NEW MEXICO SOFTWARE, INC
Form 10-Q
August 15, 2011

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

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

For the transition period from _____________ to _____________

COMMISSION FILE #333-30176

NEW MEXICO SOFTWARE, INC.
(Exact name of Registrant as specified in charter)

NEVADA	91-1287406
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5021 Indian School Road, Suite 100
Albuquerque, New Mexico 87110
(Address of principal executive offices) (Zip Code)

(505) 255-1999
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	YES [X] NO [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	YES [ ] NO [X]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [_] NO [X]

The number of shares outstanding of each of the issuer's classes of common stock at August 12, 2011 was 144,835,594.

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ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and equivalents	$ 113,000	$ 188,000
Accounts receivable, net	471,000	430,000
Prepaid expenses and other assets	28,000	53,000
Total current assets	612,000	671,000
Furniture, equipment and improvements, net	77,000	57,000
Security deposits	4,000	4,000
Total Assets	$ 693,000	$ 732,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 628,000	$ 647,000
Accrued expenses	37,000	31,000
Customer deposits	27,000	3,000
Deferred revenue	2,000	6,000
Notes payable	2,000	-
Capital lease	12,000	4,000
Total current liabilities	708,000	691,000
Long-term liabilities		
Capital lease - long-term portion	11,000	3,000
Total long-term liabilities	11,000	3,000
Total liabilities	719,000	694,000
Stockholders' equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized,		
0 shares issued and outstanding as of 6/30/10	-	-
Common stock, $0.001 par value, 200,000,000 shares		
authorized, 144,835,594 shares issued and outstanding		
as of 6/30/10	145,000	145,000
Paid-in capital	15,054,000	15,054,000
Subscriptions payable	21,000	21,000
Deferred compensation	(30,000)	(60,000)

Accumulated deficit		(15,216,000)		(15,122,000)
Total stockholders' equity		(26,000)		38,000
Total Liabilities and Stockholders' Equity	$	693,000	$	732,000

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2011	2010	2011	2010
Gross revenues	$758,000	$780,000	$1,694,000	$1,683,000
Cost of services	626,000	614,000	1,321,000	1,283,000
Gross profit	132,000	166,000	373,000	400,000
Operating costs and expenses:				
General and administrative	188,000	197,000	396,000	413,000
Depreciation and amortization	4,000	4,000	8,000	10,000
Research and development	14,000	12,000	32,000	26,000
Bad debt expense	27,000	-	27,000	-
Total operating costs and expenses	233,000	213,000	463,000	449,000
Net operating loss	(101,000)	(47,000)	(90,000)	(49,000)
Other income (expense):				
Interest income	-	8,000	-	15,000
Interest expense	(3,000)	(2,000)	(4,000)	(7,000)
Gain on sale of obsolete inventory	-	1,000	-	1,000
Total other income (expense)	(3,000)	7,000	(4,000)	9,000
Net loss	$(104,000)	$(40,000)	$(94,000)	$(40,000)
Loss per share - basic	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted average number of common shares outstanding - basic	144,935,594	136,113,773	144,639,619	135,213,811

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

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

	For the six months ended June 30, 2011	2010
Cash flows from operating activities		
Net loss	$(94,000)	$(40,000)
Adjustments to reconcile net loss to		
net cash used by operating activities:		
Common stock issued for services	30,000	30,000
Inventory revaluation		-
Depreciation and amortization	9,000	10,000
Depreciation and amortization allocated to cost of goods sold	3,000	4,000
Changes in operating assets and liabilities:		
Accounts receivable	(41,000)	72,000
Prepaid expenses and other assets	25,000	11,000
Accounts payable	(19,000)	(85,000)
Customer deposits	24,000	-
Accrued expenses	6,000	(4,000)
Deferred revenue	(4,000)	(8,000)
Net cash provided (used) by operating activities	(61,000)	(10,000)
Cash flows from investing activities		
Acquisition of fixed assets	(12,000)	(2,000)
Net cash used by investing activities	(12,000)	(2,000)
Cash flows from financing activities		
Proceeds from note payable	2,000	-
Repayment of principle under capital lease	(4,000)	(7,000)
Subscriptions payable	-	34,000
Net cash provided by financing activities	(2,000)	27,000
Net increase in cash equivalents	(75,000)	15,000
Cash equivalents - beginning	188,000	111,000
Cash equivalents - ending	$113,000	$126,000
Supplemental disclosures:		
Interest paid	$3,000	$2,000
Assets acquired under capital lease	$20,000	$57,000

