NEW MEXICO SOFTWARE, INC
Form 10-K
April 14, 2009

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

COMMISSION FILE #333-30176

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

NEVADA
(State or other jurisdiction of incorporation or organization)

91-1287406
(I.R.S. Employer Identification No.)

5021 INDIAN SCHOOL RD., SUITE 100
ALBUQUERQUE, NEW MEXICO 87110
(Address of principal executive offices)(Zip code)

(505) 255-1999
(Issuer's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
YES [ ] NO [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act
YES [ ] NO [X]

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [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.

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]

AGGREGATE MARKET VALUE OF THE VOTING COMMON STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT ON DECEMBER 31, 2008, WAS: $7,420,999

DOCUMENTS INCORPORATED BY REFERENCE
None

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Our History and Background

Our business was incorporated in New Mexico in 1996 under the name of New Mexico Software, Inc. We were acquired by Raddatz Exploration, Inc., a publicly traded Delaware corporation, in 1999. At that time, Raddatz changed its name to NMXS.com, Inc., and operated New Mexico Software, Inc. as a wholly-owned subsidiary. On January 1, 2006, NMXS.com, Inc. merged into its newly incorporated, wholly-owned subsidiary, New Mexico Software, Inc., a Nevada corporation, for the sole purpose of changing its state of incorporation and its name. In May 2008, we created a wholly-owned subsidiary called Telerad Service, Inc. to provide radiological services.

Our address on the World Wide Web is www.nmxs.com. A secondary address is also available, www.nmxc.net, which broadcasts the same information as www.nmxs.com. The information at that web site is not part of our annual report, and we specifically disclaim any liability under federal securities law related to the web site.

Our Business

We provide 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 Products and Services

Every industry shares the need to track, organize and distribute information efficiently and accurately. Our software solutions are the service that bridges the gap between the paper and digital worlds. Our software solutions reduce dependence on paper files and physical images. In addition to organizing and archiving, our software solutions enable a company to control access to and dissemination of its digital files, providing protection of the digital assets.

XR-EXpress: XR-EXpress is a secure, HIPAA-compliant system that enables medical providers to examine medical images such as x-rays, EKG's, and ultrasounds over the Internet. The originating medical facility or service provider uploads medical images as high-resolution DICOM digital files to our secure servers. The digital files are tagged with patient information. The independent radiologist then accesses the digital images on our secure servers through his or her own computer and returns the diagnostic report to our secure server for access by the treating physician. XR-EXpress significantly reduces the time between the imaging events and report delivery. Our workflow technology provides scheduling, dispatching, monitoring and reporting functions, which boosts the customer's efficiency and productivity while enhancing patient care. XR-EXpress is structured and delivered as a hosted model, reducing the customer's need for capital investment in technology and eliminating technology support costs. During 2008, we received the US Food and Drug Administration's 510(k) clearance to market XR-EXpress as a Class II medical device. This clearance allows us to market XR-EXpress in the United States under FDA general control provisions, including requirements for annual registration of devices, good manufacturing practice, labeling, and prohibitions against misbranding and adulteration. We believe that this will provide increased assurance to potential new customers regarding the quality of XR-EXpress, which will result in increased marketing opportunities for us in the future.

XR-EXpress also may be used in neurosurgery, trauma, cardiology and pediatric care by facilitating referrals and consultations. XR-EXpress enables a referring hospital to instantly transmit digital diagnostic images and reports to a consulting physician, providing a means for the consulting physician to aid the attending physician in applying the appropriate care. We believe XR-EXpress is especially useful when the patient is located a substantial distance from a Class I Trauma Facility and transport decisions must be made quickly and cost effectively. XR-EXpress enables hospitals to avoid unnecessary transports, more effectively utilize resources, and make better triage and management decisions, thus saving money and facilitating superior patient care. XR-EXpress will soon be available with videophone capabilities for face-to-face remote diagnosis. The audio/video can be stored digitally and linked with the appropriate patient images and reports to provide documentation for billing purposes.

DFC3: DFC3 is our business automation platform. Our customers can automate common paper tasks with PDF files and Javascript using any Web 2.0 compliant device. Since our DFC3 product is hosted online, customers can stay synchronized at their desks and on their mobile devices.

