NEW MEXICO SOFTWARE, INC
Form 10-Q
August 16, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from _____________ to _____________

COMMISSION FILE #333-30176

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

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

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

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

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock at August 9, 2010 was 135,049,880.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and equivalents	$ 126,000	$ 111,000
Accounts receivable, net	664,000	736,000
Prepaid expenses and other assets	35,000	46,000
Total current assets	825,000	893,000
Furniture, equipment and improvements, net	53,000	65,000
Security deposits	4,000	4,000
Total Assets	$ 882,000	$ 962,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 570,000	$ 655,000
Accrued expenses	46,000	50,000
Customer deposits	21,000	21,000
Deferred revenue	9,000	17,000
Capital lease	3,000	10,000
Total current liabilities	649,000	753,000
Total liabilities	649,000	753,000
Stockholders' equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized, 0 shares issued and outstanding as of 6/30/10	-	-
Common stock, $0.001 par value, 200,000,000 shares authorized, 135,049,880 shares issued and outstanding as of 6/30/10	135,000	134,000
Paid-in capital	14,881,000	14,852,000
Subscriptions payable	55,000	21,000
Accumulated deficit	(14,838,000)	(14,798,000)
Total stockholders' equity	233,000	209,000
Total Liabilities and Stockholders' Equity	$ 882,000	$ 962,000

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

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

	For the three months ended June 30, 2010	For the three months ended June 30, 2009	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Revenues				
Radiological services	$666,000	$732,000	$1,419,000	$1,440,000
Software usage fees	89,000	112,000	188,000	234,000
Software hosting and maintenance	24,000	54,000	73,000	116,000
Software sales and licenses	-	-	2,000	-
Cardiology services	1,000	-	1,000	-
Custom programming	-	1,000	-	4,000
Scanning services	-	1,000	-	21,000
Gross revenues	780,000	900,000	1,683,000	1,815,000
Cost of services	614,000	676,000	1,283,000	1,333,000
Gross profit	166,000	224,000	400,000	482,000
Operating costs and expenses:				
General and administrative	170,000	199,000	329,000	427,000
Legal fees	27,000	53,000	84,000	76,000
Depreciation and amortization	4,000	8,000	10,000	17,000
Research and development	12,000	16,000	26,000	30,000
Total operating costs and expenses	213,000	276,000	449,000	550,000
Net operating loss	(47,000)	(52,000)	(49,000)	(68,000)
Other income (expense):				
Interest income	8,000	2,000	15,000	13,000
Interest expense	(2,000)	(8,000)	(7,000)	(15,000)
Gain on sale of obsolete inventory	1,000	-	1,000	-
Inventory revaluation	-	(5,000)	-	(5,000)
Total other income (expense)	7,000	(11,000)	9,000	(7,000)
Net loss	$(40,000)	$(63,000)	$(40,000)	$(75,000)
Loss per share - basic	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted average number of common shares outstanding - basic	136,113,773	130,721,622	135,213,811	130,351,018

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

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

	For the six months ended June 30,	
	2010	2009
Cash flows from operating activities		
Net loss	$(40,000)	$(75,000)
Adjustments to reconcile net loss to		
net cash used by operating activities:		
Common stock issued for services	30,000	105,000
Inventory revaluation	-	5,000
Depreciation and amortization	10,000	18,000
Depreciation and amortization allocated to cost of goods sold	4,000	4,000
Changes in operating assets and liabilities:		
Accounts receivable	72,000	(262,000)
Prepaid expenses and other assets	11,000	(28,000)
Accounts payable	(85,000)	214,000
Accrued expenses	(4,000)	(37,000)
Deferred revenue	(8,000)	(11,000)
Net cash provided (used) by operating activities	(10,000)	(67,000)
Cash flows from investing activities		
Acquisition of fixed assets	(2,000)	(10,000)
Net cash used by investing activities	(2,000)	(10,000)
Cash flows from financing activities		
Proceeds from note payable	-	40,000
Repayment of note payable	-	(58,000)
Repayment of capital lease	(7,000)	(5,000)
Subscriptions payable	34,000	-
Net proceeds from issuance of common stock	-	97,000
Net cash provided by financing activities	27,000	74,000
Net increase in cash equivalents	15,000	(3,000)
Cash equivalents - beginning	111,000	68,000
Cash equivalents - ending	$126,000	$65,000
Supplemental disclosures:		
Interest paid	$2,000	$11,000