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

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New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE A – BASIS OF PRESENTATION

The interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.
These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2010 and notes thereto included in the Company's Form 10-K. The Company follows the same accounting policies in the preparation of interim reports.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Revenue recognition:

The Company’s revenues are generally classified into four main categories: radiological services, software usage fees, software hosting and maintenance, and cardiology services. The Company also occasionally derives revenue from hardware sales associated with sales of our various software products, fees for customization or modification to our core software product, scanning services and other services such as consulting, training and installation. The Company recognizes revenue in accordance with Statement of Position ASC Topic 985 Software Revenue Recognition as amended.

Revenue from proprietary software sales that does not require further commitment from the Company is recognized upon persuasive evidence of an arrangement as provided by agreements executed by both parties, delivery of the software, and determination that collection of a fixed or determinable fee is probable. These sales are generally direct purchases of a software product and there is no other involvement by the Company.

The Company offers with certain sales of its software products, software maintenance, upgrade and support arrangements. These contracts may be elements in a multiple-element arrangement or may be sold in a stand-alone basis. Revenues from maintenance and support services are recognized ratably on a straight-line basis over the term that the maintenance service is provided. The Company typically charges 17% to 21% of the software purchase price for a 12-month maintenance contract with discounts available for longer-term agreements. The complexity of the software determines the percentage that is charged to any individual customer, and that percentage remains consistent upon renewal unless there is a change in the software or the terms of the agreement.

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New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (continued):

Charges for hosting are likewise spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis. The Company sells some hosting contracts in conjunction with the sale of software, and some hosting contracts without an associated software sale. When the hosting arrangement is sold in conjunction with a software sale, the Company allocates a portion of the fee to the software license. Hosting services do not require the customer to purchase the software license, and for those hosting contracts that are sold without an associated software sale, the customer has neither the right nor the ability to operate the software on its own.

Should the sale of software involve an arrangement with multiple elements (for example, the sale of a software license along with the sale of maintenance and support to be delivered over the contract period), the Company allocates revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. The Company defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met. Fair values for the ongoing maintenance and support obligations are based upon separate sales of renewals of maintenance contracts. Fair value of services, such as training or consulting, is based upon separate sales of these services to other customers. The Company follows the guidance in ASC Topic 605, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for custom software development arrangements that require significant production, customization or modification to its core software. Revenue is generally recognized for such arrangements under the percentage-of-completion method. Under percentage-of-completion accounting, both the product license and custom software development revenue are recognized as work progresses based on specific milestones in accordance with ASC 605-25. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At June 30, 2011 and June 30, 2010, there were no custom software development arrangements in progress.

The Company follows the guidance in FASB ASC Topic 605, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for custom software development arrangements that require significant production, customization or modification to its core software. Revenue is generally recognized for such arrangements under the percentage-of-completion method. Under percentage-of-completion accounting, both the product license and custom software development revenue are recognized as work progresses based on specific milestones in accordance with FASB ASC Topic 450. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At June 30, 2011 and June 30, 2010, there were no custom software development arrangements in progress.

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

New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (continued):

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

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

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

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

The cost of services, consisting of staff payroll, radiologists' fees, outside services, professional licenses and insurance, communication costs and supplies, is expensed as incurred.

[2] Cash and cash equivalents:

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2011, the Company had no cash and cash equivalents that exceeded federally insured limits.

[3] Trade Accounts Receivable:

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

The Company also estimates an allowance for doubtful accounts, which amounted to $38,000 and $47,000 at June 30, 2011 and 2010, respectively. The estimate is based upon management's review of all accounts and an assessment of the Company's historical evidence of collections. Specific accounts are charged directly to the reserve when management obtains evidence of a customer's insolvency. Charge-offs, net of recoveries, amounted to $27,000 and $0 for the six months ended June 30, 2011 and 2010, respectively.

