Sands, and Taos, further extend our document and image management capabilities, as well as the potential for market penetration. The three new products are prepackaged software ranging in price from $39.95 to $249.95. When combined with our Roswell enterprise system and our mid-level Digital Filing Cabinet (DFC) package, they give us a broader range of revenue sources with a balanced combination of sales from high volume retail business and more specialized enterprise systems.

Some challenges we face in the next year are developing a sales force and distribution channels in order to market our products and educating potential customers about the benefits of digital management systems. We have hired several independent sales agents to help sell our products. We have also designated a manager to focus on providing education about our products to potential customers, and we provide demo software on the Internet for this purpose, so that customers can better understand how the digital lifecycle works. One possible opportunity for our business was discussed in a May 10, 2004 article in Business Week Online entitled Software Shift . According to this article, software products using open source programming are now expanding beyond the Linux operating system to include databases, search engines, programming tools and desktop PC software.  Since our products have all been developed with open source code, we may be in a position to take advantage of this expansion by identifying opportunities to integrate our software with some of the newly emerging open source products.

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Another new marketing area that we are developing is the need for customers to hire our engineers to connect our software to existing software owned by the customer. We now have several contracts in which we are welding different databases to our database with good success. This could be a very important growth area for us in the future.

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We presently realize revenues from four primary sources: (i) software sales, maintenance and hosting; (ii) custom programming services; (iii) license fees; and (iv) scanning and other services. We also occasionally realize revenues from hardware sales when the hardware is sold together with the software, and occasionally from other services. To date, license fees and software sales have been directly related. With each sale of our products, the end user enters into a license agreement for which an initial license fee is paid. The license agreement also provides that in order to continue the license, the licensee must pay an annual software maintenance fee for which the party receives access to product upgrades and bug fixes or product patches. Software maintenance consists primarily of hosting and managing our customers data on our servers. This structure will continue with our Roswell product; therefore, we anticipate a positive impact on license fees, software maintenance, and custom programming revenues from Roswell sales. However, according to an article in Forbes magazine on March 29, 2004 entitled A Hard Landing for Software , software companies are gradually relying less on the software license for revenues and more on professional services such as programming and consulting. Management believes this trend applies to our revenues as well, since Roswell is our only product that will use this licensing structure. Therefore, although we expect a positive impact on license fees from Roswell, we believe software sales, custom programming, and professional services will provide a greater portion of our revenues in the coming years.

With the marketing of the new prepackaged products, management anticipates that revenues for direct software sales and technical support will increase as those products are sold and the associated technical support programs are purchased. The change in focus to include our newer products reflects management s belief that a broader range of products and customers will provide greater stability in revenues.

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

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

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

***Revenue Recognition***

The Company derives revenues from five general activities; the sale of software licenses to end users, software maintenance contracts, third party hardware and software sales, consulting services and software licenses that require us to provide significant production, customization or modification to our core software product.

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

The Company sells software licenses directly to its end user customers. These sales do not require further commitment from the Company and are recognized upon persuasive evidence of an arrangement as provided by agreements executed by both parties delivery of the software and determination that collection of a fixed or determinable fee is reasonably assured.

In connection with the sales of software licenses, we sell maintenance contracts that vary in terms. Maintenance contract revenue is recognized on a straight-line basis over the life of the respective contracts.

We follow the guidance in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for custom software development arrangements that require us to provide significant production, customization or modification. Revenue is generally recognized for such arrangements under the percentage of completion method. Under percentage of completion accounting, both the product license and consulting services revenue are recognized as work progresses based on labor hours incurred. At December 31, 2003 and June 30, 2004, there were no custom software development arrangements in progress.

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

Consulting revenue is recognized as the services are rendered.

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

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

The application of SOP 97-2, as amended, requires judgment, including a determination that collectibility is reasonably assured and the fee is fixed and determinable.

***Income Taxes***

Management evaluates the probability of the utilization of the deferred income tax assets. The Company has estimated a $8,917,000 deferred income tax asset at December 31, 2003, related primarily to net operating loss carryforwards at December 31, 2003. Management determined that because the Company has not yet generated taxable income it was not appropriate to recognize a deferred income tax asset related to the net operating loss carryforward. Therefore, the full deferred income tax asset is offset by an equal valuation allowance. If the Company begins to generate taxable income, Management may determine that some, if not all of the deferred income tax asset may be recognized. Recognition of the asset could increase after tax income in the future. Management is required to make judgments and estimates related to the timing and utilization of net operating loss carryforwards, utilization of other deferred income tax assets, applicable tax rates and feasible tax planning strategies.

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***Goodwill***

Goodwill was recognized in the Company s acquisition of Working Knowledge, Inc. Management believes that there is no impairment of the carrying value of $75,000 at December 31, 2003 and June 30, 2004. Management believes that there is sufficient evidence that the Company will eventually generate operating income and positive operating cash flows related to the Working Knowledge products. Also, management believes that there is substantial value in its proprietary software.

***Stock Based Compensation***

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

***Contingencies***

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

At June 30, 2004, the Company is involved in litigation related to a dispute over the validity of the issuance of 150,000 of the Company s common stock warrants. The plaintiff has made a claim of damages of $1,500,000 against the Company. We believe that we have adequate defenses and counter claims and therefore we have not accrued for any potential loss on this case nor are the 150,000 warrants included in the number of our potentially dilutive securities at December 31, 2003.

The Company is paying past due payroll taxes of approximately $300,000 at a rate of $5,000 per month. The Company has accrued its estimate of interest and penalties of $30,000 on this past due amount. However, the Company has received notices from the IRS reflecting interest and penalty amounts greater than $30,000. We believe that the Company will negotiate a final settlement with the IRS of approximately $30,000 for those penalties and interest. However, the final settlement may vary from our estimate.

***Software Development Costs***

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

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RESULTS OF OPERATIONS

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A summary of operating results for the three months ended June 30, 2004 and 2003 is as follows:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | | % of | | % of |
| | Amount | Revenue | Amount | Revenue |
| Revenues | $ 409,000 | 100.0% | $ 197,000 | 100.0% |
| Cost of service | 90,000 | | | |

22.0%

78,000

39.6%

Gross profit

319,000

78.0%

119,000

60.4%

General & administrative

205,000

50.1%

283,000

143.7%

Research & development

35,000

8.6%

27,000

13.7%

Bad Debt Expense

0

0.0%

501,000

254.3%

Net operating (loss)

79,000

19.3%

(692,000)

(351.3)%

Other income (expense)

(3,000)

(0.7)%

(5,000)

(2.5)%

Net income (loss)

76,000

18.6%

(697,000)

(353.8)%

Earnings (loss) per share

$ 0.00

$ (0.03)

A summary of operating results for the six months ended June 30, 2004 and 2003 is as follows:

2004

2003

% of

% of

Amount

Revenue

Amount

Revenue

Revenues

$ 777,000

100.0%

$ 627,000

100.0%

Cost of service

175,000

22.5%

165,000

26.3%

Gross profit

602,000

77.5%

462,000

73.7%

General & administrative

440,000

56.6%

558,000

89.0%

Research & development

59,000

7.6%

62,000

9.9%

Bad Debt Expense

0

0.0%

501,000

79.9%

Net operating (loss)

103,000

13.3%

(659,000)

(105.1)%

Other income (expense)

(7,000)

(0.9)%

(14,000)

(2.2)%

| | | | | |
|---|---|---|---|---|
| Net income (loss) | 96,000 | 12.4% | (673,000) | (107.3)% |
| Earnings (loss) per share | $ 0.00 | | $ (0.03) | |

Revenues: Total revenues increased 107.6%, or $212,000, for the quarter ended June 30, 2004, as compared to the same period in the prior year (the comparable prior year period ). These revenues were primarily generated from the following four revenue streams:

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1. Revenues generated by software sales and maintenance increased 77.1%, or $95,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. This increase is mostly attributable to the increased sales volume of our DFC and Roswell products. We completed the development phase of DFC approximately one year ago, and we completed Roswell approximately six months ago. As a result, sales of these products have only recently begun to impact our revenues. We anticipate that sales of these products will increase gradually over the next two years, although probably not consistently at the current growth rate. Roswell in particular is a high-level enterprise system, therefore its future sales growth depends on our ability to communicate the potential value of the product to the customer. Sales of this enterprise product, however, will be balanced by sales of our new prepackaged products. Development was completed on the prepackaged products in the third quarter 2004, and we expect to make our first shipment near the end of that quarter. These prepackaged products range in price from $39.95 to $249.95, so they will have a lower margin than DFC and Roswell. Revenue from these products will be driven more by volume, providing balance for the more expensive enterprise products which provide only a few contracts per year.

Software maintenance consists mainly of hosting and managing our customers data on our systems. We will continue hosting for various existing clients and for our Roswell product, in addition to focusing new marketing efforts on the sale of our standard products. We have four projects currently in negotiations that will involve on-going software maintenance. Based on these projects in addition to our current contracts, management anticipates that revenues from software maintenance will increase in the coming year.

2. Custom programming revenue increased 80.0%, or $17,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. This increase was due to a higher volume of custom programming projects, particularly due to several projects for customer database integration (connecting our customer s databases with our database). Approximately 10% of the customers that purchase our standard products will require customization, and we continue to offer this service. In addition, our Roswell product is offered chiefly as a customizable package, so we anticipate that custom programming projects associated with new product purchases will continue to provide revenues in this category. We also continue to offer programming services for customer database integration. Therefore, we anticipate that this revenue source will continue to increase in the coming year, with about 50% of the revenue coming from Roswell customers and 50% from database integration projects.

3. Revenues generated by license fees increased 466.7%, or $70,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. This increase is solely attributable to the second installment of a

license fee for one customer. Although our products have been developed using open source code, we have added additional code that is considered proprietary technology, particularly in our Roswell and Santa Fe products. This additional technology can be licensed, however we anticipate generating license fees only from these two products in the future. As a result, management believes that this category may be a less significant portion of future revenues. We anticipate that most revenues will be generated from sales of our software products.

4. Revenue generated by scanning services increased 28.6%, or $10,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period, due to a large long-term project with a major movie studio. This studio has committed to scan over 5,000 titles for this project. At the current rate of progress, we expect the project to continue for approximately three to five years. In general, management is currently assessing the importance of scanning services as part of an overall focus on client services during the coming year. Although we are not emphasizing scanning services at this time, we anticipate that this revenue source will continue to increase slightly this year due to the long-term project mentioned above.

