NEW MEXICO SOFTWARE, INC
Form 10-K/A
April 29, 2010

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

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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, 2009 WAS: $5,099,324

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK AT MARCH 23, 2010 WAS: 134,192,738.

DOCUMENTS INCORPORATED BY REFERENCE

None

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A ("Form 10-K/A") to our Annual Report on Form 10-K for the year ended December 31, 2009, initially filed with the Securities and Exchange Commission (the "SEC") on March 30, 2010 (the "Original Filing") is being amended for the purpose of adding the Report of Independent Registered Public Accounting Firm regarding the audited financials of New Mexico Software, Inc. as of December 31, 2008 which had been omitted in the Original Filing. Additionally, a change was made to the financial table under Item 14.

Except as described above, this Form 10-K/A does not revise or in any way affect any information or disclosures contained in the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

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 is our wholly-owned subsidiary that provides medical diagnostic services. We currently have 29 doctors on contract, licensed in 48 states, providing reads for x-rays, ultrasounds and MRIs for customers in 38 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. In early 2009 we began providing our quality assurance program, providing peer review reads on x-rays, ultrasounds and MRIs. In early 2010 we will begin providing telecardiology services.

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. The data is completely secure and HIPAA-compliant as a result of our extensive backup procedures. 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. 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, telemedicine can potentially increase patient safety and reduce costs. Telemedicine can be useful in such diverse environments as rural areas, nursing and assisted living facilities, corrections facilities, battlefields, and could possibly include 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 continue to focus 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.

Our current strategy involves the following factors:

- 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.

- 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.

- Continue to expand the products and services we offer. For example, we have recently introduced a dispatch module to summarize orders and dispatch mobile x-ray units 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, and we began operating our telecardiology service during the first quarter of 2010. 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.

- Continue to offer exceptionally prompt 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 particular combination of 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 2010, 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.

New Mexico Software has been granted FDA approval for its XR-Express product and therefore we operate within the guidelines set forth by the FDA.

Employees

As of February 28, 2010, we had 17 full-time and two part-time staff, including four in systems engineering and quality assurance; nine in customer support; and six in administration. We also have 29 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, 2009, three customers accounted for 48% of our revenue. During the year ended December 31, 2008, three customers accounted for 44% 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, 2009, balances due from four customers comprised 67% 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 guaranty of future revenues. During 2009, these revenues account for approximately 3.5% of total 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 and cardiologists. Inability to locate and attract licensed and qualified providers, or the loss of those under contract, 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 and cardiologists, we could have difficulty growing, or maintaining our medical services 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, 2014. 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 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. As a result of recent discovery in the case, we have sought leave of Court to amend our Counterclaims to add additional causes of action, which leave was granted. We believe the suit by Premier is without merit and are vigorously contesting the claims of Premier. We also intend to vigorously pursue our affirmative claims against Premier. At this time summary judgment motions by both parties are pending and a bench trial is scheduled in July of 2010.

ITEM 4. (Removed and Reserved)

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	$ 0.038	$ 0.020
DECEMBER 31, 2008	Second	$ 0.028	$ 0.013
	Third	$ 0.019	$ 0.011
	Fourth	$ 0.065	$ 0.018

FISCAL YEAR ENDED	First	$	0.084	$	0.052
DECEMBER 31, 2009	Second	$	0.076	$	0.045
	Third	$	0.070	$	0.040
	Fourth	$	0.049	$	0.033
FISCAL YEAR ENDED DECEMBER 31, 2010	First	$	0.040	$	0.030

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Recent Sales of Unregistered Securities

The following table sets forth information about our unregistered sales of common stock during the year ended December, 2009:

Class of Purchaser	Aggregate Number of Shares	Consideration
Directors (2 persons)	3,000,000	$ 90,000
Employees (1 person)	150,000	$ 6,000
Contractors (3 persons)	232,203	$ 12,000
Stock purchases (2 persons)	747,200	$ 39,000
Contract radiologists (1 person)	256,411	$ 10,000

Shares issued to our directors were for the exercise of options. Shares issued to our employees were issued as bonuses. Shares issued to contractors were in payment of services. Shares issued to purchasers were in exchange for cash. Shares issued to our contract radiologist were payment for additional services.

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 2009 pursuant to stock issuance plans and related registration statements on Form S-8.

Shareholders

As of March 23, 2010, there were 362 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, 2009. We have no plans to pay any dividends to the holders of our common stock in 2010.

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

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 efforts in this area during 2010. 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 December 31, 2009, we have realized revenues from five primary sources:

1. radiological services
2. software usage fees
3. software hosting and maintenance services
4. radiology quality assurance services
5. scanning services

We also occasionally realize revenues from the sale of customized software, hardware sales associated with the sales of our software products and other services.

Telerad Service, our radiological services business, began operations in May 2008. We continue to add new customers each quarter for this service. At this time, we have 29 licensed radiologists available to read and report on radiological studies from customers in 38 states. In addition, we are currently working to expand our revenues to include other services that are complementary to teleradiology, including online billing, electronic medical records and telecardiology. Our telecardiology service will begin operations during the first quarter of 2010, providing EKG and electrocardiogram readings.