Telerad Service, Inc.: Telerad Service provides radiological services. We currently have 23 doctors on contract, licensed in 48 states, providing reads for x-rays, ultrasounds and MRIs for customers in 34 states. We operate 24 hours per day, 7 days per week, 365 days per year, providing high-quality reports with exceptional turn-around times and customer service.

Our Technology

Our technology is the key to our product differentiation. We engineer our products around a central core of unique Internet technology. This proprietary technology makes it possible to rapidly view, distribute and manage a variety of media files such as documents, graphic images, animation sequences, film clips, audio files, x-rays, other medical images and high-definition media streams. The value of our core technology is that it provides maximum flexibility in the presentation of digital images to the customer, and integrates general browsing capabilities with specific search capabilities in one product.

All of our products are accessed via the Internet. This means that the customer needs only a PC with browser capability to be able to use our products. No additional expensive equipment, software or tech support is required, and training is accomplished smoothly and quickly. The customer's data is available 24 hours per day, so that the customer can work according to his or her own schedule with productivity available around the clock. Additionally, documents and images can be viewed from or distributed anywhere in the world at any time.

These unique features make our core technology adaptable to and highly desirable in a wide variety of commercial applications. Basically, any company in any industry that manages digital assets and makes use of browser and search engine technology can benefit from our products.

Business Strategy

Our greatest growth over the preceding three years has been in the medical division. According to the Centers for Medicare and Medicaid Services, "Telemedicine is viewed as a cost-effective alternative to the more traditional face-to-face way of providing medical care." (www.cms.hhs.gov/telemedicine) Today, there is tremendous pressure to reduce health care costs as part of overall health care reform, and it is widely acknowledged that telemedicine can and should be an integral part of health care reform.

Telemedicine can potentially contribute to providing safe, effective services while reducing costs in a wide variety of medical applications, such as avoiding unnecessary patient transports, providing support for hospital overflows, providing increased services in remote or rural areas, decreasing the length of some patient stays, provide increased home management of chronic diseases, and increase access to specialized services. Digital diagnostics systems in particular have demonstrated significantly improved image quality over the last few years, while at the same time being available at reduced costs. By providing enhanced diagnostic capabilities with quick turn-around times, teleradiology can potentially increase patient safety and reduce costs. Teleradiology can be useful in such diverse environments as rural areas, nursing and assisted living facilities, corrections facilities, battlefields, and possibly even maritime and aviation applications.

Because of the potential opportunities in telemedicine in general and teleradiology in particular as health care reform is pursued in the country, we will be focusing the majority of our marketing efforts in these areas during the coming year. We believe that we can continue to take advantage of the growth in the telemedicine market in general and the teleradiology market in particular during the next few years to further expand our customer base and our revenues.

During the next few years, we will implement this new strategy in a more formal way. Our current strategy involves the following factors:

- o Leverage our technology that we have developed during the last nine years to become a service provider. Our workflow technologies can significantly improve our customers' efficiency and productivity, as well as help them to provide high-quality customer service.

- o Continue to emphasize the flexibility and affordability of our products as hosted applications. Our customers do not need extensive hardware, software or technology staff to use our products. Also, we are usually able to get new customers and doctors operational within days, sometimes within hours, including training.

- o Continue to expand the products and services we offer. For example, we have recently introduced a dispatch module for our XR-EXpress product, and we will soon introduce an accounting and billing module, as well as the ability to transmit specialized medical images and other high resolution digital information. We have implemented a quality assurance program including peer review for Telerad Service. Our XR-EXpress product can be offered for remote consultation via videophones. These applications are programs facilitating the instant delivery of certain data, with multiple uses in the medical and security industries.

- o Continue to offer timely and thorough customer service.

Competition

Other, better-financed companies may be developing similar products that could compete with our products. Such competition could have a material adverse effect on our business, financial condition, performance and prospects. While the Internet technology marketplace is extremely competitive, we believe we have a first-to-market advantage with our products. In addition, although the current market for telemedicine and teleradiology is growing rapidly, they are also exceptionally competitive. Other highly capitalized companies that have recognized the potentials of digital image management products and telemedicine could overwhelm our 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. The risk factor inherent in the use of Open Source software development tools is the fact that a sophisticated competitor might be able to imitate our work and produce similar functionality. Any such imitation, should it occur, could have material adverse effects on our business, financial condition, performance and prospects.