We also generated other revenue from hardware sales and the sale of other miscellaneous items and services. Revenue generated by these other services increased 1,070% or $20,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. Sales of hardware associated with our Digital Filing Cabinet system accounted for 100% of this revenue. The Digital Filing Cabinet system may be sold as software only, or as a complete system of software and hardware. We provide the option including hardware for customers who need the complete system, but we do not emphasize hardware sales, therefore we do not consider it a significant part of our business on an on-going basis.

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Cost of Services. Cost of services increased 15.4%, or $12,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. Approximately 80% of this increase is attributable to the cost of hardware sold as part of the Digital Filing Cabinet system. The other 20% of the increase is due to license fees for the optical character recognition technology that we include in our software. Cost of services as a percentage of revenues decreased to 22.0% for the quarter ended June 30, 2004, down from 39.6% for the comparable prior year period. Currently, approximately 80% of our cost of sales consists of engineering salaries. We consider these salaries to be directly associated with our ability to generate revenues, however, they do not vary with revenues in that much of those costs are fixed. As a result, the gross margin percent will vary as sales vary. During the current quarter, revenues increased 207% as compared to the same quarter last year, while engineering salaries remained stable, resulting in a lower ratio of cost of sales to revenues. Management anticipates that as revenues increase in the coming year, the cost of goods and services required to support those revenues will continue to increase, and engineering salaries will also increase as we hire additional staff to support a greater number of products and customers. We believe this current percentage is more indicative of the percentage of costs associated with future revenues, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

General and Administrative. General and administrative expenses decreased 27.6%, or $78,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. We have made a dedicated effort in the last year to reduce our general and administrative expenses. As part of this effort, management made the decision to handle more issues in-house instead of relying on outside attorneys and consultants, resulting in lower consulting and legal expenses. The reduction in legal expenses accounts for approximately 60% of the decrease in general and administrative expenses, and the reduction in consulting fees accounts for approximately 40%. The only long-term consulting contract we have maintained is for services provided by Mr. Brian McGowan, which include the following: advise NMXS' CEO on business strategy; formulate marketing ideas and plans; and introduce NMXS to companies and individuals in various markets with regard to NMXS' business, products, and services. General and administrative expenses as a percentage of revenues were 50.1% for the quarter ended June 30, 2004, as compared to 143.7% for the comparable prior year period. Management believes the ratio of general and administrative costs to revenues will continue to decrease in the future because revenues will increase at a greater rate than general and administrative costs, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

Research and Development. Research and development expenses increased 29.6%, or $8,000, for the quarter ended June 30, 2004, as compared to the comparable prior year period. This increase is primarily attributable to management s focus on completing the development phase of the first version of our three new prepackaged products. However, 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. Management anticipates that research and development costs in the future will focus on the upgrading of our existing products; therefore they will remain relatively steady for the remainder of the year.

Other Income. Interest expense decreased 40.0%, or $2,000 for the quarter ended June 30, 2004, as compared to the comparable prior year period. The decrease in interest expense was associated with paying down our outstanding notes and accounts payable, particularly the note with Los Alamos National Bank. There was no loss on disposal of fixed assets in the second quarter of 2004.

In general, our key indicator of operating progress is gross revenue. For the six-month periods ending June 30, 2004 and 2003, personnel-related expenses have accounted for approximately 58% of our total expenses, with fixed costs such as building and equipment rent, utilities, insurance, communications and depreciation accounting for an additional 24%. The only personnel-related costs that are directly variable are those associated with custom programming, because they are directly billable. This means that over 80% of our expenses are relatively fixed. All of the remaining expenses vary, but less than 5% varies directly with sales. We will incur more definite variable costs associated with our new pre-packaged products beginning in the fourth quarter of 2004, so in 2005 we may be able to use some other indicators such as gross margins to help analyze performance, but for 2003 and 2004 gross revenue is our primary indicator of when we will achieve profitability and break-even cash flow.

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REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on the two distinct product lines and the two separate legal entities. New Mexico Software (NMS) derives revenues from the development and marketing proprietary internet technology-based software and Working Knowledge, Inc. (WKI) provides data maintenance services related to the NMS digital asset management system. Information related to the Company's reportable segments for the six months ended June 30, 2004 is as follows:

**Six Months Ended**

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | NMS | WKI | NMS | WKI |
| Revenue | $ 394,000 | $ 15,000 | $ 616,000 | $ 11,000 |
| Cost of services | 74,000 | 16,000 | 138,000 | 27,000 |
| General and administrative | 131,000 | 74,000 | 496,000 | 62,000 |
| Research and development | 35,000 | - | 62,000 | - |
| Bad debt expense | - | - | 500,000 | 1,000 |
| Impairment of goodwill | - | - | - | - |
| Operating income (loss) | 154,000 | (75,000) | (580,000) | (79,000) |
| Total assets | $894,000 | $ 37,000 | $ 597,000 | $ 153,000 |

Generally, New Mexico Software develops and markets the software, and therefore, software sales and maintenance, licensing and custom programming are considered revenue streams for that entity. Working Knowledge, Inc. provides services that are necessary to prepare, enter, and maintain the customer s data on our image management system. These include web design, database development, image scanning, asset uploading, and database support. In addition, Working Knowledge is able to serve the customer by utilizing the stored images to produce compact discs, digital prints, and large poster formats. These revenue streams, usually classified as scanning and other revenue, are considered revenue streams for that entity. These complementary services allow us to complete our cycle of comprehensive image management.

A summary of operating results for the twelve months ended December 31, 2003 and 2002 is as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Amount | % of Revenue | Amount | % of Revenue |
| Revenues | $ 1,300,000 | 100% | $ 1,658,000 | 100% |
| Cost of service | 330,000 | 25.4% | 527,000 | 31.8% |
| Gross profit | 970,000 | 74.6% | 1,131,000 | 68.2% |

General & administrative 1,709,000

129.1% 1,386,000

83.6%

Research & development 112,000

8.6% 176,000

10.6%

Impairment of good will 0

0% 22,000 1.3%

Net operating (loss) (851,000)

(63.1%) (453,000) (27.3%)

Other income (expense) (33,000)

(2.5%) (69,000)

(4.2%)

Net income (loss) (884,000)

(65.6%) (522,000)

(31.5%)

Earnings (loss) per share

$ (0.03)

$ (0.02)

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Revenues: Total revenues decreased 21.6%, or $358,000, for the year ended December 31, 2003, as compared to the same period in the prior year (the comparable prior year period ). These revenues were generated from the following four revenue streams:

1.

Revenues generated by software sales and maintenance decreased 20.1%, or $212,000, for the year ended December 31, 2003, as compared to the comparable prior year period. This decrease is attributable in part to a single contract with Physicians Telehealth Network (PTN), from which we recognized revenue of $500,000 in software sales during 2002. Revenues from software sales and maintenance other than the PTN contract increased 52.1%, or $288,000 for the current year as compared to the comparable prior year period (from $553,000 in 2002 to $841,000 in 2003). In 2002, software sales consisted of three large sales totaling approximately $778,000 (including the $500,000 PTN contract), and software maintenance averaged approximately $38,000 per month. In 2003, we generated software sales nearly every month for a total of approximately $446,000, while software maintenance averaged approximately $33,000 per month. This change in software sales reflects the addition of our DFC product to our product line. Since it is a mid-level product, we are experiencing a higher and steadier volume of sales with a lower price per sale than we do with our enterprise-level product. Software maintenance consists mainly of hosting and managing our customers data on our systems. Although we will continue hosting for various existing clients and for our Roswell product, we are focusing new marketing efforts on the sale of our standard products as well as on building custom products, therefore, revenue from hosting has decreased slightly.

2.

Custom programming revenue increased 112.3%, or $118,000, for the year ended December 31, 2003, as compared to the comparable prior year period. This increase was primarily due to two contracts for customized software services for $75,000 and $72,000, respectively. The revenue from these contracts was recognized when the work was performed. In general, approximately 10% of the customers that purchase our standard products require customization, and we continue to offer this service. In addition, our Roswell product will be offered chiefly as a customizable package. Therefore, we anticipate that this revenue will continue to increase slightly in the coming year due to projects associated with sales of our Roswell product.

3.

Revenues generated by license fees decreased 65.5%, or $114,000, for the year ended December 31, 2003, as compared to the comparable prior year period. This decrease is primarily attributable to the fact that we did not enter into any significant new licenses during the year. Although our products have been developed using open source code, we have added additional code that is considered proprietary technology, particularly in our Roswell and Santa

Fe products. This additional technology can be licensed, however, we anticipate generating license fees only from these two products in the future. As a result, management believes that this category may be a less significant portion of future revenues.

4.

Revenue generated by scanning services increased 124%, or $93,000, for the year ended December 31, 2003, as compared to the comparable prior year period, due to a large long-term project with a major movie studio. This studio has committed to scan over 5,000 titles for this project. At the current rate of progress, we expect the project to continue for approximately three to five years. Although management had anticipated that the services provided by Working Knowledge would generally be limited to our existing clients and would not be our primary focus, therefore, causing revenues generated by Working Knowledge to remain consistent or increase modestly in the future. We will reassess the importance of this revenue source in the coming year.

Other revenue was generated by consulting services for database design and other miscellaneous items. Revenue generated by these other services decreased 97.2% or $243,000, for the year ended December 31, 2003, as compared to the comparable prior year period. This decrease was due to several factors. A reclassification of hosting revenues to software maintenance in order to provide more informative financial information accounted for 75% of the decrease, with reduction in database design services and hardware sales accounting for 20% and 5% of the decrease respectively.

Cost of Services. Cost of services decreased 37.4%, or $197,000, for the year ended December 31, 2003, as compared to the comparable prior year period. Cost of services as a percentage of revenues decreased to 25.4% for the year ended December 31, 2003 from 31.8% for the comparable prior year period. This reduction in costs of services is mainly due to our efforts to reduce costs during the last year. The $197,000 decrease consists of approximately 46% decrease in engineering salaries due to a reduction in staff; 26% decrease in communications costs due to termination of the Sprint contract and establishment of less expensive forms of connectivity to service our customers; 24% decrease in equipment rentals due to the termination of the Sun contract for leased servers and purchase of less expensive and more technologically advanced servers; and 4% other miscellaneous costs decreases. Management believes this current percentage is more indicative of the percentage of costs associated with revenues in the future, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

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General and Administrative. General and administrative expenses increased 23.3%, or $323,000, for the year ended December 31, 2003, as compared to the comparable prior year period. This increase was primarily attributable to bad debt expense of $500,000 due to the write-off of the receivable associated with the DTN contract. General and administrative expenses other than the DTN expense decreased from $1,386,000 in 2002 to $1,209,000 in 2003. The significant factors contributing to this decrease include a $337,000 decrease in personnel-related expenses due to a reduction in staff, along with a $164,000 increase in marketing expenses due to a barter agreement for advertising. Although we were successful in reducing general and administrative expenses overall in 2003, we initiated a marketing effort in order to increase public awareness of our products, resulting in the increase in advertising expense.