[4] Furniture, equipment and improvements:

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

New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Per share data:

The basic and diluted per share data has been computed on the basis of the net loss available to common stockholders for the period divided by the historic weighted average number of shares of common stock. All potentially dilutive securities have been excluded from the computations since they would be antidilutive, however, these dilutive securities could potentially dilute earnings per share in the future. Options and warrants exercisable for 1,962,250 and 15,068,500 shares of common stock have been excluded from the diluted loss per share calculation for the years ended June 30, 2011 and 2010, respectively, because inclusion of such would be antidilutive.

[6] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $3,000 and $0 for the six months ended June 30, 2011 and 2010, respectively.

[7] Use of estimates:

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

[8] Stock-based compensation:

The Company adopted ASC Topic 505, Share-Based Payment, effective January 1, 2006. ASC 505 requires the recognition of the fair value of stock-based compensation in net income. Stock-based compensation primarily consists of stock options. Stock options are granted to employees at exercise prices equal to the fair market value of our stock at the dates of grant. The Company now recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. The Company provides newly issued shares to satisfy stock option exercises. There were 0 and 0 option awards granted to employees and directors in the six months ended June 30, 2011 and 2010, respectively. During the six months ended June 30, 2011 and 2010, the Company did not have expenses related to option grants to employees and directors.

[9] Software development:

The Company accounts for computer software development costs in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". As such, all costs incurred prior to the product achieving technological feasibility are expensed as research and development costs. Technological feasibility is generally achieved upon satisfactory beta test results. Upon achieving technological feasibility, programming costs are capitalized and amortized over the economic useful live which is estimated to be two years. There were no capitalized software development costs as of June 30, 2011 and 2010.

New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] Recent pronouncements:

The Company's management has reviewed all of the FASB's Accounting Standard Updates through June 30, 2011 and has concluded that none will have a material impact on the Company's financial statements. Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying consolidated financial statements.

NOTE C – GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of approximately $15,216,000 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company's ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of June 30, 2011 consisted of the following:

Computers	469,000
Furniture, fixtures and equipment	124,000
Automobiles	41,000
Leasehold improvements	20,000
	654,000
Accumulated depreciation	(577,000)
	$77,000

Depreciation expense for the six months ended June 30, 2011 and 2010 was $8,000 and $10,000, respectively.

New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE E – CAPITAL TRANSACTIONS

Common stock:

During the six month period ended June 30, 2011, the Company effected no stock transactions.

Warrants:

During the six month period ended June 30, 2011, there were no warrants issued and none were exercised. No warrants are outstanding as of June 30, 2011.

Stock options:

Stock options employees and directors – During the six months ended June 30, 2011 and 2010, the Company made no grants of stock options to employees or directors.

Stock options non-employees and directors – During the six months ended June 30, 2011 and 2010, the Company made no grants of stock options for services.

Exercise prices and weighted-average contractual lives of stock options outstanding as of June 30, 2011, are as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$0.01-$0.049	9,500,000	5.36	$0.03	9,500,000	$0.03
$0.05-$0.30	1,462,250	1.66	$0.06	1,462,250	$0.06

Summary of Options Granted and Outstanding:

	For the six months ended June 30, 2011	
	Shares	Weighted Average Exercise Price
Options:		
Outstanding at beginning of year	11,262,250	$0.04
Granted	-	-

Cancelled	(300,000)	$0.06
Exercised	-	-
Outstanding at end of period	10,962,250	$0.03

New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE F - MAJOR CUSTOMERS

During the six month period ended June 30, 2011, one customer accounted for 33% or approximately $558,000 of the Company's revenue.

As of June 30, 2011, balances due from two customers comprised 51% or approximately $258,000 of total accounts receivable.

