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NMXS COM INC  
Form 10QSB  
August 20, 2003

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

FORM 10-QSB

(Mark One)

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

For the quarter ended June 30, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-30176

NMXS.COM, INC.  
(Exact name of Registrant as specified in charter)

DELAWARE 91-1287406  
State or other jurisdiction of I.R.S. Employer I.D. No.  
incorporation or organization

5041 INDIAN SCHOOL ROAD NE, SUITE 200, ALBUQUERQUE, NM 87110  
(Address of principal executive offices) (Zip Code)

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

Check whether the Issuer (1) has filed all reports required to be filed by  
section 13 or 15(d) of the Exchange Act during the past 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.  
(1) Yes  No  (2) Yes  No

State the number of shares outstanding of each of the Issuer's classes of  
common equity as of the latest practicable date: At August 18, 2003, there  
were 27,758,387 shares of the Registrant's Common Stock outstanding.

PART I  
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NMXS.com, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(unaudited)

June 30,  
2003  
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Assets

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Current assets:	
Cash and equivalents	\$ 15,000
Accounts receivable, net	379,000
Inventory	6,000
Prepaid expenses and other assets	52,000
	-----
Total current assets	452,000
Furniture, equipment and improvements, net	184,000
Security deposits	39,000
Goodwill, net	75,000
	-----
	\$ 750,000
	=====

Liabilities and Stockholders' Equity

Current liabilities:	
Accounts payable	218,000
Accrued expenses	478,000
Deferred revenue	40,000
Notes payable	300,000
	-----
Total current liabilities	1,036,000

Stockholders' equity:	
Preferred stock, \$0.001 par value, 500,000 shares authorized, no shares issued and outstanding	-
Common stock, \$0.001 par value, 50,000,000 shares authorized, 27,258,387 shares issued and outstanding	28,000
Additional paid-in capital	8,439,000
Subscriptions payable	30,000
Deferred compensation	(40,000)
Prior period adjustment	(6,000)
Retained (deficit)	(8,737,000)
	-----
	(286,000)
	-----
	\$ 750,000
	=====

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

NMXS.com, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(unaudited)

	For the three months ended June 30,		For the s J
	2003	2002	2003
	-----	-----	-----
Revenue			
Software sales and maintenance	\$ 124,000	\$ 155,000	\$ 490,000
Custom programming	21,000	18,000	49,000

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License fees	15,000	563,000	15,000
Scanning services	35,000	18,000	71,000
Other	2,000	-	2,000
	-----	-----	-----
	197,000	754,000	627,000
Operating costs and expenses:			
Cost of services	78,000	97,000	165,000
General and administrative	283,000	469,000	558,000
Research and development	27,000	37,000	62,000
Bad debt expense	501,000	-	501,000
	-----	-----	-----
Total operating costs and expenses	889,000	603,000	1,286,000
Net operating profit (loss)	(692,000)	151,000	(659,000)
Other (expense):			
Interest income	-	-	-
Interest (expense)	(5,000)	(6,000)	(14,000)
(Loss) on disposal of fixed assets	-	(25,000)	-
	-----	-----	-----
Total other (expense)	(5,000)	(31,000)	(14,000)
Net income (loss)	\$ (697,000)	\$ 120,000	\$ (673,000)
	=====	=====	=====
Weighted average number of common shares outstanding - basic and fully diluted	26,249,021	22,808,000	25,687,300
	=====	=====	=====
Net income (loss) per share - basic and fully diluted	\$ (0.03)	\$ 0.01	\$ (0.03)
	=====	=====	=====

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

3

NMXS.com, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(unaudited)

	For the six months ended June 30,	
	2003	2002
	-----	-----
Cash flows from operating activities		
Net income (loss)	\$ (673,000)	\$ 47,000
Adjustments to reconcile net income (loss) to net cash (used) by operating activities:		
Prior period adjustment	(6,000)	-
Common stock issuable for services	-	-
Common stock issued for salaries	69,000	82,000
Common stock issued for services	109,000	187,000
Stock options issued for services	9,000	115,000
Bad debt expense	501,000	-
Depreciation and amortization	45,000	49,000
Loss on disposal of fixed assets	-	25,000
Changes in:		
Restricted cash	-	(1,000)