For the last few years gross revenue has been our key indicator of operating progress. During 2009, our teleradiology business has produced a consistent quarterly gross profit percentage of approximately 18%. The teleradiology business accounts for approximately 80% of the company's gross revenues during 2009. As a result, the overall gross profit percentage of the company has stabilized to a range of 25-28% during 2009. Our normal operating expenses (including depreciation, R&D and interest expense, but not including legal fees related to the legal proceedings described in Part II) generally range from $200,000 to $250,000 per quarter. This stabilization of gross profit and operating expenses gives us a clear picture of the revenues and gross profits necessary to become profitable under normal operating circumstances.

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. 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, 2009	2008	Increase (Decrease)	Percent Inc (Dec)
$3,660,000	$1,636,000	$2,024,000	123.7 %

These changes are a result of the following factors:

1. Radiological services:

For the Year Ended December 31, 2009	2008	Increase (Decrease)	Percent Inc (Dec)
$2,979,000	$864,000	$2,115,000	244.8 %

Our radiological services business began generating revenue in June, 2008. Since beginning operations, we have added several new customers per month. During 2009 we provided almost 235,000 radiologist reports on combined reads of x-rays, CT scans and ultrasounds as compared to almost 61,000 reports during 2008.

2. Software usage fees:

For the Year Ended December 31, 2009	2008	Increase (Decrease)	Percent Inc (Dec)
$414,000	$457,000	$(43,000)	(9.4)%

This decrease is the result of a net decrease in XR-Express users during 2009. Approximately 284,000 reports were generated during 2009 by XR-Express users, as compared to approximately 335,000 reports during 2008. Although we are still adding new XR-EXpress customers, the rate of growth has slowed significantly during 2009. We expect these revenues to remain stable or even decline slightly during 2010, as we continue to focus on growing the medical division.

3. Software hosting and maintenance:

For the Year Ended December 31,			
2009	2008	Increase (Decrease)	Percent Inc (Dec)
$224,000	$275,000	$(51,000)	(18.5)%

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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 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,			
2009	2008	Increase (Decrease)	Percent Inc (Dec)
$0	$17,000	$ (17,000)	(100)%

The decrease in software sales and license revenue is entirely due to our focus on building recurring revenues through services rather than relying on intermittent sales of software. At this time, we do not anticipate any software sales in 2010.

5. Quality assurance revenue:

For the Year Ended December 31,			
2009	2008	Increase (Decrease)	Percent Inc (Dec)
$13,000	$0	$ 13,000	100 %

In May 2009, we began offering radiological quality assurances services. Radiology QA provides blind peer review radiological reads for enhanced quality assurance. This business is still in the startup phase. We anticipate growth in this revenue category next year, as we will be expanding this service beginning in early 2010. However, although our current customers are pleased with this service, we are not aware of any competitor offering a similar service. This means that the market for this service is unclear, so we are not able to anticipate the growth rate of this service at this time.

7. Custom programming, hardware, scanning and other revenues:

	For the Year Ended December 31,			
	2009	2008	Increase (Decrease)	Percent Inc (Dec)
Custom programming	$9,000	$16,000	$ (7,000)	(43.8)%
Hardware sales	$0	$7,000	$ (7,000)	(100)%
Scanning services	$23,000	$0	$ 23,000	100 %

- The decrease in custom programming revenue during 2009 is due to the continuing decrease in the number of custom programming projects. 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. Although we continue to offer programming services for customer database integration, and for other projects for our existing customers, we expect revenues in this category to remain low during 2010.

- 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 in 2009 that was a continuation of a project from 2006, 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,			
2009	2008	Increase (Decrease)	Percent Inc (Dec)
$2,713,000	$1,173,000	$1,540,000	131.3 %

Approximately 75% of the cost of services for the year ended December 31, 2009 is related to Telerad Service. These costs consist of radiologist fees, management fees, professional credentialing and professional liability insurance. These costs are directly related to revenues. As a result, these costs have increased as the teleradiology revenues have increased during 2009.

General and administrative expenses:

	For the Year Ended December 31,			
	2009	2008	Increase (Decrease)	Percent Inc (Dec)
Legal expenses	$184,000	$55,000	$ 129,000	234.5 %
Other G&A expenses	$774,000	$756,000	$ 18,000	2.4 %

We have been successful in our efforts to keep our general and administrative expenses relatively stable even while we have expanded our medical division. The increase in legal expenses is due to the legal proceedings described in Part I, Item 3 above.

Research and development costs:

For the Year Ended December 31,			
2009	2008	Increase (Decrease)	Percent Inc (Dec)
$62,000	$50,000	$ 12,000	24.0 %

This increase is due to engineering time spent on improving our radiology technology to continue growing our medical division.

During 2009, over 90% 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 and bad debt expense:

	For the Year Ended December 31,			
	2009	2008	Increase (Decrease)	Percent Inc (Dec)
Depreciation expense	$32,000	$34,000	$ (2,000)	(5.9)%
Bad debt expense	$20,000	$47,000	$ (27,000)	(57.4)%

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 $4,000 due to assets being fully depreciated; depreciation of computer equipment increased by approximately $5,000 due to the lease of new computer equipment during 2008. The decrease in bad debt expense is due primarily to the initial establishment of an allowance for doubtful accounts for Telerad during 2008 (approximately $20,000).