NOTE G - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate lines of business. New Mexico Software (NMS) derives revenues from the development and marketing proprietary internet technology-based software and Telerad Service (TRS) provides radiological services. Information related to the Company's reportable segments for the six months ended June 30, 2011 is as follows:

	NMS	TRS	TOTAL
Revenue	$226,000	$1,468,000	$1,694,000
Cost of services	112,000	1,209,000	1,321,000
General and administrative	149,000	214,000	363,000
Legal expenses	33,000	-	33,000
Depreciation	5,000	3,000	8,000
Research and development	32,000	-	32,000
Bad debt expense	-	27,000	27,000
Operating income (loss)	$(105,000)	$15,000	$(90,000)
Total assets	$186,000	$507,000	$693,000

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

Segment’s operating income	$(90,000)
Other income (expense)	(4,000)
Consolidated net income	$(94,000)

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New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE H – COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico expiring on April 30, 2014. The Company also leases one automobile which expires in June 2011, as well as computer and other office equipment with lease expiration dates ranging from November 2012 to June 2014. The automobile lease has been extended through July 2011, and we are currently exploring the possibility of purchasing the automobile. Future minimum lease payments as of June 30, 2011, are as follows:

Year	Amount
2011	36,000
2012	73,000
2013	63,000
2014	21,000

Rent expense for the six months ended June 30, 2011 and 2010 amounted to $32,000 and $33,000, respectively.

Employment agreement:

The Company entered into an employment and non-competition agreement with a stockholder to act in the capacity of President and Chief Executive Officer (CEO). The term of the employment agreement is for three years commencing on January 1, 2010. The agreement allows for a one-year renewal option unless terminated by either party. Base salary is $60,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $30,000 is included in general and administrative expenses for the six months ended June 30, 2011. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of June 30, 2011, there was a total of $0 in accrued payroll for this executive.

NOTE I – LEGAL PROCEEDINGS

On February 18, 2009, Premier Medical Enterprise Solutions, Inc. ("Premier") filed a complaint in the Federal District Court in New Mexico against us and our chief executive officer. Premier has been a customer of our XR-EXpress application. The complaint alleges among other things breaches of (i) fiduciary duty, (ii) covenant of good faith and fair dealing and (iii) contract, along with claims of conversion and tortuous interference and seeks an accounting. The suit seeks compensatory, punitive and exemplary damages in excess of $75,000, together with injunctive relief against unfair competition and attorney's fees. The case is Premier Medical Enterprise Solutions, Inc. v. New Mexico Software, Inc. and Richard Govatski, Case No. Civ 09–165.

At the time suit was filed, we were making demand for payment of past due invoices and had given notice of termination of the agreement with Premier for nonpayment. On March 9, 2009, we filed our Answer and Counterclaims for breach of contract, demanding payment in full for past due amounts owed and ongoing charges, attorney's fees and costs and for Declaratory Judgment asserting that we properly terminated the Agreement with Premier for breach of contract, nonpayment and as a result of other misconduct by Premier. The Company also asserted a counterclaim for money owed and malicious abuse of process. We believe the suit by Premier is without merit and are vigorously contesting the claims of Premier. We have also vigorously pursued our affirmative claims against Premier.

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New Mexico Software, Inc.
Notes to the Financial Statements
(Unaudited)

NOTE I – LEGAL PROCEEDINGS (CONTINUED)

On October 25, 2010, the Court granted partial summary judgment in our favor effectively dismissing Premier's claim of tortuous interference. Trial was set to commence November 15, 2010, to resolve all remaining issues except for the Company's malicious abuse of process claim, which is being held in abeyance pending resolution of the underlying claims. On November 11, 2010, Premier filed for reorganization in bankruptcy in the Middle District of Florida, Case No. 9:10-bk-27310. By Order entered on March 17, 2011, the bankruptcy court granted the Company's motion to have the trial conducted in Federal District Court in New Mexico. The bankruptcy was subsequently dismissed. We have requested but not yet received a new trial date. On July 21, 2011, counsel for Premier withdrew from the case. No other counsel has entered an appearance for Premier.

NOTE J – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 12, 2011, the date which it has made its financial statements available, and has identified no significant reportable events through that date.