Marketing and Customers

During the last three years we have concentrated on expanding our customer base for recurring revenues for software hosting and usage fees. During this time, our most effective marketing tool has been customer referrals and direct sales. During 2009, we plan to continue this approach, along with targeted trade shows and occasional direct marketing to potential XR-Express and Telerad Service customers, to further build our customer base and to sustain our progress in growing our revenues. Overall, we anticipate that our customer base will continue to broaden in the next year, particularly for Telerad Service, giving more stability, steady growth, 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. We believe the compiled object code that is accessible to our customers makes it difficult to discover the source code needed to create other similar programs, even though the code we use originates from Open Source. Because we maintain our enterprise software code on dedicated servers in our Albuquerque data center, it provides better protection and security of our products.

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 is no assurance that these contractual arrangements or the other steps we have taken 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 is 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.

Government Regulation

Our 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.

The Health Insurance Portability and Accountability Act (HIPAA) provides standards for the use, dissemination and disclosure of protected health information. Protected health information is any information about health status, provision of health care, or payment for health care that can be linked with an individual. The act applies to any company that transmits health care data. The act encourages the use of electronic transmission of data within the U.S. healthcare system, and provides three types of security safeguards that are required for compliance: administrative, physical and technical. For each of these types, HIPAA identifies various security standards which must be adopted and administered by any entity covered by the act. Our software strictly adheres to the privacy and security standards dictated by HIPAA.

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.

Employees

As of March 31, 2009, we had 21 full-time and three part-time staff, including five in systems engineering and quality assurance; two in sales, twelve customer support; and five in administration. We also have 23 radiologists on contract for Telerad Service.

Item 1A. Risk Factors

A small number 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 year ended December 31, 2008, three customers accounted for 44% of our revenue. During the year ended December 31, 2007, three customers accounted for 36% of our revenues. The loss of such customers would result in a significant decrease in our revenues. Such decrease will negatively impact our growth and threaten our ongoing operations.

A small number 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 December 31, 2008, balances due from two customers comprised 43% of total accounts receivable. Failure to collect these balances would result in a significant decrease in our working cash flow. Such decrease will negatively impact our growth and threaten our ongoing operations.

Our business depends on a limited number of key personnel, the loss of whom could negatively affect us.

Richard F. Govatski and Teresa B. Dickey, our senior executives and major stockholders, 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.

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, particularly as Telerad Service continues to add new customers. We expect that our growth will place significant stress on our operations, 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 occasional 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.

Occasionally, we have paid for services by issuing shares of our common stock, in lieu of paying cash, to our employees and other service providers. We may find it necessary to continue this practice from time to time. In the event we issue stock for services in the future, the issuance of such shares will result in the dilution of your investment in us.

Reliance on oral agreements with some of our customers could have a material negative impact on our revenues.

We have oral agreements with a few of our long-term major customers rather than written contracts. As a result, these agreements may be terminated at any time, and therefore they provide little guarantee of future revenues. In addition, if these customers fail to perform their obligations under these agreements, it could have a material negative impact on our future cash flows, and there is little likelihood that we would be able to recover any unpaid receivables from these customers without significant effort and legal costs.

Our ability to grow our medical division in order to achieve profitability depends on our ability to contract with qualified radiologists. Inability to locate and attract licensed and qualified radiologists could have a material negative impact on our future growth and profitability.

The current market for highly qualified radiologists is competitive, and the number of available radiologists could potentially decrease in the coming years. If we are unable to locate and attract licensed and qualified radiologists, we could have difficulty growing our teleradiology business, which would negatively impact our revenues and operations, as well as reducing our opportunities for becoming profitable.

The current telemedicine and teleradiology markets are competitive, and they are projected to become significantly more competitive in the next few years, which may make it difficult to attract and retain customers.

The markets for telemedicine in general and teleradiology in particular are exceptionally competitive and volatile at this time, and potential government intervention in the form of health care reform may increase these factors. In addition, the technology used in these industries is rapidly changing. If we are not able to continually adapt to the changing market conditions, we may experience difficulties attracting and retaining customers, which could have a materially adverse effect on our revenues and operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We do not have any unresolved staff comments.