Other income (expense):

	For the Year Ended December 31,				
	2009	2008	Increase (Decrease)	Percent Inc (Dec)	
Interest income	$22,000	$0	$ 22,000	100	%
Interest expense	$33,000	$6,000	$ 27,000	450	%
Inventory obsolescence	$16,000	$0	$ 16,000	100	%

- The increase in interest income is primarily related to charges on the customer account associated with the legal proceedings described in Part I, Item 3 above.
- The increase in interest expense is related to past-due obligations resulting from cash flow shortages during 2009.
- Inventory obsolescence results from the write-down of inventory to reflect the loss of market value, as well as the fact that we are no longer offering hardware items for sale to our XR-Express and DFC3 customers.

REPORTABLE SEGMENTS

In May 2008, we began operating Telerad Service (TRS) as a wholly-owned subsidiary of New Mexico Software (NMS). In May 2009, we began operating Radiology QA (RQA) as a separate wholly-owned subsidiary of NMS. In July 2009, we merged RQA into TRS. Information about the Company's reportable segments for the year ended December 31, 2009 is reflected in the following table:

	2009			2008		
	NMS	TRS/RQA	TOTAL	NMS	TRS/RQA	TOTAL
Revenue	$668,000	$2,992,000	$3,660,000	$772,000	$864,000	1,636,000
Cost of services	263,000	2,450,000	2,713,000	369,000	804,000	1,173,000
General and administrative	425,000	533,000	958,000	754,000	57,000	579,000
Depreciation	27,000	5,000	32,000	33,000	1,000	34,000
Research and development	62,000	0	62,000	50,000	0	50,000
Bad debt expense	2,000	18,000	20,000	26,000	21,000	47,000
Operating income (loss)	$(111,000)	$(14,000)	$(125,000)	$(460,000)	$(19,000)	$(479,000)
Total assets	$259,000	$688,000	$947,000	$219,000	$335,000	$554,000

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

	2009	2008
Segment's operating loss	$(125,000)	$(479,000)
Other income (expense)	(27,000)	(6,000)
Consolidated net loss	$(152,000)	$(485,000)

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2009, cash and cash equivalents totaled $111,000, representing a $43,000 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,		
		Inc (Dec) in available cash
2009	2008	

used $	used $	
61,000	94,000	$ 33,000

The increase in available cash from operations during 2009 as compared to 2008 is mainly due to a combination of the following factors:

- a $68,000 decrease in available cash due to a reduction in stock and options issued for salaries and services during 2009
- a $38,000 decrease in available cash due to an increase in prepaid expenses during 2009 (primarily due to the addition of new TRS customers and prepaid professional liability insurance premiums for TRS)
- a $49,000 decrease in available cash due to the net decrease in accounts payable and accrued expenses during 2009

- a $139,000 decrease in available cash due to the increase in accounts receivable during 2009 (primarily from the customer involved in the legal proceedings described in Part I, Item 3 above and from the addition of new TRS customers during 2009)
- offset by a $333,000 increase in available cash due to the reduction in net loss for 2009 as compared to 2008.

Investing activities:

For the Year Ended December 31,		
2009	2008	Inc (Dec) in available cash
used $ 10,000	used $ 15,000	$ 5,000

During the startup of Telerad Services in 2008, we leased $15,000 of computer equipment as compared to leasing and purchasing $10,000 of computer equipment during 2009.

Financing activities:

For the Year Ended December 31,		
2009	2008	Inc (Dec) in available cash
provided $ 114,000	provided $ 118,000	$ (4,000)

We received $86,000 in return for notes payable during 2008, of which $28,000 was repaid with stock during 2008 and $58,000 was repaid with stock during 2009 (these shares were approved by the Board of Directors in 2008; they were therefore included in the Annual Report on Form 10-K for the year ended December 31, 2008). We also received $39,000 in return for stock purchases and $90,000 in return for the exercise of options during 2009.

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, 2009 we had a working capital surplus of $140,000 as opposed to a working capital deficit of $85,000 at the end of 2008. During 2009, we experienced an increase in accounts receivable of $373,000 as a result of new TRS customers and from the customer involved in the lawsuit described in Part I, Item 3 above, offset by an increase in accounts payable of $373,000 as a result of new fees owed for radiological services provided to the new TRS customers. 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 approximately $300,000 per month during the fourth quarter of 2009, 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 growth 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 2010.

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 $4,000,000 to $5,000,000. This level of cash flow will allow us to maintain our current level of operations. Our goal for 2010 remains to become profitable by the end of the year. We expect the upward trend in recurring revenues to continue in 2010 with the addition of our quality assurance and telecardiology programs, although it is not possible to predict the rate of increase until these new products have been established in the market for a reasonable period of time.