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Accounts receivable	(237,000)	(320,000)
Estimated earnings in excess of billings on uncompleted contracts	-	18,000
Prepaid expenses and other assets	(10,000)	11,000
Officer advances	1,000	(18,000)
Accounts payable	(97,000)	101,000
Accrued expenses	160,000	-
Deferred revenue	40,000	(380,000)
	-----	-----
Net cash (used) by operating activities	(89,000)	(84,000)
Cash flows from investing activities		
Acquisition of fixed assets	(6,000)	(3,000)
Security deposits	-	2,000
	-----	-----
Net cash provided (used) by investing activities	(6,000)	(1,000)
Cash flows from financing activities		
Proceeds from notes payable	25,000	63,000
Repayment of note payable	(12,000)	-
Net proceeds from the issuance of common stock	28,000	-
Increase in subscriptions payable	30,000	-
	-----	-----
Net cash provided by financing activities	71,000	63,000
	-----	-----
Net increase (decrease) in cash and equivalents	(24,000)	(22,000)
Cash and equivalents - beginning	39,000	57,000
	-----	-----
Cash and equivalents - ending	\$ 15,000	\$ 35,000
	=====	=====
Supplemental disclosures:		
Interest paid	\$ -	\$ 10,000
	=====	=====
Income taxes paid	\$ -	\$ -
	=====	=====
Non-cash transactions:		
Disposal of fixed asset and corresponding reduction in accounts payable	\$ -	\$ 327,000
Common shares issuable for leasehold improvements and prepaid rent	-	62,000
Acquisition of investment	-	(225,000)
Disposition of investment	-	225,000

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

NMXS.com, INC. AND SUBSIDIARIES  
Notes to consolidated Financial Statements

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

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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, 2002 and notes thereto included in the Company's Form 10-KSB. 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 - GOING CONCERN

There is no assurance that the Company's marketing efforts will be successful, or that the Company will achieve the necessary sales volume to sustain operations. The Company has incurred net losses and negative cash flows from operations since its inception. In addition, the Company operates in an environment of rapid change in technology and is dependent upon the services of its employees and its consultants. If the Company is unable to increase its sales volume, the Company would require additional funding and there is no assurance that such funding will be available to the Company under acceptable conditions. If such events do not occur, it is unlikely that the Company could continue its business.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern and realization of assets and settlement of liabilities and commitments in the normal course of business. The Company will continue to require the infusion of capital until operations become profitable. During 2003, the Company anticipates increasing revenues and continuing to monitor their expenses primarily in the area of compensation. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### NOTE C - ACCOUNTS RECEIVABLE

During the six months ended June 30, 2003, the Company elected to write off \$500,000 of accounts receivable to bad debt due to one customer. The Company is no longer doing business with this customer and is in negotiations to collect the entire balance.

### NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of June 30, 2003 consisted of the following:

Computers	\$	300,000
Furniture, fixtures and equipment		144,000
Leasehold improvements		83,000
		-----
		527,000
Accumulated depreciation		(343,000)
		-----
		184,000
		=====

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NMXS.com, INC. AND SUBSIDIARIES  
Notes to consolidated Financial Statements

### NOTE E - NOTE PAYABLE

During January 2001, the Company borrowed \$300,000. The loan is collateralized by substantially all of the Company's assets and personally guaranteed by an officer of the Company. Additional collateral was provided by a letter of credit issued by a then unrelated third party. The letter of credit expired on January 19, 2002. The note was renewed with a due date of July 24, 2002 at a current interest rate of 7%. On July 24, 2002, the Company paid \$50,000 of principal and \$10,525 of interest. The remaining \$250,000 of principal was extended to October 24, 2002 at a current interest rate of 7%. On October 24, 2002 the Company paid \$25,000 of principal and \$4,555 of interest. On April 24, 2003, the Company paid \$12,224 of principal and \$12,768 of interest. The remaining \$212,849 of principal was extended until October 15, 2003 at a current interest rate of 7%. As of June 30, 2003, the Company had a balance due of \$212,849.

On April 22, 2002, the Company borrowed \$50,000. The loan is due on April 23, 2003 at a current interest rate of 10% per annum. This note is secured by 500,000 shares of the Company's \$0.001 par value common stock. As of June 30, 2003, the Company is in default and is negotiating with the note holder.

In April 2002, the Company borrowed \$12,500. The loan is due on demand and bears no interest. As of June 30, 2003, the Company had a balance due of \$12,500.

On March 1, 2003, the Company borrowed \$25,000. The loan is due on June 30, 2003 at a current interest rate of 7% per annum. As of June 30, 2003, the Company had a balance due of \$25,000.

### NOTE F - CAPITAL TRANSACTIONS

#### Preferred stock:

During the six month period ended June 30, 2003, the Company effected the following stock transactions:

The Company received a total of \$30,000 from three individuals to purchase 30 shares of the Company's \$0.001 par value preferred stock. As of June 30, 2003, the Company had the preferred stock offering open and the total amount is considered subscriptions payable. Upon the close of the offering, all of the shareholders will receive their preferred stock.

#### Common stock:

During the six month period ended June 30, 2003, the Company effected the following stock transactions:

On January 13, 2003, the Company issued a total of 65,351 shares of the Company's \$0.001 par value common stock to its employees in lieu of salary which was valued at \$12,000.