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

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

NOTE A – BASIS OF PRESENTATION

The interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2009 and notes thereto included in the Company's Form 10-K. The Company follows the same accounting policies in the preparation of interim reports.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Revenue recognition:

During the first half of 2010, the Company’s revenues have been classified into three main categories: radiological services, software usage fees, and software hosting and maintenance. The Company also occasionally derives revenue from hardware sales associated with sales of our various software products, fees for customization or modification to our core software product, scanning services and other services such as consulting, training and installation. The Company recognizes revenue in accordance with Statement of Position ASC Topic 985 Software Revenue Recognition as amended.

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

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (continued):

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

Should the sale of software involve an arrangement with multiple elements (for example, the sale of a software license along with the sale of maintenance and support to be delivered over the contract period), the Company allocates revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. The Company defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met. Fair values for the ongoing maintenance and support obligations are based upon separate sales of renewals of maintenance contracts. Fair value of services, such as training or consulting, is based upon separate sales of these services to other customers. The Company follows the guidance in ASC Topic 605, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for custom software development arrangements that require significant production, customization or modification to its core software. Revenue is generally recognized for such arrangements under the percentage-of-completion method. Under percentage-of-completion accounting, both the product license and custom software development revenue are recognized as work progresses based on specific milestones in accordance with ASC 605-25. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At June 30, 2010 and June 30, 2009, there were no custom software development arrangements in progress.

The Company follows the guidance in FASB ASC Topic 605, Accounting for Performance of Construction-Type and Certain Production-Type Contracts for custom software development arrangements that require significant production, customization or modification to its core software. Revenue is generally recognized for such arrangements under the percentage-of-completion method. Under percentage-of-completion accounting, both the product license and custom software development revenue are recognized as work progresses based on specific milestones in accordance with FASB ASC Topic 450. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At June 30, 2010 and June 30, 2009, 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, cardiological services, software installation, and any training or consulting services is recognized when the services are rendered. These revenues include services that are not essential to the functionality of the software. If these services are included in a software agreement with multiple elements, amounts are allocated to these categories based on the estimated number of hours required to complete the work, which is the same criteria used to bill for the services separately. License revenue is recognized ratably over the term of the license.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[1] Revenue recognition (continued):

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

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

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

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

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

[2] Cash and cash equivalents:

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2010, the Company had no cash and cash equivalents that exceeded federally insured limits.

[3] Trade Accounts Receivable:

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

The Company also estimates an allowance for doubtful accounts, which amounted to $47,000 and $30,000 at June 30, 2010 and 2009, respectively. The estimate is based upon management's review of all accounts and an assessment of the Company's historical evidence of collections. Specific accounts are charged directly to the reserve when management obtains evidence of a customer's insolvency. Charge-offs, net of recoveries, amounted to $0 and $2,000 for the six months ended June 30, 2010 and 2009, respectively.

[4] Furniture, equipment and improvements:

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Per share data:

The basic and diluted per share data has been computed on the basis of the net loss available to common stockholders for the period divided by the historic weighted average number of shares of common stock. All potentially dilutive securities have been excluded from the computations since they would be antidilutive, however, these dilutive securities could potentially dilute earnings per share in the future. Options and warrants exercisable for 15,068,500 and 2,311,545 shares of common stock have been excluded from the diluted loss per share calculation for the years ended June 30, 2010 and 2009, respectively, because inclusion of such would be antidilutive.

[6] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $0 and $0 for the six months ended June 30, 2010 and 2009, respectively.