ITEM 8. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of New Mexico Software, Inc. as of December 31, 2009, and the related statement of operations, stockholders' equity, and cash flows for the year 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 audit in accordance with the 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2009, and the results of its operations and its cash flows for the year 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 2 to the financial statements, the Company is dependent on raising capital to fund operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Beckstead and Watts, LLP
Henderson, NV
March 29, 2010

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
Telephone (702) 563-1600   Facsimile (702) 920-8049

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

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and equivalents	$ 111,000	$ 68,000
Accounts receivable, net	736,000	363,000
Inventory	-	18,000
Prepaid expenses and other assets	46,000	5,000
Total current assets	893,000	454,000
Furniture, equipment and improvements, net	65,000	96,000
Security deposits	4,000	4,000
Total Assets	$ 962,000	$ 554,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 655,000	$ 282,000
Accrued expenses	50,000	134,000
Customer deposits	21,000	20,000
Deferred revenue	17,000	28,000
Notes payable	-	58,000
Capital lease	10,000	17,000
Total current liabilities	753,000	539,000
Long-term liabilities		
Capital lease - long-term portion	-	8,000
Total long-term liabilities	-	8,000
Total liabilities	753,000	547,000
Stockholders' equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized,		
0 shares issued and outstanding as of 12/31/09	-	-
Common stock, $0.001 par value, 200,000,000 shares authorized, 134,192,738 shares issued and outstanding as of 12/31/09	134,000	128,000
Paid-in capital	14,852,000	14,606,000
Subscriptions payable	21,000	21,000
Deferred compensation	-	(102,000)

Accumulated deficit		(14,798,000)		(14,646,000)
Total stockholders' equity		209,000		7,000
Total Liabilities and Stockholders' Equity	$	962,000	$	554,000

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 year ended December 31, 2009	2008
Revenues		
Radiological services	$2,979,000	$864,000
Software usage fees	414,000	457,000
Software hosting and maintenance	222,000	275,000
Quality assurance services	13,000	-
Software sales and licenses	-	17,000
Custom programming	9,000	16,000
Hardware sales	-	7,000
Scanning services	23,000	-
Gross revenues	3,660,000	1,636,000
Cost of services	2,713,000	1,173,000
Gross profit	947,000	463,000
Operating costs and expenses:		
General and administrative	774,000	756,000
Legal fees	184,000	55,000
Depreciation and amortization	32,000	34,000
Research and development	62,000	50,000
Bad debt	20,000	47,000
Total operating costs and expenses	1,072,000	942,000
Net operating loss	(125,000)	(479,000)
Other income (expense):		
Interest expense	(33,000)	(6,000)
Interest income	22,000	-
Inventory obsolescence	(16,000)	
Total other income (expense)	(27,000)	(6,000)
Net loss	$(152,000)	$(485,000)
Loss per share - basic	$(0.00)	$(0.00)
Weighted average number of common shares outstanding - basic	130,595,893	99,287,638

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 year ended December 31, 2009	2008
Cash flows from operating activities		
Net loss	$(152,000)	$(485,000)
Adjustments to reconcile net loss to		
net cash used by operating activities:		
Common stock issued for salaries	-	69,000
Common stock issued for services	167,000	166,000
Common stock issued for interest	-	-
Stock options issued for salaries	-	-
Stock options issued for services	-	-
Stock options issued for compensation	-	-
Depreciation and amortization	32,000	34,000
Depreciation and amortization allocated to cost of goods sold	9,000	8,000
Changes in operating assets and liabilities:		
Accounts receivable	(373,000)	(234,000)
Inventory	18,000	4,000
Prepaid expenses and other assets	(41,000)	(3,000)
Accounts payable	373,000	248,000
Customer deposits	1,000	20,000
Accrued expenses	(84,000)	90,000
Deferred revenue	(11,000)	(11,000)
Net cash provided (used) by operating activities	(61,000)	(94,000)
Cash flows from investing activities		
Acquisition of fixed assets	(10,000)	(15,000)
Net cash used by investing activities	(10,000)	(15,000)
Cash flows from financing activities		
Repayment of note payable	-	-
Proceeds from note payable	-	86,000
Repayment of principal under capital lease	(15,000)	(8,000)
Subscriptions payable	-	-
Net proceeds from the issuance of common stock	129,000	40,000
Net cash provided by financing activities	114,000	118,000
Net increase (decrease) in cash equivalents	43,000	9,000
Cash equivalents - beginning	68,000	59,000
Cash equivalents - ending	$111,000	$68,000
Supplemental disclosures:		
Interest paid	$26,000	$1,000

Shares issued for exercise of warrants	$-	$10,000
Shares issued for exercise of options	$90,000	$-
Assets acquired under capital lease	$-	$34,000
Stock issued for settlement of note	$-	$28,000

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

New Mexico Software, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(Rounded to the nearest thousand)

	Preferred Stock		Common Stock		Additional				Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deferred Compensation	Subscriptions Payable	Accumulated (Deficit)	Stockholders' Equity (Deficit)
Balance, December 31, 2007	-	$ -	106,770,480	$ 107,000	$ 14,212,000	$ -	$ 31,000	$ (14,161,000)	$ 189,000
Issuance of common stock for salaries	-	-	2,846,286	3,000	66,000	-	-	-	69,000
Issuance of common stock for services	-	-	3,941,494	4,000	94,000	-	-	-	98,000
Issuance of common stock for services to be rendered	-	-	10,000,000	10,000	160,000	(170,000)			-
Issuance of common stock for cash	-	-	2,352,942	2,000	38,000	-	-	-	40,000
Issuance of common stock for settlement of note			1,647,059	2,000	26,000				28,000
Issuance of common stock for exercise of warrants	-	-	390,000	-	10,000	-	(10,000)	-	-
Conversion of note payable									