On January 31, 2003, the Company issued 250,000 shares of its \$0.001 par value common stock to an individual for cash of \$28,000.

On February 20, 2003, the Company issued a total of 154,741 shares of the Company's \$0.001 par value common stock to its employees in lieu of salary which was valued at \$21,000 and to its independent contractors for services

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rendered in the amount of \$2,000.

On March 10, 2003, the Company issued a total of 217,467 shares of the Company's \$0.001 par value common stock to its employees in lieu of salary which was valued at \$22,000 and to its independent contractors for services rendered in the amount of \$2,000.

On March 24, 2003, the Company issued a total of 182,991 shares of the Company's \$0.001 par value common stock to its employees in lieu of salary which was valued at \$16,000 and to its independent contractors for services rendered in the amount of \$4,000.

6

### NMXS.com, INC. AND SUBSIDIARIES Notes to consolidated Financial Statements

On March 31, 2003, the Company issued a total of 10,000 shares of the Company's \$0.001 par value common stock to its independent contractors for services rendered in the amount of \$1,100.

On April 17, 2003, the Company issued a total of 100,000 shares of the Company's \$0.001 par value common stock to a former director for services rendered in the amount of \$20,000.

On May 16, 2003, the Company issued a total of 170,000 shares of the Company's \$0.001 par value common stock to its independent contractor for services rendered in the amount of \$17,000.

On May 30, 2003, the Company issued a total of 42,500 shares of the Company's \$0.001 par value common stock to its independent contractor for services rendered in the amount of \$2,975.

On June 6, 2003, the Company issued a total of 1,557,611 shares of the Company's \$0.001 par value common stock to its independent contractors for services rendered in the amount of \$108,000.

#### Warrants:

During the six month period ended June 30, 2003 there were no warrants issued or exercised.

#### Stock options:

Disclosures required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), including pro forma operating results had the Company prepared its financial statements in accordance with the fair value based method of accounting for stock-based compensation prescribed therein are shown below. Exercise prices and weighted-average contractual lives of stock options outstanding as of June 30, 2003 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
\$0.10-\$0.30	1,644,000	9.32	\$0.19	1,347,000	\$0.21

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\$0.31-\$0.50	1,139,000	8.06	\$0.39	449,000	\$0.39
\$0.54-\$0.83	693,000	2.61	\$0.70	643,000	\$0.67
\$1.25-\$2.13	180,000	7.05	\$1.69	180,000	\$1.69

### Summary of Options Granted and Outstanding:

	For the six months ended June 30,			
	2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	2,526,000	\$0.63	2,202,000	\$0.77
Granted	1,000,000	\$0.29	255,000	\$0.34
Cancelled	(6,000)	\$1.25	(2,000)	\$1.25
Outstanding at end of year	3,520,000	\$0.63	2,455,000	\$0.72

7

### NMXS.com, INC. AND SUBSIDIARIES Notes to consolidated Financial Statements

On February 27, 2003, the Company granted 1,000,000 stock options to Gerald Grafe with an exercise price of \$0.06, equal to the fair value of the common stock, with a contractual life of 5 years and the options vest immediately. The fair value of the options has been estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of these options was \$12,800. The following assumptions were used in computing the fair value of these option grants: weighted average risk-free interest rate of 4.42%, zero dividend yield, volatility of the Company's common stock of 122%, and an expected life of the options of ten years.

The following table summarizes the pro forma operating results of the Company for June 30, 2003 had compensation costs for the stock options granted to employees been determined in accordance with the fair value based method of accounting for stock based compensation as prescribed by SFAS No. 123.

Proforma net income (loss) available to common stockholders	\$ 24,000
Proforma basic and diluted loss per share	\$ 0.00

#### NOTE G - COMMITMENTS

##### Leases:

The Company leases office space, equipment and an automobile under operating leases. Future minimum lease payments as of June 30, 2003 are as follows:



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Year	Amount
----	-----
2003	\$ 121,000
2004	70,000

Rent expense for the period ended June 30, 2003 amounted to \$61,000.

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, 2000. The agreement allows for a one year renewal option unless terminated by either party. Base salary is \$120,000 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 period ended June 30, 2003. As of June 30, 2003 the Company is currently negotiating the terms of the renewal with its President and CEO. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of June 30, 2003, there was a total of \$179,000 in accrued payroll.

### NOTE H - MAJOR CUSTOMERS

During the six month period ended June 30, 2003, one customer accounted for 49% of the Company's revenue. The Company recognized \$245,000 as revenue from barter agreements for the six months ended June 30, 2003.

As of June 30, 2003, balances due from one customer comprised 66% of total accounts receivable.