[7] Use of estimates:

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

[8] Stock-based compensation:

The Company adopted ASC Topic 505, Share-Based Payment, effective January 1, 2006. ASC 505 requires the recognition of the fair value of stock-based compensation in net income. Stock-based compensation primarily consists of stock options. Stock options are granted to employees at exercise prices equal to the fair market value of our stock at the dates of grant. The Company now recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. The Company provides newly issued shares to satisfy stock option exercises. There were 0 and 0 option awards granted to employees and directors in the quarters ended June 30, 2010 and 2009, respectively. During the six months ended June 30, 2010 and 2009, the Company did not have expenses related to option grants to employees and directors.

[9] Software development:

The Company accounts for computer software development costs in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". As such, all costs incurred prior to the product achieving technological feasibility are expensed as research and development costs. Technological feasibility is generally achieved upon satisfactory beta test results. Upon achieving technological feasibility, programming costs are capitalized and amortized over the economic useful live which is estimated to be two years. There were no capitalized software development costs as of June 30, 2010 and 2009.

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

[10] Recent pronouncements:

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-18 (ASU 2010-18), Receivables (Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That Is Accounted for as a Single Asset-a consensus of the FASB Emerging Task Force. The amendments in this Update are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. The Company does not expect the provisions of ASU 2010-18 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-17 (ASU 2010-17), Revenue Recognition-Milestone Method (Topic 605): Milestone Method of Revenue Recognition. The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption. The Company does not expect the provisions of ASU 2010-17 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-16 (ASU 2010-16), -Casinos (Topic 924): Accruals for Casino Jackpot Liabilities-a consensus of the FASB Emerging Issues Task. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. The amendments should be applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. The Company does not expect the provisions of ASU 2010-16 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-15 (ASU 2010-15), Financial Services-Insurance (Topic 944): How Investments held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments-a consensus of the FASB Emerging Issues Task Force. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. Early adoption is permitted. The amendments in this Update should be applied retrospectively to all prior periods upon the date of adoption. The Company does not expect the provisions of ASU 2010-15 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-14 (ASU 2010-14), Accounting for Extractive Activities – Oil & Gas - Amendments to Paragraph 932-10-S99-1 (SEC Update). The Amendments are designed to modernize and update the oil and gas disclosure requirements to align them with current practices and changes in . The Company does not expect the provisions of ASU 2010-14 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-13 (ASU 2010-13), Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades - a consensus of the FASB Emerging Issues Task Force. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Earlier application is permitted. The Company does not expect the provisions of

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

[10] Recent pronouncements (continued):

ASU 2010-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-12 (ASU 2010-12), Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts. After consultation with the FASB, the SEC stated that it “would not object to a registrant incorporating the effects of the Health Care and Education Reconciliation Act of 2010 when accounting for the Patient Protection and Affordable Care Act”. The Company does not expect the provisions of ASU 2010-12 to have a material effect on the financial position, results of operations or cash flows of the Company.

In March 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-11 (ASU 2010-11), Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives. The amendments in this Update are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of each entity’s first fiscal quarter beginning after issuance of this Update. The Company does not expect the provisions of ASU 2010-11 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-10 (ASU 2010-10), Consolidation (Topic 810): Amendments for Certain Investment Funds. The amendments in this Update are effective as of the beginning of a reporting entity’s first annual period that begins after November 15, 2009 and for Interim periods within that first reporting period. Early application is not permitted. The Company does not expect the provisions of ASU 2010-10 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-09 (ASU 2010-09), Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. This amendment addresses both the interaction of the requirements of this Topic with the SEC’s reporting requirements and the intended breadth of the reissuance disclosure provision related to subsequent events (paragraph 855-10-50-4). All of the amendments in this Update are effective upon issuance of the final Update, except for the use of the issued date for conduit debt obligors. That amendment is effective for interim or annual periods ending after June 15, 2010. The Company does not expect the provisions of ASU 2010-09 to have a material effect on the financial position, results of operations or cash flows of the Company.