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease a 3,000 square foot facility in Albuquerque, New Mexico, at a cost of approximately $4,820 per month. The lease expires on April 30, 2009. We currently are in negotiations to extend the lease. The facility houses our administrative, marketing and engineering offices, and provides adequate room for expansion. It also contains an advanced telephone system which will provide the capability needed to provide adequate customer telephone support. We house our servers in a separate facility downstairs from ours, at a cost of approximately $1,700 per month on a month-to-month basis. The two locations are networked together by fiber optics. In this facility we have access to a large power generator, which enables our servers to continue operating during power outages.

ITEM 3. LEGAL PROCEEDINGS

On February 18, 2009, Premier Medical Enterprise Solutions, Inc. filed a complaint in the Federal District Court in Albuquerque 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. The suit seeks compensatory, punitive and exemplary damages in excess of $75,000, together with injunctive relief against unfair competition, an accounting (for three items) and attorney's fees. The case is Premier Medical Enterprise Solution, Inc. v. New Mexico Software, Inc. and Richard Govatski, Case No. Civ – 09 – 165.

There are no new events in the working relationship between us and Premier to give rise to this lawsuit, other than our demand for timely payment of invoices and notice of termination of the agreement with Premier for nonpayment. This suit is Premier's response to our cancellation of Premier's agreement for services for nonpayment which was served on February 2, 2009. We believe the suit is frivolous and filed solely to delay payment of amounts owed by Premier. On March 9, 2009, we filed an Answer and Counterclaims for Breach of Contract, demanding payment in full for past due and ongoing charges, attorney's fees and costs, all of which are provided for in the Agreement with Premier, and for Declaratory Judgment that we properly terminated the agreement with Premier for breach of contract and nonpayment.

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

No matters were submitted to a vote of the security holders during the year ended December 31, 2008.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our stock is quoted on the OTC Bulletin Board under the symbol "NMXC." The table below sets forth, for the periods indicated below, high and low bids for our common stock. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. The source of this information is Big Charts: www.bigcharts.com.

	Quarter	High	Low
FISCAL YEAR ENDED	First	$0.036	$0.036
DECEMBER 31, 2007	Second	$0.044	$0.029
	Third	$0.035	$0.025
	Fourth	$0.031	$0.030
FISCAL YEAR ENDED	First	$0.038	$0.020
DECEMBER 31, 2008	Second	$0.028	$0.013

	Third	$0.019	$0.011
	Fourth	$0.065	$0.018
FISCAL YEAR ENDED DECEMBER 31, 2009	First	$0.084	$0.052

Recent Sales of Unregistered Securities

The following table sets forth information about our unregistered sales of common stock during the year ended December, 2008:

Class of Purchaser	Aggregate Number of Shares
Directors	0
Employees (10 persons)	1,420,446
Contractors (3 persons)	1,834,787
Contract radiologists (4 persons)	400,000

Shares issued to our employees were issued as bonuses. Shares issued to contractors were in payment of services. Shares issued to our contract radiologists were for sign-on bonuses.

We did not pay and to our knowledge no one acting on our behalf or paid any commissions of other compensation with respect to the sales identified in the foregoing table. We made the sale directly to each purchaser for the consideration stated in the table. We used any cash proceeds and any cash which would have been used to pay bonuses and contractor fees, but for the issue of the shares, for working capital in payment of current obligations. Each purchaser acknowledged the investment nature of the transaction and a legend was placed on each certificate, prohibiting public resale of the shares, except in compliance with Rule 144. We believe each purchaser has either (a) such relationship with us or (b) such knowledge and experience in business and financial transactions that he or she is able to understand and evaluate the risks and merits of investment in our common stock. We relied upon the exemption from the registration requirement of the Securities Act of 1933, as amended (the “Act”) provided in Section 4(2) of the Act and the rules and regulations thereunder, on grounds that these sales did not involve a public offering within the meaning of the Act.

No shares were issued in 2008 pursuant to stock issuance plans and related registration statements on Form S-8.

Shareholders

As of March 24, 2009, there were 365 holders of record of our common shares.

Dividends

We did not declare any cash dividends on our common stock during the year ended December 31, 2008. We have no plans to pay any dividends to the holders of our common stock in 2009.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

OVERVIEW

Through 2008, we have realized revenues from six primary sources:

1. radiological services
2. software usage fees
3. software hosting and maintenance services
4. software sales and licenses
5. custom programming services

6. hardware sales

We also occasionally realize revenues from scanning services and from other services.

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, bug fixes and 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-EXpress report fees and DFC3 application minute fees.