to subscriptions payable	-	-	-	-	-	-	-	-	-
Compensation earned	-	-	-	-	-	68,000	-	-	68,000
Net (loss) For the year ended December 31, 2008	-	-	-	-	-	-	-	(485,000)	(485,000)
Balance, December 31, 2008	-	$-	127,948,261	$128,000	$14,606,000	$ (102,000)	$ 21,000	$ (14,646,000)	$ 7,000
Issuance of common stock for services			638,614	1,000	64,000				65,000
Issuance of common stock for cash	-	-	1,880,925	2,000	95,000	-	-	-	97,000
Issuance of common stock for exercise of options			3,000,000	3,000	87,000				90,000
Compensation earned	-	-	-	-	-	102,000	-	-	102,000
Net (loss) For the year ended December 31, 2009	-	-	-	-	-	-	-	(152,000)	(152,000)
Balance, December 31, 2009	-	$-	133,467,800	$134,000	$14,852,000	$ -	$ 21,000	$ (14,798,000)	$ 209,000

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

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New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE A - ORGANIZATION AND OPERATIONS

[1] Description of business and history

New Mexico Software, Inc., a Nevada corporation, (the Company), develops and markets proprietary Internet technology-based software for the management of digital high-resolution graphic images, documents, video clips and audio recordings. The Company believes that its software has applications for any industry that has the need to track, organize and distribute information in a digital format efficiently and accurately.

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 formed Telerad Service Inc. as a wholly-owned subsidiary of New Mexico Software, Inc., to provide 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.

[2] 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 $14,798,000 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 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 consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Revenue recognition:

The Company's revenues are generally classified into five main categories: the sale of software licenses to end users, software hosting and maintenance contracts, software licenses that require us to provide production, customization or modification to our core software product, XR-EXpress customer usage fees, and hardware sales associated with sales of our various software products. The Company also derives revenue from 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.

New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (Continued):

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.

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 December 31, 2009 and December 31, 2008, there were no custom software development arrangements in progress.

New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (continued):

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 December 31, 2009 and December 31, 2008, there were no custom software development arrangements in progress.

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

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

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

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

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

The cost of services, consisting of staff payroll, outside services, equipment rental, 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 December 31, 2009, the Company did not have cash and 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.

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New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Trade accounts receivable (continued):

The Company also estimates an allowance for doubtful accounts, which amounted to $47,000 and $32,000 at December 31, 2009 and 2008, 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, for the years ended December 31, 2009 and 2008 totaled $20,000 and $47,000, respectively.

[4] Inventory:

Inventory, which is composed of component parts and finished goods, is valued at cost on a specific identity basis for those items with serial numbers. The remainder of the inventory is valued at the lower of first-in-first-out (FIFO) cost or market. On a quarterly basis, management compares the inventory on hand with our records to determine whether write-downs for excess or obsolete inventory are required. Write-downs of $16,000 and $0 for obsolete inventory are included in expenses for 2009 and 2008, respectively.

[5] Furniture, equipment and improvements:

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

[6] Income taxes:

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined on the basis of the differences between the tax basis of assets and liabilities and their respective financial reporting amount ("temporary differences") at enacted tax rates in effect for the years in which the differences are expected to reverse.

[7] Per share data:

The basic 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 5,100,795 and 3,576,545 shares of common stock have been excluded from the diluted loss per share calculation for the years ended December 31, 2009 and 2008, respectively, because inclusion of such would be antidilutive.

[8] Research and development expenses:

Costs of research and development activities are expensed as incurred.

New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $0 and $0 for the years ended December 31, 2009 and 2008, respectively.

[10] Presentation of financial statements:

The Company rounds the figures on the financial statements to the nearest thousand.

[11] 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.

[12] 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 years ended December 31, 2009 and 2008, respectively. During the year ended December 31, 2009, the Company recorded $68,000 in expense related to option grants to employees and directors in 2007.

[13] Software development:

The Company accounts for computer software development costs in accordance with ASC 985, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". As such, all costs incurred prior to the product achieving technological feasibility are expensed as research and development costs. Technological feasibility is generally achieved upon satisfactory beta test results. Upon achieving technological feasibility, programming costs are capitalized and amortized over the economic useful life which is estimated to be two years. There were no capitalized software development costs as of December 31, 2009 and 2008.

[14] Fair value of financial instruments:

Financial accounting standards Statement No. 107, “Disclosure About Fair Value of Financial Instruments”, requires the Company to disclose, when reasonably attainable, the fair market values of its assets and liabilities which are deemed to be financial instruments. The carrying amounts and estimated fair values of the Company’s financial instruments approximate their fair value due to the short-term nature.

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New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Recent pronouncements:

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05, "Fair Value Measurements and Disclosures (Topic 820) — Measuring Liabilities at Fair Value," which updates FASB ASC 820-10. The update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

- A valuation technique that uses a) the quoted price of an identical liability when traded as an asset, or b) quoted prices for similar liabilities or similar liabilities when traded as assets.

- Another valuation technique that is consistent with the principles of FASB ASC 820, examples include an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

This standard is effective for financial statements issued for interim and annual periods beginning after August 2009. ASC 820 does not have an impact on the Company's financial position or results of operations.

In June 2009, the FASB issued ASC 105, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162. FASB ASC 105 establishes a single source of authoritative, nongovernmental U.S. GAAP, except for rules and interpretive releases of the SEC. The effective date of ASC 105 is for interim and annual reporting periods ending after September 15, 2009. ASC 105 does not have an impact on the Company's financial position or results of operations as it does not change authoritative guidance.