In February 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-08 (ASU 2010-08), Technical Corrections to Various Topics. This amendment eliminated inconsistencies and outdated provisions and provided the needed clarifications to various topics within Topic 815. The amendments are effective for the first reporting period (including interim periods) beginning after issuance (February 2, 2010), except for certain amendments. The amendments to the guidance on accounting for income taxes in a reorganization (Subtopic 852-740) should be applied to reorganizations for which the date of the reorganization is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. For those reorganizations reflected in interim financial statements issued before the amendments in this Update are effective, retrospective application is required. The clarifications of the guidance on the embedded derivates and hedging (Subtopic 815-15) are effective for fiscal years beginning after December 15, 2009, and should be applied to existing contracts (hybrid instruments) containing embedded derivative features at the date of adoption. The

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

[10] Recent pronouncements (continued):

Company does not expect the provisions of ASU 2010-08 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-07 (ASU 2010-07), Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions. This amendment to Topic 958 has occurred as a result of the issuance of FAS 164. The Company does not expect the provisions of ASU 2010-07 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-06 (ASU 2010-06), Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This amendment to Topic 820 has improved disclosures about fair value measurements on the basis of input received from the users of financial statements. This is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the provisions of ASU 2010-06 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-05 (ASU 2010-05), Compensation – Stock Compensation (Topic 718). This standard codifies EITF Topic D-110 Escrowed Share Arrangements and the Presumption of Compensation.

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-04 (ASU 2010-04), Accounting for Various Topics—Technical Corrections to SEC Paragraphs.

In January 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-03 (ASU 2010-03), Extractive Activities—Oil and Gas (Topic 932): Oil and Gas Reserve Estimation and Disclosures. This amendment to Topic 932 has improved the reserve estimation and disclosure requirements by (1) updating the reserve estimation requirements for changes in practice and that have occurred over the last several decades and (2) expanding the disclosure requirements for equity method investments. This is effective for annual reporting periods ending on or after December 31, 2009. However, an entity that becomes subject to the disclosures because of the change to the definition oil- and gas- producing activities may elect to provide those disclosures in annual periods beginning after December 31, 2009. Early adoption is not permitted. The Company does not expect the provisions of ASU 2010-03 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the FASB issued Accounting Standards Update 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December

15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS

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

[10] Recent pronouncements (continued):

160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations or cash flows of the Company.

In January 2010, the FASB issued Accounting Standards Update 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. Effective for interim and annual periods ending on or after December 15, 2009, and would be applied on a retrospective basis. The Company does not expect the provisions of ASU 2010-01 to have a material effect on the financial position, results of operations or cash flows of the Company.

NOTE C – GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of approximately $14,838,000 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company's ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of June 30, 2010, consisted of the following:

	2010	2009
Computers	422,000	421,000
Furniture, fixtures and equipment	122,000	121,000
Automobiles	41,000	41,000
Leasehold improvements	20,000	20,000
	605,000	603,000
Accumulated depreciation	(552,000)	(519,000)
	$53,000	$84,000

Depreciation expense for the six months ended June 30, 2010 and 2009 was $10,000 and $17,000, respectively.

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

NOTE E – CAPITAL TRANSACTIONS

Common stock:

During the six month period ended June 30, 2010, the Company effected the following stock transactions:

The Company issued a total of 857,142 shares the Company's $0.001 par value common stock to outside contractors in exchange for services rendered of $30,000.

Warrants:

During the six month period ended June 30, 2010, there were no warrants issued and none were exercised.

The following is a summary of warrants outstanding as of June 30, 2010:

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

All warrants outstanding as of June 30, 2010 are exercisable.

Stock options:

Stock options employees and directors – During the six months ended June 30, 2010 and 2009, the Company made no grants of stock options to employees or directors.

Stock options non-employees and directors – During the quarters ended June 30, 2010 and 2009, the Company made no grants of stock options for services.