Research and Development. Research and development expenses decreased 36.4%, or $64,000, for the year ended December 31, 2003, as compared to the comparable prior year period. Approximately $49,000 of this decrease is due to lower personnel-related expenses due to a reduction in staff, and the remainder is primarily due to the termination of the Sun equipment lease for the servers. A portion of this lease payment each month was allocated to research and development costs associated with the development of new software products. The contract terminated at the end of 2002 and we purchased less expensive and more technologically advanced servers to better meet the needs of the customers and for New Mexico Software s internal use.

Other Income. Interest expense increased 45.2%, or $19,000 for the year ended December 31, 2003, as compared to the comparable prior year period. The increase in interest expense was attributable to the accrual of estimated penalties and interest on the past-due payroll taxes of approximately $30,000. There was no loss on disposal of fixed assets in 2003.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2004, cash and cash equivalents totaled $56,000, representing a $40,000 decrease from the beginning of the period. In addition, operating activities used $138,000 of cash for the six months ended June 30, 2004, as compared to $89,000 for the comparable prior year period. This decrease in available cash and increase in use of cash was mainly due to our emphasis on continuing to pay down our accrued expenses and to maintain current accounts payable, even though we had no significant increase in cash receipts. During the six months ended June 30, 2004, we used $48,000 to pay down accrued expenses, as opposed to delaying payments during the same period in 2003, which resulted in a source of cash of $160,000 for that period. This represents a $208,000 reversal from the prior year, and although one result was additional net cash used in operations, another result was the associated $48,000 decrease in accrued expenses during the first six months of 2004 as opposed to the $160,000 increase during the same period in 2003. The payments on accrued expenses are all payments toward past-due tax obligations.

Trade accounts payable were $73,000 at June 30, 2004 as compared to $122,000 at December 31, 2003, reflecting our emphasis on keeping our payables current. We continue to accrue the salary of our president, Richard Govatski, which at June 30, 2004, was an aggregate of $106,000. This amount represents 95% of the accrued payroll balance at June 30, 2004. This obligation will only be paid when there is available cash, therefore it will have no material adverse effect on our liquidity. The remainder of the accrued payroll will be paid in common shares, therefore it also will have no material adverse effect on our liquidity. Payroll taxes due as of June 30, 2004, are approximately $300,000, including penalties and interest.

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The following table shows current balances and payment details of our obligations as of June 30, 2004:

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| | Jun 30 Balance | Negotiated Payment | Payment Frequency |
|---|---|---|---|
| Notes Payable: | | | |
| Los Alamos National Bank note + interest | 165,000 | 25,000 | semiannually |
| Grossman + interest | 58,000 | In negotiations | |
| First Mirage | 75,000 | No payment plan established yet | |
| Demand Note | 13,000 | | |
| | | | |
| Past due Accounts Payable: | | | |
| New Mexico payroll taxes | 20,000 | 1,000 | monthly |
| IRS + estimated penalties & interest | 300,000 | 5,000 | monthly |
| Attorney fee | 5,000 | No payment plan established yet | |
| | | | |
| Other payables (current) | 40,000 | | |
| Accrued Payroll and Deferred Revenue | 145,000 | | |
| | | | |
| Total Liabilities per Balance Sheet | 821,000 | | |

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Accounts receivable increased from $450,000 at December 31, 2003 to $602,000 at June 30, 2004, primarily due to new sales during the quarter. Five customers account for $513,000 of the outstanding balance. Three of the balances are for new contracts completed near the end of the quarter totaling $231,000. One is an existing customer on a payment plan with a current balance of $147,000, and the other $135,000 is an agreement for advertising still owed to us, which will be used during 2004 or 2005. The advertising agreement was a barter transaction, so this receivable will not directly generate cash. However, it will allow us to generate advertising in the coming year without expending cash.

Investing activities used $12,000 for the six months ended June 30, 2004, as compared to $6,000 for the comparable prior year period. The increase in the cash used for investing activities for the current period was due to the purchase of leasehold improvements associated with our office relocation.

Financing activities provided $195,000 in cash for the six months ended June 30, 2004, as compared to $71,000 for the comparable prior year period. The increase in cash provided by financing activities was primarily attributable to the issuance of common stock. In the second quarter we issued 245,000 shares of common stock upon the exercise of warrants and options for gross proceeds of $45,000. We also received gross proceeds of $47,000 for the purchase of 275,000 shares in the second quarter.

Management anticipates that our primary uses of cash in the next year will be allocated to continue to satisfy delinquent obligations and for general operating purposes. Our business strategy is to increase working capital by internal growth through continued hosting of our existing customers, sale of licenses for our Roswell products, maintenance of these licenses, and sales of our prepackaged products, as well as externally through the sale of potentially dilutive securities. We may also continue to incur debt as needed to meet our operating needs. In addition, we may be forced to issue additional equity compensation to employees and outside consultants to meet payroll and pay for needed legal and other services.

At June 30, 2004, we had an outstanding balance on a line of credit with Los Alamos National Bank (LANB) which was originally due on July 24, 2002. The outstanding principal amount due at that date was $300,000, plus interest of $10,545. We negotiated a three month extension on the repayment of the outstanding balance of the line of credit by reducing the principal amount of the debt with the payment of $50,000 and the payment of the interest due on July 24, 2002. We were able to negotiate an extension of the amount due on the line of credit until April 24, 2003, by paying $25,000 of the principal amount due and $4,555 in interest due at October 24, 2002. On April 24, 2003, we paid $12,224 of principal and $12,768 of interest, and we negotiated another six-month extension to October 20, 2003. On October 20, 2003 we negotiated an extension of the amount due until April 23, 2004 by paying $25,000 in principal and $7,500 in interest. On March 27, 2004, we received a letter from LANB extending the note until October 15, 2004, with payment of $25,000 of principal and approximately $6,000 of interest due on April 15, 2004. On April 5, 2004, we paid the $25,000 of principal and $6,000 of interest as agreed. The principal balance due for this line of credit was $163,168 as of June 30, 2004. On October 4, 2004, we received a letter from LANB extending the note until April 15, 2005 upon payment of $25,000 of principal and approximately $6,000 of interest. The company has the necessary cash to continue to reduce the note under these circumstances. Our inability to retire this debt, negotiate an extension of the payment amount and/or date, or obtain an alternative loan would likely have a material negative impact on our business, and could impair our ability to continue operations if the bank foreclosed on the note. However, the bank has continued to extend the note six months at a time, providing we pay an agreed-upon amount of principal and interest at the time of the extension. We believe that LANB will continue to work with us in this manner.

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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.

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Management anticipates that the capital requirements for operations for the next twelve months will be approximately $1,200,000 - $1,500,000, based on cash flow projections. The company currently has contracts which provide for recurring revenues of approximately $600,000 over the next twelve months. Although one annual contract for software maintenance for 2004 was prepaid at the end of 2003, the remaining software maintenance contracts provide a monthly cash flow of approximately $40,000. Based on the prior year licensing and custom programming revenue, we can expect these services to generate an additional $300,000 - $400,000 over the next twelve months. We have four projects in process (combined maintenance and custom programming) that will generate additional cash flow of approximately $30,000 per month plus initial custom programming fees of approximately $300,000. We anticipate that new clients and our new products will provide the remaining necessary cash flow for the next year.

We have received a non-binding letter of intent from a fiduciary trust, In God We Trust, to invest up to $500,000 in New Mexico Software over the next six months, which will provide working capital necessary for operations over the next twelve months and to retire long-term debt and past-due payroll taxes. The letter of intent does not require the investor to fund. However, we have had a long-term relationship with this investor and believe that the investor has the willingness and wherewithal to provide funds should our cash requirements exceed our abilities to generate cash elsewhere. Through a combination of increased marketing efforts and continued reduction of expenses, management anticipates continued positive working cash flow during 2004.

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## BUSINESS - OUR COMPANY

## A SUMMARY OF WHAT WE DO

### About Us

Through our wholly owned subsidiaries, New Mexico Software, Inc. and Working Knowledge, Inc., we develop and market proprietary Internet technology-based software for the management of digital high-resolution graphic images, video clips, and audio recordings. Through New Mexico Software we develop and market the software, and through Working Knowledge we provide data maintenance services related to the New Mexico Software digital asset management system. New Mexico Software operates as a business segment with the role of product development and support.

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On January 1, 2004, we renamed all of our products with the names of New Mexico cities. Currently, New Mexico Software has developed an enterprise-level media asset management product called Roswell. It will be our flagship product. We market Roswell in two ways; as a hosted application on the Internet, and as a highly customized application according to clients' specifications. A hosted application provides a customer with access to the Roswell product over the Internet. Customers log on to our server and use Roswell to manage, view and distribute their media assets. The customers' media files are also stored on our server. Customers using our hosted model are billed according to the number of registered users and the amount of disk space their media files will occupy. This is the primary basis for our recurring revenue.

Our second product is called Digital Filing Cabinet (DFC). It is sold as a hardware/software package through dealers and distributors. It may be sold as hardware and software (Gallup), software only (Aztec), or hardware, software and scanning equipment (Nageezi).

Our newest products are Taos, Santa Fe, and White Sands. They are our first prepackaged product for PC desktops. Taos is a next-generation digital photo application providing a low-cost image database solution for organizing, cataloging, and searching for images based on their color and shape. Santa Fe is a desktop Linux operating system with 60 Linux applications, and White Sands is an inexpensive but powerful document management system that scans documents into portable data files (PDF s) and then quickly and easily organizes, archives and locates the documents.

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**Our Technology**

We engineer database products around a central core of unique Internet technology that make it possible to rapidly view, distribute and manage media files such as documents, graphic images, animation sequences and film clips.

One of the competitive advantages of our technology is that it is based on Open Source software that is mostly free, with no royalties payable to other companies. By integrating Open Source programs into our technology, we are able to provide well-built, low-cost products for the digital management market. In addition, the code that we deliver to customers is compiled. When you compile software code, it makes it difficult to use the code to create a similar program, even though the code we create originates from Open Source. This provides better protection and security of our products.

Another advantage our company has is the ability to provide totally integrated services that a customer would normally need to outsource to several different suppliers. For example, with our business model and technology, we are able to provide the software, custom programming, hosting, and database administration as a total solution.