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

OVERVIEW

New Mexico Software provides Software-as-a-Service (SaaS) solutions for a wide variety of industries. We offer our services via our web-based technology that allows our customers in any type of commercial business and not-for-profit organization to optimize their operations without spending significant time and money on upfront costs for hardware, software, tech support and training.

Our medical division continues to provide significant growth opportunities for us. Because of the potential opportunities in telemedicine as health care reform in America focuses on reducing health care costs, we are continuing to concentrate the majority of our marketing and expansion efforts in this area during 2011. We believe that we can continue to take advantage of the growth in the telemedicine market during the next few years to further expand our customer base and our revenues.

Through June 30, 2011, we have realized revenues from four primary sources:

1. radiological services
2. software usage fees
3. software hosting and maintenance services
4. cardiology services

Gross profit is our key indicator of operating progress. Telerad Service generated a gross profit percentage of 17.6% during the first six months of 2011 as compared to 12.2% during the first six months of 2010. Approximately 82% of the cost of services for Telerad Service is doctor fees, which are directly related to revenues. Therefore, we expect this percentage to remain relatively stable during 2011. Telerad Service accounted for approximately 87% of gross revenues during the first half of 2011. The software division generated a gross profit percentage of 50% during the first half of 2011 as compared to 69% during the first half of 2010. As a result, the overall gross profit percentage was 22.0% during the first half of 2011 and 23.8% during the first half of 2010.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

With each sale of our enterprise-level products, the end user enters into a license agreement for which an initial license fee is paid. The license agreement also provides that in order to continue the license, the licensee must pay an annual software maintenance fee for which the party receives access to product upgrades and bug fixes or product patches. Software maintenance consists primarily of hosting and managing our customers’ data on our servers, as well as technical support programs for our products. Software usage comprises any charges for actual usage of our software.

Currently, software usage consists of XR-EX report fees and IMedCon case fees.

Our software recognition policies are in accordance with the ASC Topic 985, Software Revenue Recognition as amended. Revenue is recognized when (a) persuasive evidence of an arrangement exists, (b) delivery has occurred, (c) the fee is fixed or determinable, and (d) collectibility is probable. We follow the guidance in ASC Topic 605, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for custom software development arrangements that require us to provide significant production, customization or modification to our core software. Revenue is generally recognized for such arrangements under the percentage of completion method. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred revenue.

We follow the guidance provided by SEC Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements and SAB No. 104 Revenue Recognition which provide guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Revenue from radiological services, software installation, training and consulting services is recognized when the services are rendered.

Software Development Costs

We account for software development costs in accordance with ASC Topic 985, Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Product research and development expenses consist primarily of personnel, outside consulting and related expenses for development, and systems personnel and consultants and are charged to operations as incurred until technological feasibility is established. We consider technological feasibility to be established when all planning, designing, coding and testing have been completed to design specifications. After technological feasibility is established, costs are capitalized. Historically, product development has been substantially completed with the establishment of technological feasibility and, accordingly, no costs have been capitalized.

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

RESULTS OF OPERATIONS

Revenues:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$758,000	$780,000	$(22,000)	(2.8)%

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$1,694,000	$1,683,000	$11,000	0.7%

These changes are a result of the following factors:

1. Radiological services:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$643,000	$666,000	$(23,000)	(3.5)%

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$1,421,000	$1,419,000	$2,000	0.1%

The decrease in radiological services during the three months ended June 30, 2011 is primarily due to an adjustment for prior overcharges to one customer amounting to approximately $22,000. The decrease in radiological services during the second quarter of 2011 was offset by an increase in radiological services during the first quarter of 2011, resulting in almost no change for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010.

2. Software usage fees:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$77,000	$89,000	$ (12,000)	(13.5)%

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For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$176,000	$188,000	$(12,000)	(6.4)%

At the end of June 2010, we terminated the account associated with the legal proceedings described in Part II, Item 1 below, resulting in a decrease in software usage fees of approximately $36,000 during the first half of 2011 as compared to the first half of 2010. Since June 30, 2010 we also have lost several other customers and gained several new customers, resulting in a net increase of $24,000 in software usage fees for the same periods.