In May 2009, the FASB issued ASC 855, Subsequent Events. FASB ASC 855 provides guidance on the disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The date through which any subsequent events have been evaluated and the basis for that date must be disclosed. FASB ASC 855 requires that the Company disclose the analysis of subsequent events through the date that its Financial Statements are issued. FASB ASC 855 also defines the circumstances under which an entity should recognize such events or transactions and the related disclosures of such events or transactions that occur after the balance sheet date. The effective date of FASB ASC 855 is the Company's interim or annual financial periods ending after September 15, 2009.

In April 2009, the FASB issued ASC 825-10-65, Interim Disclosures about Fair Value of Financial Instruments, which expands the fair value disclosures for all financial instruments within the scope of FASB ASC 825-10-50 to interim reporting periods. The Company has adopted FASB ASC 825-10-65, and it is effective for interim reporting periods ending after June 15, 2009. ASC 825-10-65 does not have an impact on the Company's financial position or results of operations as it focuses on additional disclosures.

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New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Recent pronouncements (continued):

In April 2009, the FASB issued ASC 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FASB ASC 820-10-65-4 is an amendment of FASB ASC 820-10, Fair Value Measurements. FASB ASC 820-10-65-4 applies to all assets and liabilities and provides guidance on measuring fair value when the volume and level of activity has significantly decreased and guidance on identifying transactions that are not orderly. FASB ASC 820-10-65-4 requires interim and annual disclosures of theinputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, which occurred during the period. The Company has adopted FASB ASC 820-10-65-4, which is effective for interim and annual reporting periods ending after June 15, 2009. ASC 820-10-65-4 does not have a material impact on the Company's financial position or results of operations.

[16] Subsequent events:

The Company has evaluated subsequent events through March 30, 2010, the date it filed its report on Form 10-K for the year ended December 31, 2010 with the SEC.

NOTE C - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Computers	$421,000	$411,000
Furniture, fixtures and equipment	121,000	121,000
Automobiles	41,000	41,000
Leasehold improvements	20,000	20,000
	603,000	593,000
Accumulated depreciation	(538,000)	(497,000)
	$65,000	$96,000

Depreciation expense for the years ended December 31, 2009 and 2008 was $32,000 and $34,000, respectively.

NOTE D – STOCKHOLDERS' EQUITY

Common stock:

During the year ended December 31, 2009, the Company effected the following stock transactions:

The Company issued a total of 638,614 shares of the Company's $0.001 par value common stock to outside contractors in exchange for services rendered valued at $65,000.

The Company issued a total of 1,880,925 shares of the Company's $0.001 par value common stock in exchange for cash of $97,000.

The Company issued a total of 3,000,000 shares of the Company's $0.001 par value common stock related to the exercise of options valued at $90,000.

NOTE D – STOCKHOLDERS' EQUITY (CONTINUED)

Treasury stock:

The Company effected no treasury stock transactions during the year ended December 31, 2009.

Warrants:

During the year ended December 31, 2009, there were no warrants issued or exercised.

The following is a summary of warrants outstanding as of December 31, 2009:

Number of Warrants	Exercise Price	Expiration Date
700,000	$0.15	June 29, 2011
700,000	$0.15(average)	

All warrants outstanding as of December 31, 2009 are exercisable.

Stock options:

Stock options employees and directors – During the years ended December 31, 2009 and 2008, the Company made no grants of stock options to employees or directors.

Stock options non-employees and directors – During the years ended December 31, 2009 and 2008, the Company made no grants of stock options for services.

Exercise prices and weighted-average contractual lives of stock options outstanding as of December 31, 2009 are as follows:

Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable
$0.01-$0.04	12,500,000	6.86	$0.03	12,500,000
$0.05-$0.30	1,889,250	2.79	$0.06	1,889,250
$0.31-$0.50	100,000	1.25	$0.39	100,000

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New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE D – STOCKHOLDERS' EQUITY (CONTINUED)

Summary of Options Granted and Outstanding:

	For the Years Ended December 31, 2009		2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	14,805,000	$0.04	15,835,000	$0.04
Granted	0	$0.00	0	$0.00
Cancelled	(315,750)	$0.08	(1,030,000)	$0.06
Exercised	0	$0.00	0	$0.00
Outstanding at end of year	14,489,250	$0.04	14,805,000	$0.04

During the year ended December 31, 2009, no options were granted.

NOTE E - INCOME TAXES

The Company accounts for income taxes using the liability method, under which deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

As of December 31, 2009, the Company had net operating loss carryforwards of approximately $11,427,000, which expire in varying amounts between 2017 and 2028. Realization of this potential future tax benefit is dependent on generating sufficient taxable income prior to expiration of the loss carryforward.

At December 31, 2008 and 2007, the Company had a federal operating loss carry forward of $11,427,000 and $11,348,000, respectively.