Exercise prices and weighted-average contractual lives of stock options outstanding as of June 30, 2010, are as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$0.01-$0.049	12,500,000	6.36	$0.03	12,500,000	$0.03
$0.05-$0.30	1,768,500	2.35	$0.06	1,768,500	$0.06
$0.31-$0.50	100,000	0.75	$0.39	100,000	$0.39

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

NOTE E – CAPITAL TRANSACTIONS (CONTINUED)

Summary of Options Granted and Outstanding:

	For the six months ended June 30, 2010		2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	14,489,250	$0.04	14,805,000	$0.04
Granted	-	-	-	-
Cancelled	(120,750)	$0.06	(250,000)	$0.09
Exercised	-	-	-	-
Outstanding at end of period	14,368,500	$0.04	14,555,000	$0.04

NOTE F - MAJOR CUSTOMERS

During the six month period ended June 30, 2010, two customers accounted for 43% or approximately $731,000 of the Company's revenue.

As of June 30, 2010, balances due from two customers comprised 42% or approximately $296,000 of total accounts receivable.

NOTE G - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate lines of business. New Mexico Software (NMS) derives revenues from the development and marketing proprietary internet technology-based software and Telerad Service (TRS) provides radiological services. Information related to the Company's reportable segments for the quarter ended June 30, 2010 is as follows:

	2010			2009		
	NMS	TRS	TOTAL	NMS	TRS	TOTAL
Revenue	$263,000	$1,420,000	$1,683,000	$375,000	$1,440,000	$1,815,000
Cost of services	108,000	1,175,000	1,283,000	154,000	1,179,000	1,333,000
General and administrative	199,000	214,000	413,000	221,000	282,000	503,000
Depreciation	7,000	3,000	10,000	14,000	3,000	17,000
Research and development	26,000	0	26,000	30,000	0	30,000
Operating income (loss)	$(77,000)	$28,000	$(49,000)	$(44,000)	$(24,000)	$(68,000)

Total assets	$326,000	$556,000	$882,000	$258,000	$566,000	$824,000

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New Mexico Software, Inc.
Notes to the Financial Statements
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NOTE G - REPORTABLE SEGMENTS (CONTINUED)

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

Segment's operating loss	$(49,000)
Other income (expense)	9,000
Consolidated net loss	$(40,000)

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 which expires in June 2011, as well as computer equipment with lease expiration dates ranging from March 2010 to December 2010. Future minimum lease payments as of June 30, 2010, are as follows:

Year	Amount
2010	33,000
2011	58,000
2012	57,000
2013	59,000
2014	20,000

Rent expense for the six months ended June 30, 2010 and 2009 amounted to $33,000 and 30,000, respectively.

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.

At the time suit was filed, we were making demand for payment of past due invoices and had given notice of termination of the verbal 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 and motion for default by Premier are pending and a bench trial is scheduled in November of

2010.

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

NOTE J – COMMITMENTS AND CONTINGENCIES

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 is $60,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $30,000 is included in general and administrative expenses for the six months ended June 30, 2010. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. At June 30, 2010, there was a total of $0 in accrued payroll for this executive.

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

OVERVIEW

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

Our medical division continues to provide significant growth opportunities for us. Because of the potential opportunities in telemedicine (including teleradiology, telecardiology, video and nuclear medicine) as health care reform is pursued in the country, we will continue to focus the majority of our marketing efforts toward growing our business in these areas during the second half of 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 June 30, 2010, we have realized revenues from three primary sources:

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

We also occasionally realize revenues from the sale of customized software, hardware sales associated with the sales of our software products, custom programming services, scanning services and from other services. Our telecardiology service began operations during the first quarter of 2010, providing EKG and electrocardiogram readings. During the second half of 2010, we will be adding Telemed Video, providing video services for remote diagnosis, and the Remote Dicom to Dicom Server, providing communication between dissimilar PACS systems within organizations.