Also, in May 2008, we began operating our new radiological services business Telerad Service. Telerad Service provides radiological services to hospitals, mobile and portable x-ray providers, prisons, urgent care facilities, and assisted living facilities. Telerad Service utilizes our XR-EXpress software in providing the services. At this time, we have more than twenty licensed radiologists available to read and report on radiological studies, which include x-ray films, ultrasounds, MRI's and various scanned images. Telerad Service provides professional liability insurance for all radiologists under contract. This line of business is a direct outgrowth of our work with the New Mexico Department of Health; our teleradiology services are an expansion beyond the original scope of this work.

Cost of services consists primarily of engineering salaries and compensation-related expenses, engineering supplies, hardware purchases and connectivity costs. 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, sales and marketing, administrative, and reporting responsibilities. We record these expenses when incurred.

In general, our key indicator of operating progress is gross revenue. During 2008, general personnel-related expenses (including engineering, administrative, customer support and sales staff) have accounted for approximately 46% of our total operating expenses, with fixed costs such as office rent, utilities, insurance, communications and depreciation accounting for an additional 12%. Radiologist fees, which account for almost 30% of total operating expenses, are directly variable with radiological services revenues. This means that in 2008, over 50% of our expenses have been relatively fixed.

Currently radiological fees are slightly more than 70% of radiological services revenues. The remaining costs of services for Telerad Services consist of engineering, customer support and quality assurance salaries, professional liability insurance, and bandwidth costs. None of these costs vary directly with sales. Until we have been providing the radiological services for a consistent period of time, gross revenue will remain the best gauge of our progress.

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

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. 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 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 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.

Income Taxes

Management evaluates the probability of the utilization of the deferred income tax assets. We have estimated a $4,670,400 deferred income tax asset at December 31, 2008, related primarily to net operating loss carryforwards at December 31, 2008. Management determined that because we have 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 fully deferred income tax asset is offset by an equal valuation allowance. If we begin to generate taxable income, we 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.

Stock Based Compensation

We grant 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 fair value method prescribed in SFAS 123(R) for stock options granted to employees and non-employees by estimating 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.

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.

See Note B to the Company's Consolidated Financial Statements for a full discussion of the Company's critical accounting policies and estimates.

RESULTS OF OPERATIONS

Revenues:

For the Year Ended December 31,	
2008	2007

$ 1,636,000	compared to	$ 988,000	an increase of $648,000 or 65.6%

These changes are a result of the following factors:

1. Radiological services:

For the Year Ended December 31,			
2008		2007	
$ 864,000	compared to	$ 0	an increase of $864,000 or 100%

11

Our radiological services business began generating revenue in June, 2008. Since beginning operations, we have added several new customers per month and have provided almost 61,000 reports on combined reads of x-rays, CT scans and ultrasounds.

2. Software usage fees:

For the Year Ended December 31,			
2008		2007	
$ 457,000	compared to	$ 399,000	an increase of $58,000 or 14.5%

This increase is the result of a net increase in XR-Express customers during 2008. Approximately 335,000 reports were generated during 2008, as compared to approximately 300,000 reports during 2007. Although we are still adding new XR-EXpress customers, the rate of growth has slowed significantly during 2008. We expect these revenues to remain stable or increase slightly during 2009, as we continue to focus on growing the medical division.

3. Software hosting and maintenance:

For the Year Ended December 31,			
2008		2007	
$ 275,000	compared to	$ 453,000	a decrease of $178,000 or 39.3%

This decrease is a result of our focus on our medical division and our decreased focus on our older enterprise software applications that were developed prior to DFC3 and XR-EXpress. As a result, we have lost several customers that were using these older enterprise systems, while almost all of our new customers are using our medical software (we charge usage fees for the medical software, rather than hosting fees). Software maintenance consists mainly of hosting and managing our customers' data on our systems, and to a lesser extent includes technical support programs associated with our products. We expect revenues in this category to remain stable or decrease slightly during the coming year, as we continue to focus our efforts on building our medical division.

4. Software sales and licenses:

For the Year Ended December 31,			
2008		2007	
$ 17,000	compared to	$ 23,000	a decrease of $6,000 or 26.1%

The decrease in software sales and license revenue is due to our continuing efforts to build recurring revenues. As a result, we have modified our policy to include the cost of XR-EXpress software with the setup for new customers. We expect our revenues from software sales and licenses to remain low during the coming year.