### NOTE I - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate legal entities. New Mexico Software, Inc. (NMS) derives revenues from the development and marketing proprietary internet technology-based software and Working Knowledge, Inc. (WKI) provides data maintenance services related to NMS digital asset management system. Information related to the Company's reportable segments for 2003 is as follows:

8

### NMXS.com, INC. AND SUBSIDIARIES Notes to consolidated Financial Statements

	NMS	WKI	Total
	-----	-----	-----
Revenue	\$ 616,000	\$ 11,000	\$ 627,000
Cost of services	138,000	27,000	165,000
General and administrative	496,000	62,000	558,000
Research and development	62,000	-	62,000
Bad debt expense	500,000	1,000	501,000
	-----	-----	-----
Operating income (loss)	\$ (580,000)	\$ (79,000)	\$ (659,000)
	=====	=====	=====
Total assets	\$ 597,000	\$ 153,000	\$ 750,000
	=====	=====	=====

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WKI revenue consists primarily of software maintenance and scanning services.

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

Segment's operating income	\$ (659,000)
Other income (expense)	(14,000)
	-----
Consolidated net income/comprehensive income	\$ (673,000)
	=====

Prior to acquisition of WKI, in April 2000, the Company operated within one business segment.

For the six month period ended June 30, 2003, amortization and depreciation expense amounted to \$32,301 and \$12,260 for NMS and WKI, respectively. Also, total fixed asset additions amounted to \$6,000 and \$0 for NMS and WKI, respectively.

### NOTE J - CONTINGENCIES AND OTHER LIABILITIES

#### Contingencies:

As of June 30, 2003, the Company had accumulated debt totaling \$55,000 in line charges with Sprint. The Company was also owed commissions in connection with its contract with Sprint as a Sprint Data Partner. The Company and Sprint have agreed in principle to apply the outstanding commissions to the debt thereby reducing the debt from \$55,000 to \$16,000. The Company expects to pay the \$16,000 over a period of 16 months starting Feb 2003. During the six months period ended June 30, 2003, the Company has paid a total of \$5,000 to Sprint.

As of June 30, 2003, the Company was in dispute with Sun Microsystems, Inc. (Sun) over the terms of equipment leased from Sun whereby the Company continued to make lease payments and failed to notify Sun past the lease termination date during 2002. The Company ceased making payments in October 2002 until the matter was resolved. Sun is pursuing collection of payments it considers in arrears totaling \$18,000. The Company claims that the missed termination date is a technicality, and that it has overpaid Sun by \$50,000. The Company intends to return the equipment to Sun as settlement in full, and does not consider this to impair its ability to continue servicing its customer base. On July 23, 2003, the Company settled with Sun and agreed to pay a total of \$1,000 and return the equipment to Sun.

9

### NMXS.com, INC. AND SUBSIDIARIES Notes to consolidated Financial Statements

#### Outstanding Payroll Taxes:

The Company has unpaid Federal and State payroll taxes totaling \$277,371 as of June 30, 2003. No action has been taken by the Company or the Internal Revenue Service (IRS) to negotiate payment terms, and no plan for repayment has been determined by the Company. The penalties and interest associated with this liability is estimated to be in excess of 10% of the total payroll taxes due, but has not been accrued because the Company feels that until a settlement is reached with the IRS the Company cannot reasonably

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determine the amount due in penalties and interest. On June 1, 2003, the Company settled with the State of New Mexico and agreed to pay \$1,000 per month of past due payroll taxes plus the current amount due. During the six months ended June 30, 2003, the Company paid a total of \$2,000 of past due payroll taxes.

10

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

#### OVERVIEW

We are a leading provider of digital asset management solutions. We provide full ASP services for content owners to better manage the digital lifecycle of intellectual property which includes digitizing, encoding, storing, managing, licensing, and distributing digital files in government, medical, entertainment, and IT markets. Our core product, AssetWare, is an enterprise-level platform that manages digital assets, which is anything digital that a company or organization would consider an asset. It manages assets by creating catalogs, or groups of assets, catalog hierarchies, users, user groups, and user permissions. The assets are managed by our database that maintains both the membership of the asset in a catalog, or catalogs, and information about the asset. AssetWare's main user interface is a web browser, which makes it accessible and more intuitive to a greater number of users. AssetWare can be run on Solaris or Linux operating systems.

Our engineers upgraded our customized technology which permits the installation of a high-speed 6Ghz "Triage" data clusters. This provides increased speed, redundancy, failover capability, and load balancing to our AssetWare enterprise database. The system also helps balance image and data processing server side loads. Management believes this upgrade is a normal part of the business of the company and allows us to remain competitive in this industry. We currently offer this upgrade to our software. Management has assessed that this technology will help our business become more competitive on future AssetWare software sales.