3. Cardiological services:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$22,000	$1,000	$21,000	2,100.0%

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$47,000	$1,000	$46,000	4,600.0%

We began providing cardiological services near the end of the first quarter of 2010.

4. Software hosting and maintenance:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$16,000	$24,000	$(8,000)	(33.3)%

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$39,000	$73,000	(34,000)	(46.6)%

This decrease is a result of our increased focus on our medical division and our decreased focus on our older enterprise-level software applications that were developed prior to XR-EXpress. As a result, we no longer have any customers using these older enterprise systems. All of our new customers are using our medical software (we charge usage fees for the medical software, rather than hosting fees). Software maintenance now consists mainly of technical support. We expect revenues in this category to continue to decrease during 2011, as we continue to focus our efforts on growing our medical division.

5. Software sales and licenses:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$0	$0	$0	0.0 %

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$11,000	$2,000	$9,000	450.0 %

The increase in software sales and license revenue is the result of an upgrade fee for one customer during 2011 as compared to a recurring license fee for one customer during 2010. At this time, we do not anticipate further software sales during 2011.

Cost of services:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$626,000	$614,000	$ 12,000	2.0 %

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$ 1,321,000	$ 1,283,000	$ 38,000	3.0 %

Approximately 90% of the cost of services for the six months ended June 30, 2011 is related to Telerad Service. These costs consist of radiologist fees, cardiologist fees, management fees, professional credentialing and professional liability insurance. These costs are directly related to revenues; as a result, they have increased primarily as the telecardiology revenues have increased during the first half of 2011.

General and administrative expenses:

For the Three Months Ended June 30,

	2011	2010	Increase (Decrease)	Percent Inc (Dec)
Legal	$7,000	$27,000	$ (20,000)	(74.1)%
Other G&A	$181,000	$170,000	$ 11,000	6.5 %

For the Six Months Ended June 30,

	2011	2010	Increase (Decrease)	Percent Inc (Dec)
Legal	$33,000	$84,000	$ (51,000)	(60.7)%
Other G&A	$363,000	$329,000	$ 34,000	10.3 %

The decrease in legal expenses is due to the reduced activity during the current six month period in the legal proceedings described in Part II, Item 1 below. The increase in other general and administrative expenses for the first half of 2011 as compared to the first half of 2010 is due to a number of factors: approximately $9,000 is due to the hiring of a part-time engineer during the fourth quarter of 2010; approximately $7,000 is to the result of increased credit card fees since we began allowing our Telerad Service customers to pay their account balances with credit cards during the fourth quarter of 2010; approximately $7,000 is due to increased public relations fees; and approximately $6,000 is due to increased telecommunications fees.

Research and development costs:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)

$14,000	$12,000	$ 2,000	16.7 %

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$32,000	$26,000	$ 6,000	23.1 %

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

During the first half of 2011, over 80% of our research and development costs were directly associated with staffing. In the software industry it is common for research and development costs to be ongoing, since development of the next version of the software begins as soon as the current version is completed. In addition, we are constantly developing new applications for our existing software that require modification. Management anticipates that research and development costs in the future will focus both on the upgrading of our existing products and the continued development of new products using our core technology; therefore they will remain relatively steady during the coming year.

Depreciation:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$4,000	$4,000	$ 0	0.0 %

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$8,000	$10,000	$ (2,000)	(20.0)%

The decrease in depreciation expense for the six months ended June 30, 2011 is due to assets being fully depreciated.

Bad debt expense:

For the Three Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$27,000	$0	$ 27,000	100.0 %

For the Six Months Ended June 30,

2011	2010	Increase (Decrease)	Percent Inc (Dec)
$27,000	$0	$ 27,000	100.0 %

This increase is due to the determination that certain customer accounts had become uncollectible during the three months ended June 30, 2011.