5. Custom programming revenue:

For the Year Ended December 31,			
2008		2007	
$ 16,000	compared to	$ 22,000	a decrease of $6,000 or 27.3%

The decrease in custom programming revenue during 2008 as compared to 2007 is due to a decrease in the number of custom programming projects in 2008 as compared to 2007. Since we have reduced our focus on sales of enterprise-level systems requiring substantial customization, the number of custom programming projects requested by customers has been inconsistent. We continue to offer programming services for customer database integration, and for other projects for our existing customers.

6. Hardware, scanning and other revenues:

	For the Year Ended December 31, 2008		2007	
Hardware	$ 7,000	compared to	$ 68,000	a decrease of $61,000 or 89.7%
Scanning and other	$ 0	compared to	$ 23,000	a decrease of $23,000 or 100.0%

12

All hardware sales were associated with sales of our XR-EXpress and DFC3 software. We are no longer offering our jal camera units for sale to our XR-EXpress customers, and we are no longer focusing on growing the DFC3 division. As a result, we expect this category to remain low during the coming year. We had one major scanning project that began in the second half of 2006 and was extended to the middle of 2007, and no scanning projects during 2008. Although we still offer scanning, we are not emphasizing this service, so we do not anticipate any major projects in the future.

Cost of services:

For the Year Ended December 31,			
2008		2007	
$ 1,173,000	compared to	$ 476,000	an increase of $697,000 or 146.4%

Almost 70% of the cost of services for the year ended December 31, 2008 is related to Telerad Service. These costs consist of radiologist fees, management fees, and professional credentialing and professional liability insurance. The cost of services not related to Telerad Service decreased by approximately 20% during 2008 as compared to 2007, due to shifting existing employee efforts to Telerad Service, and due to the discontinuation of issuing stock in lieu of salaries at the end of 2007.

General and administrative expenses:

For the Year Ended December 31,			
2008		2007	
$ 811,000	compared to	$ 1,075,000	a decrease of $264,000 or 24.6%

The decrease in general and administrative expenses was a result of several factors: discontinuation of issuing stock in lieu of salaries at the end of 2007 represents approximately 2 8% of the decrease (due to the additional bonuses that were included in compensation in 2007 for stock payments), vesting in 2007 of options issued to directors in 2006 represents approximately 21% of the decrease, additional stock issued to management in 2007 but not in 2008 represents approximately 24% of the decrease, and discontinuation of efforts on the DDS-EXpress product represents approximately 10% of the decrease. The remaining decrease was due to a variety of miscellaneous factors.

Research and development costs:

For the Year Ended December 31,			
2008		2007	
$ 50,000	compared to	$ 136,000	a decrease of $86,000 or 63.2%

This decrease is entirely due to reduction in personnel costs as a result of our continued focus during 2008 toward marketing and supporting our completed products, and growing our medical division.

During 2008, over 90% of our research and development costs are 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 and bad debt expense:

	For the Year Ended December 31,			
	2008		2007	
Depreciation expense	$ 34,000	compared to	$ 37,000	a decrease of $3,000 or 8.1%
Bad debt expense	$ 47,000	compared to	$ 12,000	an increase of $35,000 or 291.7%

13

The decrease in depreciation expense is due to a combination of changes in several fixed asset categories: depreciation of furniture and fixtures decreased by approximately $8,000 due to assets being fully depreciated; depreciation of automobiles and computer equipment increased by approximately $5,000 due to the purchase of a new automobile in 2007 and the lease of new computer equipment during 2008. The increase in bad debt expense is due to several factors: approximately 60% of the increase is a result of the startup of our teleradiology services, and includes the write-off of one account and the establishment of an allowance for 2009, and the remaining 40% of the increase is due to the write-off of one account that went out of business, and the establishment of an additional allowance relative to the lawsuit from another customer.

Interest expense:

For the Year Ended December 31,			
2008		2007	
$ 6,000	compared to	$ 10,000	a decrease of $4,000 or 40.0%

The decrease in interest expense is due to our continued efforts to pay our obligations promptly. However, we do still have several short-term financing arrangements that generate monthly interest, such as credit cards and equipment leases.

REPORTABLE SEGMENTS

In May 2008, we began operating Telerad Service (TRS) as a wholly-owned subsidiary of New Mexico Software (NMS). Information about the Company's reportable segments is reflected in the following table. Since Telerad was not in existence in 2007, only 2008 data is included in this table.