Components of net deferred tax assets, including a valuation allowance, are as follows at December 31:

	2009	2008
Deferred tax assets:		
Net operating loss carry forward	$4,660,000	$4,728,000
Stock based compensation	65,000	94,000
Total deferred tax assets	4,725,000	4,670,400
Less: Valuation Allowance	(4,725,000)	(4,670,400)
Net Deferred Tax Assets	$--	$--

New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE E - INCOME TAXES (CONTINUED)

The valuation allowance for deferred tax assets as of December 31, 2009 and 2008 was $4,725,000 and $4,670,400, respectively. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not the deferred tax assets would be realized as of December 31, 2009 and 2008.

Reconciliation between the statutory rate and the effective tax rate is as follows at December 31:

	2009	2008
Federal statutory tax rate	(25.0)%	(35.0)%
State taxes, net of federal tax benefit	(5.0)%	(5.0)%
Permanent difference and other	30.0 %	40.0 %
Effective tax rate	0 %	0 %

NOTE F - MAJOR CUSTOMERS

During the year ended December 31, 2009, three customers accounted for 48% of the Company's revenue. During the year ended December 31, 2008, three customers accounted for 44% of the Company's revenue.

As of December 31, 2009, balances due from four customers comprised 67% 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 2009 is as follows:

	NMS	TRS	TOTAL
Revenue	$668,000	$2,992,000	$3,660,000
Cost of services	263,000	2,450,000	2,713,000
General and administrative	425,000	533,000	958,000
Depreciation	27,000	5,000	32,000
Research and development	62,000	-	62,000
Bad Debt	2,000	18,000	20,000
Operating income (loss)	$(111,000)	$(14,000)	$(125,000)
Total assets	$259,000	$688,000	$947,000

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New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE G - REPORTABLE SEGMENTS (CONTINUED)

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

Segment’s operating loss	$(125,000)
Other income (expense)	(27,000)
Consolidated net loss	$(152,000)

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. Future minimum lease payments as of December 31, 2009 are as follows:

Year	Amount
2010	71,000
2011	58,000
2012	57,000
2013	59,000
2014	20,000

Rent expense for the years ended December 31, 2009 and 2008 amounted to $61,000 and $64,000, 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, 2007. The agreement allows for a one-year renewal option unless terminated by either party. Base salary for the year ended December 31, 2009 is $60,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $60,000 is included in general and administrative expenses for the year ended December 31, 2009. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of December 31, 2009, 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. 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 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.

New Mexico Software, Inc.
Notes to Consolidated Financial Statements

NOTE I – LEGAL PROCEEDINGS (CONTINUED)

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. As a result of recent discovery in the case, we have sought leave of Court to amend our Counterclaims to add additional causes of action, which leave was granted. We believe the suit by Premier is without merit and are vigorously contesting the claims of Premier. We also intend to vigorously pursue our affirmative claims against Premier. At this time summary judgment motions by both parties are pending and a bench trial is scheduled in July of 2010.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two most recent fiscal years, there have been no disagreements with Beckstead & Watts, LLP, our independent auditor for the year ended December 31, 2009, or with De Joya Griffith & Company, LLC, our independent auditor for the year ended December 31, 2008, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

ITEM 9A. CONTROLS AND PROCEDURES

307 – Disclosure controls and procedures: As of December 31, 2009, 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 December 31, 2009, such disclosure controls and procedures were not effective.

308T(a)(1) – Management’s responsibility: Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Exchange Act Rule 15d–15(f) “as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.” Because of inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

308T(a)(2) – Framework used for evaluation: In its evaluation of our internal control over financial reporting, our management has used the Internal Control - Integrated Framework (1992) and Internal Control Over Financial Reporting Guidance for Smaller Public Companies (2006), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

308T(a)(3) – Evaluation of our internal control over financial reporting: Pursuant to Rule 15d–15 of the Exchange Act, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2009. Based on this evaluation, our management, with the participation of our principal executive and principal financial officers, concluded that our internal control over financial reporting was not effective as of December 31, 2009. Management has identified the following material weakness in our internal control over financial reporting:

We do not have adequate personnel and other resources to assure that significant and complex transactions are timely analyzed and reviewed.
We have limited personnel and financial resources available to plan, develop, and implement disclosure and procedure controls and other procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.
Our limited financial resources restrict our employment of adequate personnel needed and desirable to separate the various receiving, recording, reviewing and oversight functions for the exercise of effective control over financial reporting.
Our limited resources restrict our ability to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

308T(a)(4) – Absence of auditor's attestation: This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Our management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

308T(b) – 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 December 31, 2009 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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, within the Company 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.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Our directors and officers are set forth below. The directors hold office for a one-year term and until their successors are duly elected and qualified. The officers serve at the will of the board of directors.

Name	Age	Position	Director Since
Richard F. Govatski	65	Chairman, President and Chief Executive Officer	1999
Teresa B. Dickey	66	Director, Secretary & Treasurer	2002
John E. Handley	48	Director	2003
Frank A. Reidy	68	Director	2005

We do not have a separately designated audit committee. However, our outside directors, John Handley and Frank Reidy, both qualify as "audit committee financial experts" because of their education and experience in business and accounting.