Other income (expense):

For the Three Months Ended June 30,

	2011	2010	Increase (Decrease)	Percent Inc (Dec)
Interest income	$0	$8,000	$ (8,000)	(100.0)%
Interest expense	$3,000	$2,000	$ 1,000	50.0 %
Gain on sale of inventory	$0	$1,000	$ (1,000)	(100.0)%

For the Six Months Ended June 30,

	2011	2010	Increase (Decrease)	Percent Inc (Dec)
Interest income	$0	$15,000	$ (15,000)	(100.0)%
Interest expense	$4,000	$7,000	$ (3,000)	(42.9)%

Gain on sale of inventory	$0	$1,000	$(1,000)	(100.0)%

- The interest income during the first half of 2010 is primarily related to charges on the customer account associated with the legal proceedings described in Part II, Item 1 below. That account was terminated during 2010.
- The decrease in interest expense during the first half of 2011 as compared to the first half of 2010 is due to fewer past-due obligations resulting from cash flow.
- The gain on sale of inventory was due to a one-time sale of obsolete inventory during the second quarter of 2010.

REPORTABLE SEGMENTS

Management has identified our reportable segments based on separate lines of business. We derive revenues from the development and marketing proprietary internet technology-based software (NMS) and Telerad Service (TRS) provides radiological services. Information related to our reportable segments for the six months ended June 30, 2011 is as follows:

	2011			2010		
	NMS	TRS	TOTAL	NMS	TRS	TOTAL
Revenue	$226,000	$1,468,000	$1,694,000	$263,000	$1,420,000	$1,683,000
Cost of services	112,000	1,209,000	1,321,000	108,000	1,175,000	1,283,000
General and administrative	149,000	214,000	363,000	115,000	214,000	329,000
Legal	33,000	0	33,000	84,000	0	84,000
Depreciation	5,000	3,000	8,000	7,000	3,000	10,000
Research and development	32,000	0	32,000	26,000	0	26,000
Bad debt expense	0	27,000	27,000	0	0	0
Operating income (loss)	$(77,000)	$28,000	$(49,000)	$(77,000)	$28,000	$(49,000)
Total assets	$186,000	$507,000	$693,000	$326,000	$556,000	$882,000

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

Segment’s operating income	$(90,000)
Other income (expense)	(4,000)
Consolidated net income	$(94,000)

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2011, cash and cash equivalents totaled $113,000, representing a $75,000 decrease from December 31, 2010. This decrease in available cash was due to the following factors during the period:

Operating activities:

For the Six Months Ended June 30,

2011	2010	Inc (Dec) in available cash
61,000 $used	10,000 $used	$(51,000)

The increase in available cash from operations during the first quarter of 2011 as compared to the first quarter of 2010 is mainly due to a combination of the following factors:

- a $14,000 increase in available cash due to a decrease in prepaid expenses during the first half of 2011 as compared to the first half of 2010
- a $76,000 increase in available cash due to the net increase in accounts payable and accrued expenses during the first half of 2011 as compared to the first half of 2010
- a $54,000 decrease in available cash due to net loss of $94,000 during the first six months of 2011 as compared to net loss of $40,000 during the first half of 2010
- a $113,000 decrease in available cash due to the increase in accounts receivable during the first half of 2011 as compared to the first half of 2010.

Investing activities:

For the Six Months Ended June,

2011	2010	Inc (Dec) in available cash
12,000	2,000	
$used	$used	$(10,000)

W e purchased $12,000 of computer equipment during the first half of 2011 as compared to only $2,000 during the first half of 2010.

Financing activities:

For the Six Months Ended June 30,

2011	2010	Inc (Dec) in available cash
2,000	27,000	
$used	$provided	$(29,000)

This decrease is primarily due to the decrease in subscriptions payable during the first half of 2011 as compared to the first half of 2010.

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

At June 30, 2011, we had a working capital deficit of $96,000 as opposed to a working capital deficit of $20,000 at the beginning of the period, a decrease of $76,000. We may continue to sell equity securities and incur debt as needed to meet our operating needs during 2011.