Telerad Service began operations in May 2008 as a radiological services business. We continue to add new customers each quarter for this service. We are continuing to expand our medical operations to include other services that are complementary to teleradiology, including online billing, electronic medical records and telecardiology.

The gross profit percentage of our medical division dropped from 19% during the first quarter of 2010 to 17% during the second quarter of 2010. We anticipate the gross profit to return to the 18-19% range for the third quarter, as we add new customers. The overall gross profit for the company declined from 26% during the first quarter of 2010 to 24% during the second quarter of 2010, primarily due to the decline in the gross profit of the medical division. 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, Item 1 below) continue to range from $200,000 to $250,000 per quarter.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

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

Currently, software usage consists primarily 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 Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$780,000	$900,000	$(120,000)	(13.3)%

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$1,683,000	$1,815,000	$(132,000)	(7.3)%

These changes are a result of the following factors:

1. Radiological services:

For the Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$666,000	$732,000	$ (66,000)	(9.0)%

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$1,419,000	$1,440,000	$ (21,000)	(1.5)%

The decrease in radiological services revenue is due to a decline in usage by several customers during the second quarter of 2010.

2. Software usage fees:

For the Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$89,000	$112,000	$(23,000)	(20.5)%

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$188,000	$234,000	$(46,000)	(19.7)%

This decrease is the result of a net decrease in XR-Express users during the first half of 2010. This decrease is primarily due to the termination of services to the customer involved in the lawsuit described in Part II, Item 1 below. We regularly add new XR-EXpress customers, but the rate of growth slowed significantly during 2009 and the first half of 2010. We expect these revenues to remain stable or even decline slightly during the remainder of 2010, as we continue to focus on the addition of our new services.

3. Software hosting and maintenance:

For the Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$24,000	$54,000	$(30,000)	(55.6)%

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$73,000	$116,000	$(43,000)	(37.1)%

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. 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 continue to decrease during 2010, as we continue to focus our efforts on growing our medical division.

4. Software sales and licenses:

For the Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)

$0	$0	$ 0	0.0 %

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$2,000	$0	$ 2,000	100.0 %

The increase in software sales and license revenue is the result of a recurring license fee for one customer during the first quarter of 2010. At this time, we do not anticipate any software sales during the remainder of 2010.

5. Cardiology services:

For the Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$1,000	$0	$ 1,000	100.0 %

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$1,000	$0	$ 1,000	100.0 %

Our telecardiology service began preliminary operations during the first quarter of 2010. While testing was continuing we provided limited studies.

6. Custom programming and scanning revenues:

For the Quarter Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Custom programming	$0	$1,000	$ (1,000)	(100.0)%
Scanning services	$0	$1,000	$ (1,000)	(100.0)%

For the Six Months Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Custom programming	$0	$4,000	$ (4,000)	(100.0)%
Scanning services	$0	$21,000	$ (21,000)	(100.0)%

- The decrease in custom programming revenue during the first half of 2010 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, no custom programming projects have been requested by customers. 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.
- We had one major scanning project in early 2009, and no scanning projects during the first half of 2010. 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 Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$614,000	$676,000	$ (62,000)	(9.2)%

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$1,283,000	$1,333,000	$(50,000)	(3.8)%

Approximately 90% of the cost of services for the first half of 2010 is related to Telerad Service. These costs consist of radiologist fees, management fees, professional credentialing and professional liability insurance, as well as direct customer service costs. All of the costs except for the customer service costs are directly related to revenues; as a result, the overall cost of services has decreased as the teleradiology revenues have decreased during the second quarter of 2010 and the first six months of 2010.

General and administrative expenses:

For the Quarter Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Legal expenses	$27,000	$53,000	$(26,000)	(49.1)%
Other G&A expenses	$170,000	$199,000	$(29,000)	(14.6)%

For the Six Months Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Legal expenses	$84,000	$76,000	$8,000	10.5%
Other G&A expenses	$329,000	$427,000	$(98,000)	(23.0)%

Approximately $81,000 of the decrease in other G&A expenses is due to sales and marketing staffing reductions since mid-2009, and the remainder is primarily due to reductions in accounting fees during that period. These reasons also pertain to the decreases in other G&A expenses for the second quarter. The variances in legal expenses are due to the timing of actions during 2009 and 2010 in the legal proceedings described in Part II, Item 1 below.