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

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

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

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

FRANK A. REIDY received his Bachelor of Science degree in Marketing from Oklahoma State University in 1964 and a Masters of Arts in Economics from the University of Toledo in 1972, where he taught micro and macro economics as an evening division adjunct professor for seventeen years. Full-time from 1973 - 1984 he was Chief Accountant for Tecumseh Products Company, Tecumseh, MI. From 1984 - 1989 he was Director of RETS Institute of Technology, Toledo, OH. From 1989 - 1998 he was the Business Manager for Plaza Medical Laboratory, Bartlesville, OK. Currently he is owner of a general construction business in Bartlesville.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

Summary Compensation Table. The following table sets forth information concerning the annual and long-term compensation awarded to, earned by, or paid to the named executive officer for all services rendered in all capacities to our company, or any of its subsidiaries, for the years ended December 31, 2009, 2008 and 2007:

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation we paid to our President and Chief Executive Officer. We did not pay any other executive officer more than $100,000 in the last three fiscal years.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Options Awards	Total ($)
Richard F. Govatski	2009	$60,000	$0	$17,000	$0	$77,000
President and Chief Executive Officer	2008	$60,000	$1,000	$17,000	$0	$78,000
	2007	$60,000	$14,000	$63,000	$22,000	$159,000

The following table sets forth certain information regarding stock options exercised during fiscal 2009 and held as of December 31, 2009, by Mr. Govatski.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION/SAR VALUES

Name	Shares acquired on exercise	Value realized	Number of securities underlying unexercised options at fiscal year-end Exercisable/Unexercisable	Value of unexercised in-the-money options at fiscal year-end (1) Exercisable/Unexercisable
Richard F. Govatski	-0-	N/A	3,500,000/0	$21,000/$0 (2)

(1) Value is based on the closing sale price of the Common Stock on December 31, 2009, the last trading day of fiscal 2009 ($0.038), less the applicable option exercise price.
(2) Of these options, 500,000 were exercisable at $0.044 per share and 3,000,000 were exercisable at $0.03 per share.

Employment Contracts

We entered into an employment and non-competition agreement with Mr. Govatski to continue in the capacity of President and CEO for a term ending December 31, 2009. 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. Additional cash compensation is based upon the achievement of target goals as approved by the Board of Directors, and is dependent on the company's available cash flow. The non-competition agreement commences upon the termination of the employment agreement for a period of one year.

We do not have an employment agreement with Ms. Dickey

Compensation of Directors

Name	Shares Awards	2009 Total
Teresa B. Dickey	$17,000	$17,000
John Handley	$17,000	$17,000
Frank Reidy	$17,000	$17,000

Directors are permitted to receive fixed fees and other compensation for their services to the company. The Board of Directors has the authority to fix the compensation of directors. During the year ended December 31, 2008, the Board awarded 1,000,000 shares of the Company's common stock to each Director for services performed during the fiscal year ended December 31, 2009.

Stock Option and Stock Issuance Plans

Plan	Year	Options Outstanding and Exercisable (#)	Option Expiration Date
Stock Incentive Plan	2005	500,000	March 2, 2015
Stock Incentive Plan	2006	12,000,000	October 17, 2016

Stock Incentive Plan	2007	0
Stock Incentive Plan	2008	0

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information about the stock ownership by (i) each director and executive officer; and (ii) directors and executive officers as a group. We do not know of any other person who owns more than five percent of our common stock.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner (1)		Percent of Class (1)	
Common stock	Richard F. Govatski	19,664,043	(2)	14.65	%
	Teresa B. Dickey	4,875,510	(3)	3.63	%
	John Handley	6,449,445	(4)	4.81	%
	Frank Reidy	9,963,530	(5)	7.42	%
	Executive Officers and Directors as a Group (4 Persons)	40,952,528		30.52	%

(1) All of the persons are believed to have sole voting and investment power over the shares of common stock listed or share voting and investment power with his or her spouse, except as otherwise provided. Percentage is based on 134,192,738 shares outstanding as of March 8, 2010. Percentage includes amounts which the listed beneficial owner has the right to acquire within sixty days.
(2) This number of shares includes options to purchase 3,500,000 shares. These options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Mr. Govatski.
(3) This number of shares includes options to purchase 3,000,000 shares. These options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Ms. Dickey.
(4) This number of shares includes options to purchase 1,500,000 shares. These options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Mr. Handley.
(5) This number of shares includes options to purchase 1,500,000 shares. These options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Mr. Reidy.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We did not enter into any transactions with our directors and executive officers in 2009 and none are proposed.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth amounts we have been billed with respect to 2009 and 2008 for certain services provided by our independent accountant.

Service	2009	2008
Audit	$29,000	$29,000
Review of unaudited financial statements	$7,000	$13,000
Audit-related fees	none	none
Tax compliance, tax advice and tax planning	none	$2,000
All other services	none	none

ITEM 15. EXHIBITS

(a) The following documents are filed as part of this report:

1. Financial statements; see index to financial statement and schedules in Item 8 herein.

2. Financial statement schedules; see index to financial statements and schedules in Item 8 herein.

3. Exhibits: None

SIGNATURES

In accordance with Section 13 or 15(d) 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: April 27, 2010	/s/ Richard F. Govatski Richard F. Govatski President, Chief Executive Officer and Chairman of the Board of Directors
Date: April 27, 2010	/s/ Teresa B. Dickey Teresa B. Dickey, Director, Secretary, Treasurer and Principal Financial Officer
Date: April 27, 2010	/s/ John Handley John E. Handley, Director
Date: April 27, 2010	/s/ Frank A. Reidy Frank A. Reidy, Director