AssetWare is offered in a number of configurations, including the following: AssetWare - hosted model; AssetWare - licensed model; AssetWare - E-commerce module; AssetWare - For Kiosks; AssetWare - Workgroup; AssetWare - Rapid Deployment; AssetWare - For Government; and AssetWare - Source Code API. We also now offer two lower-end versions of AssetWare, called Digital Filing Cabinet, to smaller users providing a concurrent user system for from 25 to 100 concurrent users.

During third quarter of 2002, we finalized the arrangements to preload our Linux-based Digital Filing Cabinet software, formerly available only on our AssetWare enterprise software, on Toshiba's Magnia SG20 and Z series servers. Management believes this arrangement is designed to appeal to small business and consumers who desire to organize, store, find, and manage information at a reasonable cost. Management has seen the results of the first two quarters of 2003 sales as a good beginning for the Digital File Cabinet. We have begun a marketing program through the assistance of Toshiba to start identifying new dealer potential among copier resellers and computer resellers. Thus far, we have attracted 25 new resellers to the program and our staff is currently training and educating the resellers in selling the product.

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Through the third quarter of 2001 our focus was on research and development and testing of our software. Beginning in the fourth quarter of 2001 we commenced production and marketing of the Digital Filing Cabinet. Although we continue to perform research and development, these

11

activities are currently limited to upgrading the existing product, creating new features requested by clients, and matching the product to various OEM hardware. Also, since the core product is now available for mass distribution, we intend to reduce the amount of custom programming previously performed and focus on marketing our core products.

We presently realize revenues from four primary sources: (i) software maintenance; (ii) custom programming; (iii) license fees; and (iv) scanning and related services. Two of these revenue streams, license fees and software maintenance, are directly related. With each sale of our products, including the sales of the Toshiba 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. Management has standardized the license fees on its products and established a standard maintenance fee based on a fixed percentage of the initial license fee depending on the product purchased. In the past, license and maintenance fees were established on an individual client basis. We are currently in the second year of several of these initial license agreements which accounts for the increase in revenue generated from software maintenance. Management anticipates that this source of revenue will continue to increase as more products are sold. During the initial stage of product development, we focused more on custom programming for clients and, with the completion of our core product, will perform less customized services, which could result in a continued decline in this source of revenue. Scanning services are performed by Working Knowledge at its site in Santa Monica, California. With management's focus on marketing our core products, less attention has been devoted to developing this segment of our business. Management anticipates that these services will be reserved in the future primarily for customers of our core products, although revenue could be generated from unsolicited customers. While the scanning business remained static during the last several quarters, early indications are that the scanning business has been revitalizing in the last six weeks and it may be possible that the scanning revenue will increase in sales in the future.

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

### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the

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reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

12

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe there are no critical accounting policies which would have a material impact on our financial presentation.

Notwithstanding the foregoing, we recognize revenue from sales of proprietary software which do not require further commitment from us upon shipment. During 2002 we shipped software under a contract with Physicians Telehealth Network ("PTN") and recognized \$500,000 in license fees from the sale. The agreement with PTN provided for the licensing of the technology for \$500,000, which amount was recorded as income during 2002. In the first quarter, 2003, certain of PTN's assets were taken over by a group of investors headed by Kurt Grossman and the initial contract we received continued with the new investor group named Doctors Telehealth Network ("DTN"). DTN has made no payments under the contract. Management does not intend to pursue the contract and has rescinded the license granted in the agreement.

THREE AND SIX MONTHS ENDED JUNE 30, 2003, COMPARED TO THREE AND SIX MONTHS ENDED JUNE 30, 2002

A summary of operating results for the three months ended June 30, 2003 and 2002 is as follows:

	2003		2002	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$ 197,000	100%	\$ 754,000	100%
Cost of services	78,000	39.6%	97,000	12.9%
	-----		-----	
Gross profit	119,000	60.4%	657,000	87.1%
General & administrative	283,000	143.7%	469,000	62.2%
Research & development	27,000	13.7%	37,000	4.9%
Bad Debt	501,000	254.3%	0	0.0%
	-----		-----	
	811,000	411.7%	506,000	67.1%
Other income (expense)	(5,000)	(2.5)%	(31,000)	(4.1)%
	-----		-----	
Net income (loss)	\$ (697,000)	(353.8)%	\$ 120,000	15.9%
	=====		=====	
	2003		2002	
	----		----	
Earnings (loss) per share:	\$(0.03)		\$0.01	

13

A summary of operating results for the six months ended June 30, 2003 and 2002 is as follows:

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	2003		2002	
	Amount	% of Revenue	Amount	% of Revenue
Revenues	\$ 627,000	100%	\$1,276,000	100%
Cost of services	165,000	26.3%	261,000	20.5%
Gross profit	462,000	73.7%	1,015,000	79.6%
General & administrative	558,000	89.0%	837,000	65.6%
Research & development	62,000	9.9%	94,000	7.4%
Bad Debt	501,000	79.9%	0	0.0%
	1,121,000	178.8%	931,000	73.0%
Other income (expense)	(14,000)	(2.2)%	(37,000)	(2.9)%
Net income (loss)	\$ (673,000)	(107.3)%	\$ 47,000	3.7%
	2003		2002	
Earnings (loss) per share:	\$ (0.03)		\$ (0.00)	

Revenues. Total revenues decreased 73.9%, or \$557,000, for the three months ended June 30, 2003, as compared to the same period in the prior year (the "comparable prior year period"). Total revenues decreased 50.9%, or \$649,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. These revenues were generated from the following four revenue streams:

- \* Revenues generated by software maintenance decreased 20.0%, or \$31,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. Revenues generated by software maintenance increased 187.0%, or \$228,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This increase is attributable to the fact that additional software maintenance programs for existing customers were sold and the reclassification of some income. Software maintenance will remain strong in the future due to an increasing number of customers requiring our services.
- \* Custom programming revenue increased 16.7%, or \$3,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. Custom programming revenue decreased 41.0%, or \$34,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This decrease was primarily due to a shift from providing

customized software services to marketing of developed software products. Management anticipates that the decrease in revenue from custom programming will improve based on new contracts signed with existing customers for upgrades to their systems through the remainder of 2003.

- \* Revenues generated by license fees decreased 97.3%, or \$548,000, for the three months ended June 30, 2003, as compared to the comparable

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prior year period. Revenues generated by license fees decreased 98.4%, or \$896,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This decrease is primarily attributable to lack of one time AssetWare enterprise sales in the first quarter compared to the large sale in the first quarter of 2002. Management anticipates that revenues in this category will continue to improve in the remaining quarters of 2003 due to the accounting that will show sales of the Digital Filing Cabinet. Based on the accounting procedure used by Toshiba, royalty reports and payments occur forty five (45) days after the quarter ends.

- \* Revenue generated by scanning services and other services increased 94.4%, or \$17,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. This type of revenue increased 255%, or \$51,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This increase was primarily due to new contracts received by Working Knowledge division. Although management anticipates that revenues generated by Working Knowledge will increase significantly in the future, the services provided by Working Knowledge will generally be limited to existing or future clients and will not be our primary focus. However, Working Knowledge will continue to accept unsolicited work.

We continue to rely on a small number of customers to generate our revenues. During the quarter ended June 30, 2003, Toshiba accounted for 49% of the total revenues generated during the quarter. In addition, Forbes.Inc. comprised 66% of the total accounts receivable balance at June 30, 2003.

Cost of Services. Cost of services decreased 19.6%, or \$19,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. Cost of services decreased 36.8%, or \$96,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This decrease was primarily due to a decrease in salaries and compensation. Cost of services as a percentage of revenues increased to 26.3% for the six months ended June 30, 2003 from 20.5% for the comparable prior year period. Management believes this current percentage is more indicative of the percentage of costs associated with revenues in the future, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

General and Administrative. General and administrative expenses decreased 39.7%, or \$186,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. General and administrative expenses decreased 33.3%, or \$279,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This decrease was primarily

15

attributable to a reduction in engineering and administrative staff. General and administrative expenses as a percentage of revenues were 89.0% for the six months ended June 30, 2003, as compared to 65.6% for the comparable prior year period. Management believes this current percentage is more indicative of the percentage of general and administrative costs associated with revenues in the future, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

Research and Development. Research and development expenses decreased

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27.0%, or \$10,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. Research and development expenses decreased 34.1%, or \$32,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. This decrease was primarily due to the need to develop additional product areas. Since our products are mature and now in the market, most of the R&D category will be replaced by a Maintenance Development category in the future.

Bad Debt. Management has determined that the account receivable from Doctors Telehealth Network generated by the sale of a software license for \$500,000 is not collectable. Therefore, management has decided to write-off the receivable during the three months ended June 30, 2003.

Other Income. Interest expense decreased 16.7%, or \$1,000, for the three months ended June 30, 2003, as compared to the comparable prior year period. Interest expense increased 7.7%, or \$1,000, for the six months ended June 30, 2003, as compared to the comparable prior year period. The increase in interest expense was attributable to accruing interest due on additional promissory notes issued by us.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2003, cash and cash equivalents totaled \$15,000, representing a \$20,000 decrease from the June 30, 2002, balance of \$35,000. Cash used in operations was \$89,000 during the first six months of 2003. This compares to cash used in operating activities of \$84,000 during the first six months of 2002.