In addition, our core technology is characterized by the following features that contribute to what we perceive to be marketplace advantages:

- Ability to use high-resolution graphics files -- large files with lots of detail as opposed to the low resolution files with indistinct detail used by conventional Internet programs.

- Ability to use a single image in multiple resolutions.

- Ability to track images with special codes assigned to each image.

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Our technology works on current versions of Internet browsers on MacIntosh, PC and UNIX computers.

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Easy to use because it does not require any new software programs, only a familiarity with Netscape or Internet Explorer browsers.

Our programmers and engineers are tasked with adding new features to our products and fixing any problems users might encounter. There are risks inherent in software development including unanticipated delays, technical problems that could mean significant deviation from original product specifications, and hardware problems. In addition, once improvements and bug fixes are deployed there is no assurance that they will work as anticipated or that they will be durable in actual use by customers.

**New Partner Program**

We just established a new Partner program aimed at establishing sales and marketing relationships with qualified organizations that provide complementary services and solutions to customers using New Mexico Software products.

**Marketing**

Our primary sales and marketing efforts have been to develop alliances with large companies that help to bring our products to market using their sales forces and distribution channels. Our marketing focus has been in three principal fields. Approximately 80% of our clients have been in the entertainment industry, approximately 10% have been in the medical field, and approximately 10% have been government agencies.

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Our technology permits the information to be stored on a specially built server called NAS (Network Appliance Server), which has our Roswell product as its core technology built into the server.

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* Entertainment Industry, Television, Movie Studios, and Ad Agencies

We also provide digital asset management to the Hollywood entertainment studios. New Mexico Software provides software solutions for the management of large volumes of media of digital material sent over the Internet. These digital files include database management of graphic images, animation sequences, video clips, audio recordings, text, television program material, and educational films.

Our technology allows clients and their customers to access certain files themselves and limits their access to only those jobs the studio wants them to have. This is especially significant since we serve clients with multiple offices all over the world. We can allow our customer's customers to access marketing materials and archived data created at the studio instantly, securely, and at virtually no cost. In addition, our technology permits them to find what they need easily because of powerful cataloging features that can be accessed by keyword, color, texture or shape, or phonetic searching.

* Government

We also work with many government agencies and have developed for them an asset sharing multiple database technology that allows assets from different agencies to share information. Our technology permits agencies to upload one record for all divisions, which we believe would save money for the agency by eliminating duplication of the same files by different divisions.

**Customers**

Although we were still dependent upon a small number of clients in the year ended December 31, 2003, we believe that trend is changing. During the year ended December 31, 2003, seven clients accounted for 85% of our revenues, as compared to the year ended December 31, 2002, when three clients accounted for 67% of our revenues. As we retain current clients and gain new clients, this reliance on a small number of customers will continue to decrease. In addition, while our Roswell product will continue to depend on a relatively small number of customers, we expect an expanded customer base for our DFC product, and a wide retail base for our Taos product. Overall, we anticipate that our customer base will broaden in the next year with the marketing of these newer products, giving more stability and predictability to our revenues.

**Our Intellectual Properties**

We have several proprietary aspects to our software that we believe make our products unique and desirable in the marketplace. Consequently, we regard protection of the proprietary elements of our products to be of paramount importance and we attempt to protect them by relying on trademark, service mark, trade dress, copyright and trade secret laws, and restrictions on disclosure and transferring of title. We have entered into confidentiality and non-disclosure agreements with our employees and contractors in order to limit access to, and disclosure of, our proprietary information. There can be no assurance that these contractual arrangements or the other steps taken by us to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-party development of similar technologies.

Although we do not believe that we infringe the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by us with respect to past, current, or future technologies. We expect that participants in our markets will be increasingly subject to infringement claims as the number of services and competitors in our industry grows. Any such claim, whether meritorious or not, could be time- consuming, result in costly litigation, cause service upgrade delays, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements may not be available on terms acceptable to us or at all. As a result, any such claim could have a material adverse effect upon our business, results of operations, and financial condition.

While we have commenced the process to protect our trade names, we have not completed the process for all of our trade names. Thus, others could attempt to use trade names which we have selected. Such misappropriation of our brand identity could cause significant confusion in the highly competitive Internet technology marketplace and legal defense against such misappropriation could prove costly and time-consuming. As part of the brand identity creation process that defines our products to be unique in the Internet technology marketplace and proprietary in nature, we have begun the process to protect certain product names and slogans as registered trademarks to designate exclusivity and ownership.

Although trademarked in the U.S., effective trademark, copyright or trade secret protection may not be available in every country in which our products may eventually be distributed. There can also be no assurance that the steps taken by us to protect our rights to use these trademarked names and slogans and any future trademarked names or slogans will be adequate, or that third parties will not infringe or misappropriate our copyrights, trademarks, service marks, and similar proprietary rights.

**Government Regulation**

Our company, operations, products, and services are all subject to regulations set forth by various federal, state and local regulatory agencies. We take measures to ensure our compliance with all such regulations as promulgated by these agencies from time to time. The Federal Communications Commission sets certain standards and regulations regarding communications and related equipment.

There are currently few laws and regulations directly applicable to the Internet. It is possible that a number of laws and regulations may be adopted with respect to the Internet covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. The growth of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. Tax authorities in a number of states are currently reviewing the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject us to additional state sales and income taxes.

Because our services are accessible worldwide, other jurisdictions may claim that we are required to qualify to do business as a foreign corporation in a particular state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject us to taxes and penalties for the failure to qualify and could result in our inability to enforce contracts in such jurisdictions. Any such new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to our business, could have a material adverse effect on our business, results of operations, and financial condition.

**How We Compete**

The media asset management market is one of the newest in the rapidly growing information services industry. Competition at this time is broad, with many vendors offering systems that have some comparable features as our current products, with a wide range of prices.

One of the competitive advantages of our technology is that it is based on Open Source software that is mostly free, with no royalties payable to other companies. By integrating Open Source programs into our technology, we are able to provide well-built, low-cost products for the digital management market. In addition, the code that we deliver to customers is compiled. When you compile software code it makes it difficult to use the code to create a similar program, even though the code we create originates from Open Source. This provides better protection and security of our products.

Another advantage our company has is the ability to provide totally integrated services that a customer would normally need to outsource to several different suppliers. For example, with our business model and technology, we are able to provide the software, custom programming, hosting, and database administration as a total solution.

An important development in the sales and marketing of our products occurred in 2002. In May 2002 we started a new relationship with an existing customer, Toshiba America Information Systems. Toshiba and New Mexico Software marketed a product called the Digital Filing Cabinet. Originally, the product was to be called DoorS for which we had applied for a trademark. The trademark was granted in January 2003. However, it was later learned that a Swedish company, Telelogic, had used the name in commerce since 1993 for a type of software used by programmers. Although the name probably would not be a conflict for either of the two companies, it was decided that New Mexico Software would withdraw our use of the name, DoorS. A Digital Filing Cabinet organizes, searches, retrieves, displays, archives and distributes digital content from a central repository. Further, it converts analog and digital files to all digital. It uses the Linux based operating system. The software handles photographs and images, email, electronic files, and paper documents. It includes a web server, database, firewall and search engine. The product receives faxes in digital and searchable Adobe PDF format. It can scan documents from high-speed Fujitsu document scanners. Like Roswell Professional version, the Digital Filing Cabinet can e-mail customized collection baskets of unlimited size - sending recipients a link and not an attachment. It also provides instantaneous distribution which reduces the cost of overnight courier services.

Additional features which are provided to the user of the Digital Filing Cabinet are:

* Fax and Scan documents into the database.

* Copy documents into the database with a network-enabled copier. (Toshiba, Canon, Kyocera, Sharp)

* Documents are automatically converted to Adobe PDF and scanned with New Mexico Software OCR technology.

* Document conversion from PDF to Word and Word to PDF.

* Improved search engine; quick search and Boolean search; and search entire database or search specific folders.

* Locate a document: type into the search field a keyword, name or invoice number off the document and that document is instantly retrieved and displayed.

* Users are assigned to groups, groups are given certain permissions (viewing, downloading, and emailing) and assigned to catalogs.

* Easy to set-up and user friendly.

* Upload and download original files of any size.

* Creates a Web site automatically with the customer simply providing the content.

* Creates thumbnails for all office file types.

* Ships with Open Office Suite and compatible with Microsoft Office 2004.

* Strong control environment and permission structure allows administrators to decide who has access to what content.

* Version control.

* Full Text Indexing for Office documents.

* Master/slave software to use multiple servers for backup on different IP addresses and different networks at different locations (requires second license). Ideal for disaster recovery programs.

* CD or DVD archiving. (In Beta)

* Search within CD or DVD without the need for a server connection. (In Beta)

* Search indexed words within PDF documents for content on the Internet or after downloaded. Print specific page from search page.

* Enhanced MagZoom. Cinemascope Loupe technology for reading documents and images.

* Scan preview of pages coming into the copier queue.

* Scan to a selected file folder.

* Create barcode templates for each directory and use separator pages to scan to the directory or sub-directory in which the documents belong.

* New Folder creation for ordinary users. Non-administrative users can upload or delete files if given permission.

* Turn OCR on/off. Turn Version Control on/off.

* Backup software for Exabyte Tape Backup Systems.

The program with Toshiba included marketing funds, joint marketing and sales programs, trade show exposure, and an advertising program in Forbes Magazine and Forbes.com. The Forbes advertising program was funded in part by Toshiba and the majority of the program was funded by sales of our software. The program has been prepaid to Forbes magazine with the first advertisements already appearing on Forbes.com and the magazine advertisements started with one half page four color pages in the May or June 2003 issues. Our first marketing effort with IT Marketing Corporation and Toshiba has come to a conclusion. A second marketing effort was started with IT Marketing Corporation in 2003. IT Marketing Corporation is located in Austin, Texas. New Mexico Software is working with IT Marketing Corporation to distribute products built by New Mexico Software. In addition, they are providing telemarketing assistance to help build the end user and reseller distribution channels, which will support the sales of our products.

We believe that establishing and maintaining brand identity of our products and services is critical to attracting new customers and retaining our customer base of large corporations. The importance of brand recognition will continue to increase as new competitors enter the digital asset management marketplace. Promotion and enhancement of our brands will depend largely on our success in continuing to provide high quality service and developing leading edge products and this cannot be assured. If businesses do not associate our product names or brands with high quality, or if we introduce new products or services that are not favorably received, we will run the risk of compromising our product line and decreasing the attractiveness of our products to potential new customers. In addition, to attract and maintain customers and to promote our products in response to competitive pressures, we may find it necessary to increase our financial commitment substantially to create and maintain product loyalty among our customers. If we are unable to provide high quality services, or otherwise fail to promote and maintain our products, or if we incur excessive expenses in an attempt to improve our services, or promote and maintain our products, our business, results of operations, and financial condition could be adversely affected.