Research and development costs:

For the Quarter Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$12,000	$16,000	$(4,000)	(25.0)%

For the Six Months Ended June 30,

2010	2009	Increase (Decrease)	Percent Inc (Dec)
$26,000	$30,000	$(4,000)	(13.3)%

This decrease is due to increased focus on existing customers and services during the first half of 2010.

During the first half of 2010, 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:

For the Quarter Ended June 30,

2010	2009

			Increase (Decrease)	Percent Inc (Dec)
Depreciation expense	$4,000	$8,000	$(4,000)	(50.0)%

For the Quarter Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Depreciation expense	$10,000	$17,000	$(7,000)	(41.2)%

The decrease in depreciation expense is due to assets being fully depreciated during the first half of 2010.

Other income (expense):

For the Quarter Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Interest income	$8,000	$2,000	$ 6,000	300.0 %
Gain on sale of inventory	$1,000	$0	$ 1,000	100.0 %
Interest expense	$2,000	$8,000	$ (6,000)	(75.0)%
Inventory revaluation	$0	$5,000	$ (5,000)	(100.0)%

For the Six Months Ended June 30,

	2010	2009	Increase (Decrease)	Percent Inc (Dec)
Interest income	$15,000	$13,000	$ 2,000	15.4 %
Gain on sale of inventory	$1,000	$0	$ 1,000	100.0 %
Interest expense	$7,000	$15,000	$ (8,000)	(53.3)%
Inventory revaluation	$0	$5,000	$ (5,000)	(100.0)%

- The increase in interest income during the second quarter and the first half of 2010 is primarily related to the increase in interest charges on the past-due balance of the customer account associated with the legal proceedings described in Part II, Item 1 below as the past-due balance on that account increased during 2009 and the first half of 2010.
- The inventory revaluation expense is due to the write-down of obsolete inventory during 2009. During the second quarter of 2010, we sold some of that inventory, resulting in the gain on sale of inventory income.
- The decrease in interest expense is due to fewer past-due obligations during the first half of 2010 as compared to the first half of 2009 as our cash flow has improved.

REPORTABLE SEGMENTS

In May 2008, we began operating Telerad Service (TRS) as a wholly-owned subsidiary of New Mexico Software (NMS). Information about the Company’s reportable segments for the six months ended June 30, 2010 and 2009 is reflected in the following table:

	2010			2009		
	NMS	TRS	TOTAL	NMS	TRS	TOTAL
Revenue	$263,000	$1,420,000	$1,683,000	$375,000	$1,440,000	$1,815,000
Cost of services	108,000	1,175,000	1,283,000	154,000	1,179,000	1,333,000
General and administrative	199,000	214,000	413,000	221,000	282,000	503,000
Depreciation	7,000	3,000	10,000	14,000	3,000	17,000
Research and development	26,000	0	26,000	30,000	0	30,000
Operating income (loss)	$(77,000)	$28,000	$(49,000)	$(44,000)	$(24,000)	$(68,000)
Total assets	$326,000	$556,000	$882,000	$258,000	$566,000	$824,000

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

	2010	2009
Segment's operating loss	$(49,000)	$(68,000)
Other income (expense)	9,000	(7,000)
Consolidated net loss	$(40,000)	$(75,000)

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2010, cash and cash equivalents totaled $126,000, representing a $15,000 increase from December 31, 2009. The increase in available cash was due to the following factors during the period:

Operating activities:

For the Six Months Ended June 30,

2010	2009	Inc (Dec) in available cash
used $10,000	used $67,000	$57,000

The increase in available cash from operations during the first half of 2010 as compared to the first half of 2009 is mainly due to a combination of the following factors:

- a $75,000 decrease in available cash due to a reduction in stock issued for salaries and services during the first half of 2010 as compared to the first half of 2009. The reduction in stock issuances is mainly due to improved cash flow during 2010.
- a $334,000 increase in available cash due to a reduction in accounts receivable of $72,000 during the first half of 2010 as compared to an increase of $262,000 during the first half of 2009. The increase during the first half of 2009 was primarily due to the addition of several large new radiology customers, and the decrease during the first half of 2010 is primarily due to two factors: the loss of one major radiology customer and the loss of a middleman radiology customer for which we are in the process of acquiring their mobile radiology customers as direct customers.
- a $39,000 increase in available cash due to a decrease in prepaid expenses during the first half of 2010 as compared to the first half of 2009 (primarily due to the increase in prepaid professional liability insurance premiums for TRS during the first half of 2009)
- a $266,000 decrease in available cash due to the net decrease in accounts payable and accrued expenses of $89,000 during the first half of 2010 as compared to an increase of $177,000 during the first half of 2009. The increase during the first half of 2009 is primarily due to increased radiologist fees as a result of new customers. The decrease during the first half of 2010 is primarily due to decreased radiologist fees as a result of the loss of radiology customers described in the accounts receivable note above.
- offset by a $35,000 increase in available cash due to the reduction in net loss for the first half of 2010 as compared to 2009.

Investing activities:

For the Six Months Ended June 30,

2010	2009	Inc (Dec) in available cash
used $2,000	used $10,000	$8,000

W e purchased $2,000 of computer equipment during the first half of 2010 as compared to leasing and purchasing $10,000 of computer equipment during the first half of 2009 during the growth of Telerad.

Financing activities:

For the Six Months Ended June 30,

2010	2009	Inc (Dec) in available cash
provided $27,000	provided $74,000	$(54,000)

This decrease is primarily due to the decrease in proceeds from issuance of shares during the first half of 2010 as compared to the first half of 2009, partially offset by the increase in subscriptions payable during 2010.

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

At June 30, 2010, we had a working capital surplus of $176,000 as opposed to a working capital surplus of $140,000 at the beginning of the period, an increase of $36,000. This increase is primarily due to a $85,000 increase in accounts payable, offset by a $72,000 decrease in accounts receivable during the first half of 2010, coupled with a $15,000 increase in cash on hand at the end of the period. 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 remain at approximately $300,000 per month during the first half of 2010. Although our cash flow has improved during the first half of 2010, we may continue to experience some cash flow shortages during 2010. Although we anticipate meeting our operating cash flow needs entirely from the increased revenues, 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 continue to be for general operating purposes and to expand our cardiology services, and add medical billing services and video services for remote diagnosis. We anticipate that our operating cash requirements for the next twelve months will continue to be in the range of $4,000,000 to $5,000,000. This level of cash flow will allow us to maintain our current level of operations and introduce our new services, and we expect the revenues from operations to provide the necessary operating funds. 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 as we continue to add new radiological customers as well as customers for our new services.

OFF-BALANCE SHEET ARRANGEMENTS

We currently have no off-balance sheet arrangements.

FORWARD-LOOKING STATEMENTS

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

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4T. CONTROLS AND PROCEDURES

307 – Disclosure controls and procedures: As of June 30, 2010, 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 March 31, 2010, such disclosure controls and procedures were not effective.

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 June 30, 2010 that have materially affected or are reasonably likely to materially affect this control.

Limitations on the Effectiveness of Internal Control: Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, 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.

PART II

ITEM 1. 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 had 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 verbal 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 November of 2010. New Mexico Software no longer provides services to Premier.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are attached to this report:

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

SIGNATURES

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

NEW MEXICO SOFTWARE, INC.

Date: August 16, 2010	By /s/ Richard F. Govatski Richard F. Govatski, President
Date: August 16, 2010	By /s/ Teresa B. Dickey Teresa B. Dickey, Treasurer (Principal Financial Officer)