Our negative cash flow continues to be of concern to management. As discussed below, we suffer from a lack of available cash to meet our continuing operating requirements. At June 30, 2003, we had negative working capital of (\$584,000). At June 30, 2003, we also owed approximately \$277,371, without penalties and interest, for unpaid federal and state payroll taxes. Amounts due a number of suppliers for services and products remain delinquent which may cause these parties to seek legal action against us to collect delinquent accounts. At June 30, 2003, we had trade accounts payable in the amount of \$218,000, of which \$9,960 were current as of June 30, 2003, \$10,353 were between 31 and 60 days delinquent, \$2,997 were between 61 and 90 days delinquent, and \$194,561 were over ninety days delinquent. The four largest creditors, excluding taxing agencies, include our original auditor (\$98,567), Forbes Magazine (\$25,000), our landlord (\$16,614), and former legal counsel (\$12,583). Management continues to work with our creditors and to seek additional sources of capital, but there is no assurance that it will be successful, or that additional capital can be obtained at rates or terms favorable to us. We also continue to accrue the salary of our president,

16

which at June 30, 2003, was an aggregate of \$179,000. We may also settle some of our outstanding liabilities by exchanging shares of our common or preferred stock for amounts owed. Our inability to pay or settle these obligations, especially the amount due to the IRS, could have a material negative impact on our business and could affect our ability to continue as a going concern.

During the six months ended June 30, 2003, we issued common stock or stock options for salaries and services totaling \$187,000, as compared with \$384,000 for the comparable prior year period. We anticipate that this downward trend in such compensation will continue as we are able to reduce our compensation expenses and generate more revenue from operations.



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However, we will likely continue to compensate employees and consultants with equity incentives where possible and during the remainder of 2003 will continue to utilize equity instruments to compensate existing and new employees and consultants hired to minimize cash outlays. We believe this strategy provides the ability to increase stockholder value as well as utilize cash resources more effectively. To support this strategy we may seek an increase in the number of equity securities that can be issued under our existing stock plan in order to allow management greater flexibility in its use of stock based compensation. The continued issuance of equity securities under the stock plan may result in dilution to existing shareholders.

Investing activities used \$6,000 of cash for the six months ended June 30, 2003, as compared to \$1,000 for the comparable prior year period. The increase in the cash used for investing activities was primarily attributable to acquisition of fixed assets for replacement of computer hardware.

Financing activities provided \$71,000 in cash for the six months ended June 30, 2003, as compared to financing activities providing \$63,000 for the comparable prior year period. The increase in cash provided by financing activities was primarily attributable to an increase in funds borrowed by us and sales of our stock. Of the cash provided by financing activities for the six months ended June 30, 2003, \$25,000 of the total amount was attributable to a loan from one corporation. In March 2003 we issued a promissory note for \$25,000 with an interest rate of 7%. The note was due on June 30, 2003. We are currently negotiating an extension of this note. Also in March, \$30,000 was provided by subscriptions received in a private stock offering of 30 shares of Series A preferred stock. The Series A shares are convertible into common shares at the option of the holder at the rate of 70% of the average bid price of the common stock on the conversion date, based upon the value of the Series A shares being converted which is deemed to be \$1,000 per share. The remaining \$28,000 was provided by net proceeds from a private stock offering of shares of common stock to one individual who is a director.

Management anticipates that our primary uses of capital in the future periods will be allocated to satisfy delinquent obligations and for working capital purposes. Our business strategy is to achieve growth internally through continued sale of licenses for our AssetWare products, and maintenance of these licenses, and externally through the sale of potentially dilutive securities. We may also continue to incur debt as needed to meet our operating needs. In addition, we may be forced to issue additional equity compensation to employees and outside consultants to meet payroll and pay for needed legal and other services.

17

At June 30, 2003, we had an outstanding balance on a line of credit with Los Alamos National Bank which was originally due on July 24, 2002. The outstanding principal amount due at that date was \$300,000, plus interest of \$10,545. On July 24, 2002, we negotiated a three month extension on the repayment of the outstanding balance of the line of credit by reducing the principal amount of the debt with the payment of \$50,000 and the payment of the interest due. At October 24, 2002, we negotiated a six month extension of the amount due on the line of credit by paying \$25,000 of the principal amount due and \$4,555 in interest due. On April 15, 2003 another six month extension was negotiated by the payment of \$12,500 of the principal amount due and \$7,500 in interest due. The loan is now due October 15, 2003, and the principal balance due for this line of credit is now \$212,500. Our inability to retire this debt, negotiate an

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extension of the payment amount and/or date, or obtain an alternative loan would likely have a material negative impact on our business, and could impair our ability to continue operations if the bank were to foreclose on the note.