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

OFF-BALANCE SHEET ARRANGEMENTS

We currently have no off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

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

- Rapid changes in technology relating to the Internet
- Continued growth and use of the Internet
- Changes in government regulations
- Changes in our business strategies
- Hardware failure of a catastrophic proportion
- Terrorist interference with the operation of the Internet or effects of terrorist activities on the economy
- Difficulty recruiting and retaining staff of sufficient technical caliber to provide adequate and on-going customer support and product maintenance and development
- Failure to successfully market our products through the Internet and our representatives
- Inability to locate sources to retire our line of credit or to obtain alternative lending sources
- Inability to solve cash flow problems

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

307 – Disclosure controls and procedures: As of June 30, 2011, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, with the participation of our principal executive and principal financial officers. Disclosure controls and procedures are defined in Exchange Act Rule 15d–15(e) as "controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms [and] include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure." Based on our evaluation, our President/Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2011, such disclosure controls and procedures were not effective. The primary reasons for management's conclusions are that we did not have a plan in place for implementing controls and procedures and insufficient personnel to implement checks and balances. We believe that we will not have sufficient funds available to develop a plan in the foreseeable future. We do not anticipate that our business will need sufficient personnel in the foreseeable future that are needed to implement checks and balances.

308(c) – Changes in internal control over financial reporting: Based upon an evaluation by our management of our internal control over financial reporting, with the participation of our principal executive and principal financial officers, there were no changes made in our internal control over financial reporting during the quarter ended June 30, 2011 that have materially affected or are reasonably likely to materially affect this control.

Limitations on the Effectiveness of Internal Control: Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about risks and the likelihood of future events, and there is no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances and the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

PART II

ITEM 1. LEGAL PROCEEDINGS

On February 18, 2009, Premier Medical Enterprise Solutions, Inc. ("Premier") filed a complaint in the Federal District Court in New Mexico against us and our chief executive officer. Premier has been a customer of our XR-EXpress application. The complaint alleges among other things breaches of (i) fiduciary duty, (ii) covenant of good faith and fair dealing and (iii) contract, along with claims of conversion and tortuous interference and seeks an accounting. The suit seeks compensatory, punitive and exemplary damages in excess of $75,000, together with injunctive relief against unfair competition and attorney's fees. The case is Premier Medical Enterprise Solutions, Inc. v. New Mexico Software, Inc. and Richard Govatski, Case No. Civ 09–165.

At the time suit was filed, we were making demand for payment of past due invoices and had given notice of termination of the agreement with Premier for nonpayment. On March 9, 2009, we filed our Answer and Counterclaims for breach of contract, demanding payment in full for past due amounts owed and ongoing charges, attorney's fees and costs and for Declaratory Judgment asserting that we properly terminated the Agreement with Premier for breach of contract, nonpayment and as a result of other misconduct by Premier. The Company also asserted a counterclaim for money owed and malicious abuse of process. We believe the suit by Premier is without merit and are vigorously contesting the claims of Premier. We have also vigorously pursued our affirmative claims against Premier.

On October 25, 2010, the Court granted partial summary judgment in our favor effectively dismissing Premier's claim of tortuous interference. Trial was set to commence November 15, 2010, to resolve all remaining issues except for the Company's malicious abuse of process claim, which is being held in abeyance pending resolution of the underlying claims. On November 11, 2010, Premier filed for reorganization in bankruptcy in the Middle District of Florida, Case No. 9:10-bk-27310. By Order entered on March 17, 2011, the bankruptcy court granted the Company's motion to have the trial conducted in Federal District Court in New Mexico. The bankruptcy was subsequently dismissed. We have requested but not yet received a new trial date. On July 21, 2011, counsel for Premier withdrew from the case. No other counsel has entered an appearance for Premier.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are attached to this report:

31.1 Rule 15d-14 (a) Certification by Principal Executive Officer
31.2 Rule 15d-14 (a) Certification by Principal Financial Officer
32 Section 1350 Certification of Principal Executive Officer and Principal Financial Officer
101 The following materials from the Quarterly Report on Form 10-Q of New Mexico Software, Inc. for the quarter ended June 30, 2011, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Financial Statements.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

NEW MEXICO SOFTWARE, INC.

Date: August 12, 2011	By /s/ Richard F. Govatski Richard F. Govatski, President
Date: August 12, 2011	By /s/ Teresa B. Dickey Teresa B. Dickey, Treasurer (Principal Financial Officer)