		2008	
	NMS	TRS	TOTAL
Revenue	$ 772,000	$ 864,000	$ 1,636,000
Cost of services	379,000	794,000	1,173,000
General and administrative	648,000	163,000	811,000
Depreciation	33,000	1,000	34,000
Research and development	50,000	-	50,000
Bad Debt	26,000	21,000	47,000
Operating income (loss)	$ (364,000)	$ (115,000)	$ (479,000)
Total assets	$ 219,000	$ 335,000	$ 554,000

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, cash and cash equivalents totaled $68,000, representing a $9,000 increase from the beginning of the period. The increase in available cash was due to a combination of several factors during the year:

Operating activities:

For the Year Ended December 31,	
2008	2007

used $(94,000)	compared to	provided $55,000	a decrease in available cash of $149,000

The decrease in available cash from operations during 2008 as compared to 2007 is due to several factors: a $630,000 decrease in cash due to a reduction in stock and options issued for salaries and services during 2008 as compared to 2007, a $271,000 decrease in cash due to an increase in accounts receivable during 2008 as compared to 2007 (primarily due to the startup of Telerad Service with the addition of its new customers), offset by a $254,000 increase in cash due to the reduction in net loss for 2008 as compared to 2007, and a $488,000 increase in cash due to the increase in accounts payable and accrued expenses during 2008 as compared to 2007. The increase in accounts payable and accrued expenses is a result of continued cash flow shortages.

Investing activities:

For the Year Ended December 31,			
2008		2007	
used $(15,000)	compared to	used $(31,000)	an increase in available cash of $16,000

During 2007, we purchased $31,000 of fixed assets as compared to leasing new computer equipment in 2008.

Financing activities:

For the Year Ended December 31,			
2008		2007	
provided $118,000	compared to	provided $14,000	an increase in available cash of $104,000

This increase was primarily due to receiving $86,000 of note payable in 2008 as opposed to paying $51,000 of note payable in 2007. We also received $55,000 in proceeds from the sale of stock in 2007, as opposed to receiving only $40,000 in 2008.

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.

At December 31, 2008 we had a working capital deficit of $85,000 as opposed to a working capital surplus of $95,000 at the end of 2007. This decrease is primarily due to the increase in current liabilities during 2008 as a result of cash flow shortages, coupled with two short-term loans from shareholders during 2008. We have incurred operating losses and negative cash flows for the past two fiscal years that have been funded through the issuance of additional equity securities. Our monthly recurring revenues increased from an average of $60,000 per month in early 2007 to over $200,000 per month during the fourth quarter of 2008, primarily due to the revenue from Telerad Service. However, the margins from the Telerad Service operations are still quite low while we are in the startup phase of the operation, so we continue to experience some cash flow shortages. We may continue to sell equity securities and incur debt as needed to meet our operating needs during 2009.

We anticipate that our primary uses of cash in the next year will be for general operating purposes. With the addition of Telerad Service, our operating cash requirements for the next twelve months will be in the range of $4,200,000 to $5,000,000. This level of cash flow will allow us to maintain our current level of operations. Our goal for 2009 remains to become profitable by the end of the year. We expect the upward trend in recurring revenues to continue in 2009, although it is not possible to predict the rate of increase until our new products have been established in the market for a reasonable period of time.

ITEM 8. FINANCIAL STATEMENTS

De Joya Griffith & Company, LLC

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
New Mexico Software, Inc.
Albuquerque, New Mexico

We have audited the accompanying balance sheets of New Mexico Software, Inc. as of December 31, 2008 and 2007, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Software, Inc. as of December 31, 2008 and 2007, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A, the Company has incurred an accumulated deficit of $14,646,000 as of December 31, 2008. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

De Joya Griffith & Company, LLC

/s/ De Joya Griffith & Company, LLC
Henderson, Nevada
April 2, 2009

2580 Anthem Village Dr., Henderson, NV 89052
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16

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

Assets	December 31, 2008 (Audited)	December 31, 2007 (Audited)
Current assets:		
Cash and equivalents	$ 68,000	$ 59,000
Accounts receivable, net	363,000	129,000
Inventory	18,000	22,000
Prepaid expenses and other assets	5,000	2,000
Total current assets	454,000	212,000
Furniture, equipment and improvements, net		