Our financial statements have been prepared based upon the assumption that we will be able to continue as a going concern. There is no assurance that our marketing efforts will be successful, or that we will be able to achieve the necessary sales volume to sustain our operations. We have incurred net losses and negative cash flows from operations since inception. Also, we operate in a business environment of rapidly changing technology. We are also dependent upon the services of our employees and our consultants, many of whom have been willing to accept equity compensation in lieu of cash. Also, we have incurred significant tax liabilities for unpaid withholding taxes, as well as other significant past due debt. If we are unable to increase our sales volume, we would require additional funding. We have no immediate source or commitment for any additional funding. Further, there is no assurance that such funding, if secured, would be available under acceptable terms. If we are unable to increase our sales volume, satisfy our debts, or obtain additional financing, it is unlikely that we would be able to continue our business. There is no assurance that our capital resources are sufficient to meet our present obligations and those to be incurred in the normal course of business for the next twelve months.

### 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 believe that any forward-looking statements it makes in this report are reasonable, because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements include the following:

- \* Rapid changes in technology relating to the Internet;
- \* the continued growth and use of the Internet;
- \* changes in government regulations;

18

- \* 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;
- \* the inability to locate sources to retire our line of credit or to obtain alternative lending sources; and
- \* the inability to solve cash flow problems.

In light of the significant uncertainties inherent in the forward-

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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. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, our management conducted an evaluation, under the supervision and with the participation of our president and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the president and principal financial officer concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of our last evaluation.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

Except as set forth below, this report contains no reportable legal proceedings, we are delinquent in payment to a number of service or product providers, any one of which could institute legal proceedings against us in the future. Management is actively working with these creditors to settle the amounts owed or negotiate more favorable payment terms. There is no assurance that management will be successful in settling these accounts or renegotiating payment terms. If we are unsuccessful in doing so, the enforcement of collection of the amounts owed could have a material negative impact on our business.

On August 11, 2003, management received electronic notice from Kurt Grossman, the holder of a promissory note issued by us on April 23, 2002, threatening legal action in the collection of the promissory note if we do not make immediate arrangements to repay the note. The note, in the principal amount of \$50,000, plus interest in the amount of \$5,000, was due on April 23, 2003.

19

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2003, the following securities were sold by us without registering the securities under the Securities Act:

- \* In June 2003 we issued 1,500,000 shares of common stock to one accredited investor for services performed under a consulting agreement. These securities were issued without registration under the Securities Act by reason of the exemption from registration afforded by the provisions of Section 4(6) thereof, as a transaction by an issuer to accredited investors, and pursuant to the provisions of Rule 506 of Regulation D. The investor acknowledged the investment nature of the securities issued and consented to the imposition of restrictive legends upon the certificates evidencing the shares. The investor did not enter into the transaction as a result of or subsequent to any advertisement, article, notice, or other communication published in any newspaper, magazine, or similar media or broadcast on television or radio, or presented at any seminar or meeting. The investor was also afforded the opportunity to ask questions of our management and to receive answers concerning the

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terms and conditions of the transaction. No underwriting discounts or commissions were paid in connection with such issuance.

- \* Also in June 2003 we issued 57,611 shares of common stock to one accredited investor for services performed under an employment agreement. These securities were issued without registration under the Securities Act by reason of the exemption from registration afforded by the provisions of Section 4(6) thereof, as a transaction by an issuer to accredited investors, and pursuant to the provisions of Rule 506 of Regulation D. The investor acknowledged the investment nature of the securities issued and consented to the imposition of restrictive legends upon the certificates evidencing the shares. The investor did not enter into the transaction as a result of or subsequent to any advertisement, article, notice, or other communication published in any newspaper, magazine, or similar media or broadcast on television or radio, or presented at any seminar or meeting. The investor was also afforded the opportunity to ask questions of our management and to receive answers concerning the terms and conditions of the transaction. No underwriting discounts or commissions were paid in connection with such issuance.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

During the quarter ended June 30, 2003, we were delinquent in the payment of interest and principal on a \$50,000 promissory note payable to Kurt and Ann Grossman. The note was due and payable on April 23, 2003, and bears interest of \$5,000. As of the filing date of this report, the total amount due on the note is \$55,000.

20

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits. The following exhibits are attached to this report:
- 31.1 Certification by Chief Executive Officer
  - 31.2 Certification by Chief Financial Officer
  - 32.1 Section 906 Certification of CEO and Principal Financial Officer.

(b) Reports on Form 8-K. A current report on Form 8-K dated April 17, 2003, was filed on April 30, 2003. The report included under Items 9 and 12 an earnings release for the year ended December 31, 2002.

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NMXS.com, INC.

Date: August 19, 2003

By /s/ Richard Govatski  
Richard Govatski, President

Date: August 19, 2003

By /s/ Teresa Dickey  
Teresa Dickey, Treasurer  
(Principal Financial Officer)