Other, better-financed companies may be developing similar products as ours which could compete with our products. Such competition could materially adversely affect our financial condition. Although we have been established for eight years, our initial product was not marketed until 1998. There may exist better-capitalized companies on a parallel development path with similar products addressing our target markets. While the Internet technology marketplace is extremely competitive, we have anticipated a first-to-market advantage with our products. However, other highly capitalized companies that have recognized the absence of digital image management products could overwhelm our first-to-market advantage with expensive and expansive media blitzes that create the perception of a dominant market presence and/or superior products. If we are unsuccessful in addressing these risks and uncertainties, our business, results of operations, and financial condition will be materially and adversely affected.

We are continuing to develop our core products using a mix of readily available open source software development tools. Knowledgeable competitors may be able to deduce how we have assembled our code base and be able to develop competing products. The principal advantage in utilizing open source tools is the extremely high degree of portability they ensure. Migrating our products from one operating system or hardware base to another is more easily accomplished by avoiding proprietary development tools. The risk factor inherent in the use of such freely available tools is the fact that a sophisticated competitor might be able to imitate our work and produce similar functionality. Our product has two unique and highly desirable features for e-commerce, medical, and other commercial applications. Our product offers the ability to magnify details in high-resolution graphic images. Our product also allows rapid transmission of a portion of such an image based on user input, significantly enhancing the responsiveness of the system to deliver images over the Internet. The ability to perform these operations is based on a specific graphic image file format. We recognize that these significant features of our product could be a target for imitation. Any such imitation, should it occur, could have material adverse effects on our business, operations, and financial condition.

**Copyrights and Trademarks**

We have four copyright registrations, one which was effective June 18, 2001, and three federal trademark applications which were filed in January 2000. The copyright is for our 13 MagZoom product. Three additional trademarks were granted in 2002 and they are: for the names "AssetWare," "Real Time Real Organized Real Simple," and "The Look and Feel of e-Commerce."

**Employees**

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As of October 22, 2004, we had 15 employees, including 9 in systems engineering and quality assurance; 4 in administration and sales; and 2 in scanning and site development. We offer and share in the cost of health and dental insurance. A stock option plan and a stock issuance plan for employees and others were adopted on August 3, 1999, and July 27, 2001, respectively. The competition for qualified personnel in our industry and geographic location is intense, and there can be no assurance that we will be successful in attracting, integrating, retaining and motivating a sufficient number of qualified personnel to conduct our business in the future. We have never had a work stoppage, and no employees are represented under collective bargaining agreements. We consider our relations with our employees to be good. From time to time, we also utilize services of independent contractors for specific projects or to support our research and development effort. We also hire independent sales agents who work on commission, and these agents are paid a percentage of the sale once the transaction has been completed.

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**DESCRIPTION OF PROPERTY**

We recently moved to new offices in the same complex as our prior location. We currently lease a 3,000 square foot facility in Albuquerque, New Mexico, at a cost of approximately $4,000 per month. The lease expires on March 29, 2009. The new facility provides both administration and engineering offices. It is in close proximity to the location of the servers, and the two locations are networked together by fiber optics. The new space provides adequate room for expansion. In addition, we have access to a large power generator, which will enable our servers to continue operating during power outages. It also contains an advanced telephone system which will provide the capability needed to provide adequate customer telephone support.

We have also leased approximately 1,200 square feet of office space in Santa Monica, California, to house the Working Knowledge, Inc. operations. Current monthly lease payments are $3,333. The lease term commenced June 8, 2000, and expired on June 8, 2003. Neither New Mexico Software nor the landlord realized the lease had expired. We are currently negotiating a renewal of the current lease for a five-year term. If we are unable to renew the lease with terms satisfactory to us, we believe similar space will be available at comparable rates.

## LEGAL PROCEEDINGS

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

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Internal Revenue Service Payments: In October 2003 we entered into an interim agreement with the Internal Revenue Service concerning the repayment of federal tax deposits which we failed to pay for the six operating quarters ended September 30, 2003. We have agreed to pay $5,000 per month beginning November 1, 2003. During this interim period the IRS has agreed withhold the filing of a federal tax lien. Consideration of filing a lien in the future will be based upon a determination of how long it may take to pay the taxes. Also, our failure to make timely federal tax deposits will default this interim agreement and necessitate the filing of the lien. Our unpaid tax returns for these quarters are being assessed by the IRS, and we expect to receive an assessment notice for each period upon completion of this assessment. We estimate that these assessments will total approximately $300,000, including penalties and interest.

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

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

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Other than listed above, neither our parent company nor any of its subsidiaries, or any of their properties, is a party to any pending legal proceeding. We are not aware of any contemplated proceeding by a governmental authority. Also, we do not believe that any director, officer, or affiliate, any owner of record or beneficially of more than five percent of the outstanding common stock, or security holder, is a party to any proceeding in which he or she is a party adverse to us or has a material interest adverse to us.

## MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information about our executive officers and directors.

| Name | Age | Position | Director Since |
|---|---|---|---|
| Richard Govatski | 59 | Chairman, President & CEO | 1999 |
| Teresa B. Dickey | 60 | Director, Secretary & Treasurer | 2003 |
| John E. Handley | 42 | Director | 2003 |

Set forth below is certain biographical information regarding our executive officers and directors:

RICHARD GOVATSKI has been the President of NMXS.com, Inc. since August 1999, and has been chairman, CEO, and President of New Mexico Software, Inc., since 1996. Mr. Govatski founded New Mexico Software in 1995 after identifying market inefficiencies in how intellectual property owners managed their image assets. Prior to New Mexico Software, Mr. Govatski spent 18 years in systems integration and publishing, both in sales management and software development. Mr. Govatski led the sales teams for Popular Electronics, Computer Shopper, Shutterbug, and MacWeek. Later he sold numerous solutions for vendors, including Kodak, Apple Computer, and Sun Microsystems. Mr. Govatski also spent several years in systems development as President of Media Publishing Group and built graphic applications for companies including Ferrari Color, Time Magazine, New York Daily News, and Getty Images. He received a Bachelor of Science Degree in Communications from Butler University, located in Indianapolis, Indiana in 1968.

TERESA B. DICKEY has been the secretary/treasurer of our company since August 1999. She became a member of our Board of Directors on December 19, 2002 and has held such position since such time. From 1988 until 1999 she was employed by Sandia National Laboratory as art director. Sandia National Laboratory is a U.S. Department of Energy national security laboratory. In 1964, Ms. Dickey received her Bachelor of professional Arts from the Art Center College of Design in Pasadena, California.

JOHN E. HANDLEY has been our director since January 2003. He has been self- employed since September 2002 as a telecommunications consultant. From August 1987 until August 2002 he was employed as an associate partner (from September 1997 until August 2000) and as a partner (September 2000 until August 2002), by Accenture LLP, a business and technology consulting and outsourcing company. He received his Bachelor of Arts degree in Psychology and Business from Roanoke College in 1983. Thereafter, he received his Masters in Business Administration from Virginia Tech in 1987.

**EXECUTIVE COMPENSATION**

**Compensation of Executive Officers**

Summary Compensation Table. The following table sets forth information concerning the annual and long-term compensation awarded to, earned by, or paid to the named executive officer for all services rendered in all capacities to our company, or any of its subsidiaries, for the years ended December 31, 2003, 2002 and 2001:

**SUMMARY COMPENSATION TABLE**

| | | | | | Long-Term | |
|---|---|---|---|---|---|---|
| | | Annual Compensation | | | Compensation | |
| | | | | | | Securities |
| | | | | | Restricted | Securiites |
| Name and | | | | Other Annual | Stock | Underlying |
| Principal Position | Year | Salary | Bonus | Compensation | Award(s) | Options |
| Richard Govatski | 2003 | $ 20,000 (4) | -0- | -0- | -0- | -0- |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | $123,600 (1)(2) | -0- | -0- | -0- | -0- |
| CEO | 2001 | $ -0- (3) | -0- | -0- | -0- | -0- |

(1) Mr. Govatski did not receive payment of any of his 2002 salary, but he did apply $26,000 of the amount of this payable toward the satisfaction of a like amount advanced by us to him in prior years. The remaining $94,000 has been booked as an account payable to him.

(2) Mr. Govatski is afforded the use of a company automobile representing $3,600 of salary.

(3) Mr. Govatski agreed to forgo his annual salary for 2001, none of which was paid. However, the company did record a charge to operations in the amount of $120,000 to reflect the fair value of the services rendered during 2001.

(4) Mr. Govatski agreed to forgo most of his salary in 2003. In lieu thereof, Mr. Govatski received a salary of $20,000. He intends to receive a salary of $44,000 in 2004.

Option Grants Table. The following table sets forth information concerning individual grants of stock options to purchase our common stock made to the executive officer named in the Summary Compensation Table during fiscal 2003.

**OPTIONS GRANTS IN LAST FISCAL YEAR**

(Individual Grants)

| Name | Number of securities underlying options granted (#) | Percent of total options granted to employees in last fiscal year | Exercise or base price ($/Share) | Expiration Date |
|---|---|---|---|---|
| Richard Govatski | -0- | N/A | N/A | N/A |

Aggregated Option Exercises and Fiscal Year-End Option Value Table. The following table sets forth certain information regarding stock options exercised during fiscal 2003 and held as of December 31, 2003, by the executive officer named in the Summary Compensation Table.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES**

| Name | Shares acquired on exercise (#) | Value realized ($) | Number of Securities Underlying Unexercised Options at Fiscal Year-End(#) Exercisable/ Unexercisable | Value of Unexercised In-the-Money Options at Fiscal Year-End($)(1) Exercisable/ Unexercisable |
| --- | --- | --- | --- | --- |
| Richard Govatski | -0- | N/A | 500,000/0 | $225,000/$-0-(2) |

(1) Value is based on the closing sale price of the Common Stock on December 31, 2003, the last trading day of fiscal 2003 ($0.51), less the applicable option exercise price.

(2) Of these options, 500,000 were exercisable at $0.06 per share.

**Employment Contracts**

We have a three-year employment contract with Mr. Govatski to act as our President and Chief Executive Officer on a full-time basis. The agreement commenced on January 1, 2003 and expires on December 31, 2005. The annual base salary is $44,400 with additional cash compensation as defined in the agreement. As part of his benefits, he receives options to purchase 500,000 shares of our common stock. The options expire on December 31, 2007. The exercise price is the greater of $.06 per share or 110% of the fair market value per share of common stock on the grant date provided our stock option plan. The agreement is terminable for cause by a vote of two-thirds of our directors. It could also be terminated upon three months notice if he becomes incapacitated for a period of six consecutive months or immediately upon his death.

**Compensation of Directors**

Directors are permitted to receive fixed fees and other compensation for their services as directors. The Board of Directors has the authority to fix the compensation of directors. No amounts have been paid to, or accrued to, directors in such capacity.

**Stock Option and Stock Issuance Plans**

Our 1999 Stock Option Plan permits the grant of options exercisable for shares of our common stock to corporate officers, directors, employees, and consultants upon such terms, including exercise price and conditions and timing of exercise, as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 3,000,000 shares of our common stock. In 2002, we granted 352,686 stock options under the plan. In 2003, we granted 1,743,920 stock options under the plan. At May 5, 2004, 2,899,288 remained outstanding and unexercised. Of these outstanding options, 1,331,487 had vested.

Our 2001 Stock Issuance Plan, as amended, permits the grant of shares of our common stock to employees of our company and any of its subsidiaries, non-employee members of our board or non-employee members of the board of directors of any of our subsidiaries, and consultants and other independent advisors who provide services to us or any of our subsidiaries, upon such terms and conditions as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 2,400,000. In 2002 we granted 878,995 shares under the plan. In 2003, we granted 760,000 stock options under the plan. At May 5, 2004, 1,431,487 remained outstanding and unexercised. Of these outstanding options, 1,331,487 had vested.

**PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information derived from the named person, or from the transfer agent, concerning the ownership of common stock as of January 20, 2004, of (i) each person who is known to us to be the beneficial owner of more than 5 percent of the common stock; (ii) all directors and executive officers; and (iii) directors and executive officers as a group:

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| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class (1) |
|---|---|---|
| Richard Govatski | 4,845,500 | 15.40% |
| 5021 Indian School Rd. NE | 5,345,500 (including | |
| Albuquerque, NM 87110 | 500,000 options)(2) | 16.99% |
| Teresa B. Dickey | 107,563 | * |
| | 532,016(3)(including | |
| | 424,453 options) | 1.69% |
| John Handley | 265,000(4) | * |
| | 765,000(4) (including | |
| | 500,000 options) | 2.43% |

| | | |
|---|---|---|
| Executive Officers and Directors as a Group (3 Persons) | 5,218,063 | 16.58% |
| | 6,642,516 (including the options set forth above) | 21.11% on a fully diluted basis |

* - Represents beneficial ownership of less than 1% of the total number of shares of common stock outstanding.

(1) All of the persons are believed to have sole voting and investment power over the shares of common stock listed or share voting and investment power with his or her spouse, except as otherwise provided. Percentage is based on 31,463,791 shares outstanding as of October 8, 2004. Fully diluted percentage includes 1,424,453 options.

(2) This number of shares includes options to purchase 500,000 shares, which options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Mr. Govatski. The number of shares also includes 400,000 shares pledged by Mr. Govatski to First Mirage, Inc. to secure a loan to the company which is due and payable on June 30, 2004. Such shares are presently in the name of David A. Rapaport, President of First Mirage, Inc.. Mr. Govatski retains the right to vote these shares until foreclosure under the terms of the pledge agreement.

(3) This number of shares includes 107,563 shares issued to Ms. Dickey and options to purchase 424,453 shares, which options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Ms. Dickey.

(4) This number of shares includes 265,000 shares issued to Mr. Handley and options to purchase 500,000 shares, which options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage held by Mr. Handley.

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**DILUTION**

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As of October 8, 2004, we had issued and outstanding 31,463,791 shares of common stock. In addition, we have 1,000,000 warrants being registered in this offering that convert into shares of our common stock; 2,950,000 shares being registered in this offering that have not been issued (2,800,000 shares that are based on conversion of our preferred shares into our common stock, 50,000 shares registered for Richard Anslow and Gregg Jaclin that have not yet been issued, and 100,000 shares registered for the Hawley Revocable Trust that have not yet been issued); and 4,000,000 shares being offered in this offering. Therefore, the dilution tables below are based on 39,413,791 shares of our common stock on a fully diluted basis. Dilution is a reduction in the net tangible book value of a purchaser's investment measured by the difference between the purchase price and the net tangible book value of the shares after the purchase takes place. The net tangible book value of common stock is equal to stockholders' equity applicable to the common stock as shown on our balance sheet divided by the number of shares of common stock outstanding. As a result of such dilution, in the event we liquidated, a purchaser of shares may receive less than their initial investment and a present stockholder may receive more.

The following calculations assume that all of the shares we are registering are issued pursuant to the outstanding warrants and shares to be issued pursuant to the outstanding agreements. Our net tangible book value as of June 30, 2004 was $110,000 or $0.0036 per share (based on 30,946,795 shares issued and outstanding). The adjusted pro forma net tangible book value after this offering (assuming the issuance of all shares as set in the selling shareholders table that are not issued and all of the shares are sold in the offering) will be $1,060,000 or $.0269 per share based on a per share price of $0.28.

Therefore, the increase in the net tangible book value per share attributable to the offering is $.0234. There is no minimum or maximum amount of shares that must be sold in this offering. Therefore, purchasers of shares of common stock in this offering will realize immediate dilution of $(.2266) per share assuming all of our shares offered in this prospectus are sold. The following table describes the dilution effect if 100% of the shares are sold in this offering:

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Dilution calculation

As of June 30, 2004

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| | | |
|---|---|---|
| Tangible book value before offering | $ 110,000 | $.0035 |
| Offering to new investors | $ 1,000,000 | $ .25 |
| Less expenses | $ 50,000 | |
| Net proceeds | $ 950,000 | |
| Tangible book value after offering | $ 1,060,000 | $.0269 |
| Increase in Net Tangible | | |
| Book value by old investors | $ .0234 | |
| Offering price paid by new investors | $ .25 | |
| Dilution for new investor | $ (.2266) | |

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**SELLING STOCKHOLDERS**

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The shares being offered for resale by the selling stockholders consist of the total of 2,010,000 shares of our common stock, 1,000,000 shares of our common stock issuable in connection with their conversion of our warrants, and 2,800,000 shares of our common stock issuable in connection with the conversion of our preferred shares.

The following table sets forth the name of the selling stockholders, the number of shares of common stock beneficially owned by each of the selling stockholders as of October 22, 2004 and the number of shares of common stock being offered by the selling stockholders. The shares being offered hereby are being registered to permit public secondary trading, and the selling stockholders may offer all or part of the shares for resale from time to time. However, the selling stockholders are under no obligation to sell all or any portion of such shares nor are the selling stockholders obligated to sell any shares immediately upon effectiveness of this prospectus. All information with respect to share ownership has been furnished by the selling stockholders.

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| Name of selling stockholder | Shares of common stock owned prior to the offering | Percent of common shares owned prior to the offering(1) | Shares of common stock to be sold in the offering(1) | Number of shares owned after offering(1) | Percent of shares owned after offering(1) |
|---|---|---|---|---|---|
| John Shaver (8) | 0 | 0% | 700,000(2) | 0 | 0 |
| ABQ Energy(7) (8) | 0 | 0% | 1,500,000(2) | 0 | 0 |

| | | | | | |
|---|---|---|---|---|---|
| James Warlick (8) | 0 | 0% | 200,000(2) | 0 | 0 |
| Rahim Salamohammed (8) | 0 | 0% | 400,000(2) | 0 | 0 |
| First Mirage, Inc.(3) | 0 | 0% | 1,000,000 | 0 | 0 |
| John Handley (9) | 265,000 | .84% | 265,000 | 0 | 0 |
| Brian McGowan(10) | 1,230,000 | 3.91% | 1,230,000 | 0 | 0 |
| Hawley Revocable Trust(4) | 217,000 | .69% | 100,000 | 0 | 0 |
| Richard I. Anslow(5) | 0 | 0% | 35,000 | 0 | 0 |
| Gregg E. Jaclin(5) | 0 | 0% | 15,000 | 0 | 0 |
| Jonathan Rose(6) | 365,000 | 1.16% | 365,000 | 0 | 0 |

(1) Assumes that all of the shares of common stock offered in this prospectus (4,000,000) are sold and no other shares of common stock are sold during the offering period. The percentage of shares is based on 31,463,791 shares issued and outstanding as of October 8, 2004. The number of shares owned after the offering is based on 31,463,791 plus 4,000,000 or an aggregate of 35,463,791 shares of our common stock.

(2) Represents the number of shares of common stock that each party shall receive upon conversion of our preferred stock held by such parties.

(3) Represents 1,000,000 shares of our common stock underlying the warrants given to First Mirage, Inc. pursuant to their consulting agreement with us dated August 21, 2003 and expiring August 21, 2004, for services including advice on our capital structure, finance issues and capital transactions. The warrants are exercisable at the price of $.08 per warrant. The following persons are representatives of, and make investment decisions for First Mirage: Frank E. Hart, Fred A. Brasch and David A. Rapaport..

(4) Greg A. Hawley and Marilyn F. Hawley are the trustees of the Hawley Revocable Trust dated August 30, 1993. The Hawley Revocable Trust purchased 100,000 shares of our common stock for $21,000. We have not yet issued the 100,000 shares.

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(5) Richard I. Anslow and Gregg E. Jaclin are partners of Anslow & Jaclin, LLP, the law firm representing us in the preparation and filing of this registration statement. The shares being registered for each of them represent part of the compensation paid to Anslow & Jaclin, LLP.

(6) Jonathan Rose is the principal of our landlord, TC Albuquerque Rose Interests, LLC and TC Albuquerque Rabina Interests, LLC. His shares were issued in satisfaction of our past due lease obligation of $32,850.

(7) Scott Kominiak is a representative of, and makes investment decisions for ABQ Energy.

(8) The following issuances were based on purchase of our preferred convertible shares: John Shaver purchased 30 preferred convertible shares for $30,000; ABQ Energy purchased 75 preferred convertible shares for $75,000; James Warlick purchased 10 preferred convertible shares for $10,000; Rahim Salomohammed purchased 20 preferred convertible shares for $20,000. We are registering the shares of our common stock underlying the preferred shares.

(9) John Handley purchased 250,000 shares of our common stock for $27,500; and 15,000 shares of our common stock for $1,000.

(10) Brian McGowan s shares represent shares issued to him in accordance with his consulting agreement with us and for services including the following: advise NMXS' CEO on business strategy; formulate marketing ideas and plans; and introduce NMXS to companies and individuals in various markets with regard to NMXS' business, products, and services.

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**PLAN OF DISTRIBUTION**

We are offering our shares of common stock in a direct public offering basis. There is no minimum number of shares that we must sell before we can utilize the proceeds of the offering. Therefore, there is a possibility that no proceeds will be raised or that if any proceeds are raised, they may not be sufficient to cover the cost of this offering. Richard Govatski, our President and director will be the only person that will conduct the direct public offering. You will be purchasing our shares from us and not our selling security holders. He intends to offer and sell the shares in the primary offering through his business and personal contacts. Mr. Govatski will not be paid any commissions or other expenses incurred by him in connection with the offering. The shares may also be offered by participating broker-dealers which are members of the National Association of Securities Dealers, Inc. We may, in our discretion, pay commissions of up to 10% of the offering price to participating broker-dealers and others who are instrumental in the sale of shares. Our officers and directors may not purchase shares in this offering.

Richard Govatski, our President and director, is the only person that plans to sell our common stock. He is not a registered broker-dealer. He intends to claim reliance on Exchange Act Rule 3a4-1 which provides an exemption from the broker-dealer registration requirements of the Exchange Act for persons associated with an issuer. Specifically, Mr. Govatski (i) at the time of sale, he will not be subject to a statutory disqualification as that term is defined in section 3(a)39 of the Securities Act; (ii) will not be compensated in connection with his participation in the offering by payment of commissions or other remuneration; at the time of participation in the sale of shares, he will not be an associated person of a broker or a dealer; (iii) pursuant to Rule 3a4-1(a)(4)(ii), Mr. Govatski will meet all of the following requirements: at the end of the offering, Mr. Govatski will perform substantial duties for us, other than in connection with transactions in securities; Mr. Govatski was not a broker or dealer, or an associated person of a broker or dealer within the last 12 months; and Mr. Govatski has not participated in, or does not intend to participate in, selling an offering of securities for any issuer more than once every 12 months other than in reliance on paragraph(a)(4)(i) or (iii) of Rule 3a4-1.

The selling security holder offering will run concurrently with the primary offering. All of the stock owned by the selling security holders, including our officers and directors, will be registered by the registration statement of which this prospectus is a part. The selling security holders may sell some or all of their shares immediately after they are registered. There is no restriction on the selling security holders to address the negative effect on the price of your shares due to the concurrent primary and secondary offering. In the event that the selling security holders sell some or all of their shares, which could occur while we are still selling shares directly to investors in this offering, trading prices for the shares could fall below the offering price of the shares. In such event, we may be unable to sell all of the shares to investors, which would negatively impact the offering. As a result, our planned operations may suffer from inadequate working capital.

The selling security holders shares may be sold or distributed from time to time by the selling stockholders or by pledgees, donees or transferees of, or successors in interest to, the selling stockholders, directly to one or more purchasers (including pledgees) or through brokers, dealers or underwriters who may act solely as agents or may acquire shares as principals, at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices or at fixed prices, which may be changed. The distribution of the shares may be effected in one or more of the following methods:

* ordinary brokers transactions, which may include long or short sales,

* transactions involving cross or block trades on any securities or market where our common stock is trading,

* purchases by brokers, dealers or underwriters as principal and resale by such purchasers for their own accounts pursuant to this prospectus, "at the market" to or through market makers or into an existing market for the common stock,

* in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents,

* through transactions in options, swaps or other derivatives (whether exchange listed or otherwise), or

* any combination of the foregoing, or by any other legally available means.

In addition, the selling stockholders may enter into hedging transactions with broker-dealers who may engage in short sales, if short sales were permitted, of shares in the course of hedging the positions they assume with the selling stockholders. The selling stockholders may also enter into option or other transactions with broker-dealers that require the delivery by such broker-dealers of the shares, which shares may be resold thereafter pursuant to this prospectus.

Brokers, dealers, underwriters or agents participating in the distribution of the shares may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agent or to whom they may sell as principal, or both (which compensation as to a particular broker-dealer may be in excess of customary commissions). The selling stockholders and any broker-dealers acting in connection with the sale of the shares hereunder may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act of 1933, and any commissions received by them and any profit realized by them on the resale of shares as principals may be deemed underwriting compensation under the Securities Act of 1933. Neither the selling stockholders nor we can presently estimate the amount of such compensation. We know of no existing arrangements between the selling stockholders and any other stockholder, broker, dealer, underwriter or agent relating to the sale or distribution of the shares.

We will not receive any proceeds from the sale of the shares of the selling security holders pursuant to this prospectus. We have agreed to bear the expenses of the registration of the shares, including legal and accounting fees, and such expenses are estimated to be approximately $50,000.

We have informed the selling stockholders that certain anti-manipulative rules contained in Regulation M under the Securities Exchange Act of 1934 may apply to their sales in the market and have furnished the selling stockholders with a copy of such rules and have informed them of the need for delivery of copies of this prospectus. The selling stockholders may also use Rule 144 under the Securities Act of 1933 to sell the shares if they meet the criteria and conform to the requirements of such rule.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Richard Govatski, our president, director, and principal shareholder, may be deemed a promoter or founder in relation to the organization of our business. In connection with the acquisition of New Mexico Software, Mr. Govatski exchanged all 1,000 of his shares of New Mexico Software for 5,597,000 shares in the public company.

During the years ended December 31, 1999 and 2000, we advanced a total of $50,000 to Mr. Govatski. After repayment of $25,000 by Mr. Govatski in 2001, the principal and interest due was reduced to approximately $32,000 on December 31, 2001, including $4,000 advanced by us to Mr. Govatski during 2001. During 2002, Mr. Govatski received none of his agreed annual salary of $120,000. However, effective December 31, 2002, he agreed to cancel $26,000 of the 2002 salary amount and apply it to the former advances. As of December 31, 2002, he owed a balance of $6,000 for the prior cash advances.

In January 2001 our wholly owned subsidiary, New Mexico Software, Inc., entered into a line of credit agreement with Los Alamos National Bank in the maximum principal amount of $300,000. It also issued a promissory note dated January 24, 2001, in the principal amount of $300,000, representing the amount that it borrowed under the line of credit. The note is secured by all of New Mexico Software's furniture, fixtures, equipment, inventory, accounts, chattel paper, tangibles and general intangibles, and a letter of credit in the amount of $250,000 issued by another bank and provided by Murray Kelly. We issued 250,000 shares to Mr. Kelly for providing this letter of credit as collateral on this note. The note was originally due on or before July 24, 2001, and was extended to July 24, 2002. On July 24, 2002, we negotiated a three-month extension until October 24, 2002, by paying $50,000, plus accrued interest. On or about October 24, 2002, we were able to negotiate an extension of the note until April 24, 2003, by paying $25,000, plus interest. On March 27, 2004, we received a letter from LANB extending the note until October 15, 2004, with payment of $25,000 of principal and approximately $6,000 of interest due on April 15, 2004. On April 5, 2004, we paid the $25,000 of principal and $6,000 of interest as agreed. As of June 30, 2004, the principal balance due on the note was $163,000. The note bears interest at 7%. Mr. Govatski has personally guaranteed to the bank repayment of $50,000 of this line of credit.

The lease payments for our office space in Albuquerque, New Mexico, of $47,000 and improvements of approximately $28,000 were provided through the payment of 75,000 shares of our common stock to the landlord by Richard Govatski, our president, a director, and a principal shareholder. In March 2001 we issued 75,000 shares to Mr. Govatski for providing his shares to the landlord.

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In March 2001 we issued 1,500,000 NMXS Series C Warrants to Manhattan Scientifics, Inc.,--one of our 5% shareholders. These Warrants were issued as part of a swap transaction with Manhattan Scientifics, pursuant to which Manhattan Scientifics issued 150,000 restricted shares to the Company; thereafter the Company delivered 150,000 of the shares of Manhattan Scientifics common stock to a consultant for services purportedly to be performed by the consultant for the Company. This swap transaction is the subject of the current litigation between the Company and Manhattan Scientifics.

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We have granted options to Mr. Govatski under our employee stock option plan (and pursuant to his employment with us) to purchase an aggregate of 500,000 shares of common stock. The options were granted in August 1999 and vest at the rate of 20% per year. Of the total options, 380,000 are exercisable at $0.75 per share and 120,000 are exercisable at $0.825 per share.

We have granted options under our employee stock option plan (and pursuant to her employment with us) to Teresa Dickey, one of our executive officers, to purchase an aggregate of 518,780 shares. Of the total options, 56,000 were granted in January 2000 and are exercisable at $2.125 per share; 56,000 were granted in July 2000 and are exercisable at $1.25 per share; 3,000 were granted in January 2001 and are exercisable at $0.77 per share; 400,000 were granted in October 2001 and are exercisable at $0.34 per share; and 3,780 were granted in January 2002 and are exercisable at $0.34 per share. The options vest at the rate of 50% per year.

In March 2003 we borrowed $25,000 from First Mirage, Inc. To secure repayment of this loan Mr. Govatski pledged 400,000 of his personal shares as collateral.

The terms of all of the transactions entered into with Mr. Govatski and the other related parties are the same as we would have negotiated with an outside party.

## DESCRIPTION OF SECURITIES

The following is a summary description of our capital stock and certain provisions of our certificate of incorporation and by-laws, copies of which have been incorporated by reference as exhibits to the registration statement of which this prospectus forms a part. The following discussion is qualified in its entirety by reference to such exhibits.

**Common Stock**

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We are presently authorized to issue 50,000,000 shares of $.001 par value common stock. At October 22, 2004, we had 31,503,791 shares of common stock outstanding. The holders of our common stock are entitled to equal dividends and distributions when, as, and if declared by the Board of Directors from funds legally available therefore. No holder of any shares of common stock has a preemptive right to subscribe for any of our securities, nor are any common shares subject to redemption or convertible into other of our securities, except for outstanding options described above. Upon liquidation, dissolution or winding up, and after payment of creditors and preferred stockholders, if any, the assets will be divided pro-rata on a share-for-share basis among the holders of the shares of common stock. All shares of common stock now outstanding are fully paid, validly issued and non-assessable. Each share of common stock is entitled to one vote with respect to the election of any director or any other matter upon which shareholders are required or permitted to vote. Holders of our common stock do not have cumulative voting rights, so the holders of more than 50% of the combined shares voting for the election of directors may elect all of the directors if they choose to do so, and, in that event, the holders of the remaining shares will not be able to elect any members to the Board of Directors.

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**Preferred Stock**

We are authorized to issue up to 500,000 shares of $.001 par value preferred stock. At June 30, 2004, we had 135 shares of preferred stock outstanding. Under our Certificate of Incorporation, the Board of Directors will have the power, without further action by the holders of the common stock, to designate the relative rights and preferences of the preferred stock, and to issue the preferred stock in one or more series as designated by the Board of Directors. The designation of rights and preferences could include preferences as to liquidation, redemption and conversion rights, voting rights, dividends or other preferences, any of which may be dilutive of the interest of the holders of the common stock or the preferred stock of any other series. The issuance of preferred stock may have the effect of delaying or preventing a change in control of our company without further shareholder action and may adversely affect the rights and powers, including voting rights, of the holders of common stock. In certain circumstances, the issuance of preferred stock could depress the market price of the common stock.

**Series A Warrants**

On August 29, 2003, we issued a total of 1,000,000 warrants to First Mirage, Inc. Each warrant provides the warrant holder the right to purchase 1 share of our common stock at $.08 per share. The warrants can be exercised at any time until August 29, 2008. To date, no warrants have been exercised.

## CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two most recent fiscal years and interim period subsequent to December 31, 2003, there have been no disagreements with Beckstead and Watts, LLP, our independent auditor, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

## TRANSFER AGENT

The Transfer Agent and Registrar for our common stock is Interwest Transfer Company, Inc., 1981 East Murray Holladay Road, Salt Lake City, Utah 84117. Its telephone number is (801) 272-9294.

## EXPERTS

The financial statements included in this prospectus have been audited by Beckstead & Watts, LLP, independent auditors, as stated in their report appearing herein and elsewhere in the registration statement (which report expresses an unqualified opinion and includes an explanatory paragraph referring to our recurring losses from operations which raise substantial doubt about our ability to continue as a going concern), and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

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**LEGAL MATTERS**

The validity of our common shares offered will be passed upon for us by Anslow & Jaclin, LLP, Manalapan, New Jersey 07726.

**FINANCIAL STATEMENTS**

We have attached to this prospectus copies of our audited financial statements as of December 31, 2003 and 2002. We have also included unaudited financial statements for the six months ended June 30, 2004 and 2003.

**NMXS.com, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
**(Rounded to the nearest thousand)**

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and equivalents | $ 11,000 | $ 39,000 |
| Accounts receivable, net | 450,000 | 643,000 |
| Inventory | 3,000 | - |
| Prepaid expenses and other assets | 21,000 | 42,000 |
| Officer advances | - | 1,000 |
| Total current assets | 485,000 | 725,000 |
| Furniture, equipment and improvements, net | 141,000 | 226,000 |
| Security deposits | 39,000 | 39,000 |
| Goodwill, net | 75,000 | 75,000 |
| | $ 740,000 | $ 1,065,000 |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| Current liabilities: | | |
| Accounts payable | $ 122,000 | $ 315,000 |
| Accrued expenses | 465,000 | 318,000 |
| Deferred revenue | 70,000 | - |
| Notes payable | 276,000 | 287,000 |
| Total current liabilities | 933,000 | 920,000 |

| | | | | |
|---|---|---|---|---|
| Stockholders' equity (deficit): | | | | |
| Preferred stock, $0.001 par value, 500,000 shares authorized, 135 and no shares issued and outstanding as of 12/31/03 and 12/31/02, respectively | | - | | - |
| Common stock, $0.001 par value, 50,000,000 shares authorized, 29,392,256 and 24,757,726 shares issued and outstanding as of 12/31/03 and 12/31/02, respectively | | 29,000 | | 25,000 |
| Additional paid-in capital | | 8,861,000 | | 8,184,000 |
| Prepaid compensation | | (135,000) | | - |
| Accumulated (deficit) | | (8,948,000) | | (8,064,000) |
| | | (193,000) | | 145,000 |
| | $ | 740,000 | $ | 1,065,000 |

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)**

| | For the years ended December 31, 2003 | 2002 |
|---|---|---|
| Revenue | | |
| Software sales and maintenance | $ 841,000 | $ 1,053,000 |
| Custom programming | 224,000 | 106,000 |
| License fees | 60,000 | 174,000 |
| Scanning services | 168,000 | 75,000 |
| Other | 7,000 | 250,000 |
| | 1,300,000 | 1,658,000 |
| Operating costs and expenses: | | |
| Cost of services | 330,000 | 527,000 |
| General and administrative | 1,678,000 | 1,386,000 |
| Research and development | 112,000 | 176,000 |
| Impairment of goodwill | - | 22,000 |
| Total operating costs and expenses | 2,120,000 | 2,111,000 |
| Net operating (loss) | (820,000) | (453,000) |
| Other income (expense): | | |
| Interest income | - | 1,000 |
| Interest (expense) | (64,000) | (45,000) |
| (Loss) on disposal of fixed assets | - | (25,000) |
| Total other income (expense) | (64,000) | (69,000) |

| | | | | |
|---|---|---|---|---|
| Net (loss) | $ | (884,000) | $ | (522,000) |
| Weighted average number of common shares outstanding - basic and fully diluted | | 26,794,295 | | 23,271,379 |
| Net (loss) per share - basic and fully diluted | $ | (0.03) | $ | (0.02) |

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

**NMXS.com, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Equity**
**(Rounded to the nearest thousand)**

| | Preferred Stock | | Common Stock | | Additional Paid-in | Subscriptions | Prepaid | Accumulated |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Payable | Compensation | (Deficit) |
| Balance forward December 31, 2001 | - | $ - | 22,116,784 | $ 22,000 | $ 7,550,000 | $ - | $ - | $ (7,542,000) |
| Issuance of shares previously issuable | | | 21,946 | | | | | |
| Issuance of common stock for salaries | | | 42,349 | | 15,000 | | | |
| Issuance of common stock for services | | | 29,497 | | 212,000 | | | |

| | | | |
|---|---|---|---|
| Issuance of common stock for services | 492,480 | 1,000 | 90,000 |
| Issuance of common stock for severance | 34,422 | | 13,000 |
| Issuance of common stock for salaries | 148,082 | | 53,000 |
| Issuance of common stock for services | 103,305 | | 58,000 |
| Issuance of common stock for salaries | 122,316 | | 27,000 |
| Sale of common stock, net | 1,346,545 | 1,000 | 147,000 |
| Sale of common stock, net | 300,000 | 1,000 | 19,000 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net (loss) For the year ended December 31, 2002 | | | | | | | | (522,000) |
| Balance, December 31, 2002 | - | - | 24,757,726 | 25,000 | 8,184,000 | - | - | (8,064,000) |
| Issuance of common stock for salaries | | | 60,143 | | 11,000 | | | |
| Issuance of common stock for services | | | 5,208 | | 1,000 | | | |
| Cash received for sale of common stock | | | | | | 28,000 | | |
| Issuance of common stock for salaries | | | 142,241 | | 21,000 | | | |
| Issuance of common | | | | | | | | |

| | | |
|---|---|---|
| stock for services | 12,500 | 2,000 |
| Issuance of options for services | | 65,000 |
| Issuance of common stock for salaries | 199,422 | 24,000 |
| Issuance of common stock for services | 18,045 | 2,000 |
| Issuance of common stock for salaries | 146,901 | 16,000 |
| Issuance of common stock for services | 36,090 | 4,000 |
| Issuance of common stock for services | 10,000 | 1,000 |

| | | | | | |
|---|---|---|---|---|---|
| Cash received for sale of preferred stock | | | | 30,000 | |
| Issuance of common stock for services | 100,000 | | 20,000 | | |
| Issuance of common stock for services | 170,000 | | 17,000 | | |
| Issuance of common stock for services | 42,500 | | 3,000 | | |
| Issuance of common stock for services | 57,611 | | 4,000 | | |
| Issuance of common stock for services to be rendered | 1,500,000 | 2,000 | 88,000 | | (90,000) |
| Cash received | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| for sale of preferred stock | | | | | | 30,000 | |
| Issuance of common stock for services to be rendered | | | 500,000 | 1,000 | 29,000 | | (30,000) |
| Issuance of options for services | | | | | 7,000 | | |
| Issuance of warrants for services | | | | | 67,000 | | |
| Cash received for sale of preferred stock | | | | | | 75,000 | |
| Issuance of preferred stock for cash | 135 | - | | | 135,000 | (135,000) | |
| Issuance of common stock for services | | | 250,000 | | 15,000 | | (15,000) |

| | | | | | |
|---|---|---|---|---|---|
| to be rendered | | | | | |
| Compensation expense | | | | | 15,000 |
| Issuance of common stock for cash | 250,000 | | 28,000 | (28,000) | |
| Issuance of common stock for services | 200,000 | | 16,000 | | |
| Issuance of common stock for salaries | 41,369 | | 17,000 | | |
| Issuance of common stock for services | 365,000 | 1,000 | 32,000 | | |
| Issuance of common stock for services to be rendered | 500,000 | | 30,000 | | (30,000) |
| Issuance of common | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| stock for bonuses | | | 27,500 | | 11,000 | | | | |
| Issuance of options for services | | | | | 11,000 | | | | |
| Compensation expense | | | | | | | 15,000 | | |
| Net (loss) For the year ended December 31, 2003 | | | | | | | | (884,000) | |
| Balance, December 31, 2003 | 135 | $ - | 29,392,256 | $ 29,000 | $ 8,861,000 | $ - | $ (135,000) | $ (8,948,000) | $ |

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)**

| | For the years ended December 31, 2003 | 2002 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net (loss) | $ (884,000) | $ (522,000) |
| Adjustments to reconcile net (loss) to | | |
| net cash provided (used) by operating activities: | | |
| Common stock issued for salaries | 89,000 | 108,000 |
| Common stock issued for services | 133,000 | 205,000 |
| Common stock issued for bonuses | 11,000 | - |
| Stock options issued for services | 83,000 | 156,000 |
| Warrants issued for services | 67,000 | - |
| Depreciation and amortization | 86,000 | 100,000 |
| Amortization of goodwill | - | 22,000 |
| Loss on disposal of fixed assets | - | 25,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 193,000 | (174,000) |
| Inventory | (3,000) | - |
| Estimated earnings in excess of billings on uncompleted contracts | - | 18,000 |
| Prepaid expenses and other assets | 21,000 | 8,000 |
| Officer advances | 1,000 | 31,000 |
| Security deposits | - | 15,000 |
| Accounts payable | (193,000) | 365,000 |
| Accrued expenses | 147,000 | - |

| | | |
|---|---|---|
| Deferred revenue | 70,000 | (266,000) |
| Net cash (used) by operating activities | (179,000) | |