KIMCO REALTY CORP
Form 424B3
April 23, 2007

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, nor are they soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(B)(3)
Registration No. 333-133908

Subject to Completion
Preliminary Prospectus Supplement Dated April 23, 2007

Prospectus Supplement
April , 2007
(To Prospectus dated May 8, 2006)

$

% Senior Notes due 2017

Interest on the notes will be payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2007. The notes will mature on May 1, 2017. We may redeem some or all of the notes at any time or from time to time before maturity at the make-whole price described under the caption Description of the Notes Optional Redemption. Under certain circumstances involving a change of control, holders may be entitled to require us to repurchase some or all of their notes at 101% of their principal amount plus accrued and unpaid interest on a date designated by us after such change of control.

The notes will be unsecured obligations and will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding.

Investing in the notes involves risks. See Supplemental Risk Factors beginning on page S-6 of this prospectus supplement, Risk Factors beginning on page 5 of the accompanying prospectus, and Risk Factors beginning on page 22 of our Annual Report on Form 10-K for the year ended December 31, 2006, incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Per Note	Total
Public offering price(1)	%	$
Underwriting discounts	%	$
Proceeds to Kimco (before expenses)	%	$

(1) Plus accrued interest, if any, from April , 2007, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any other state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be ready for delivery in book-entry only form through the facilities of The Depository Trust Company, Clearstream, Luxembourg and the Euroclear System on or about April , 2007.

Joint Book-Running Managers

Banc of America Securities LLC	**Citi**	**JPMorgan**	**UBS Investment Bank**

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should read this prospectus supplement along with the accompanying prospectus carefully before you invest. Both documents contain important information you should consider before making your investment decision. This prospectus supplement and the accompanying prospectus contain the terms of this offering of notes. The accompanying prospectus contains information about our securities generally, some of which does not apply to the notes covered by this prospectus supplement. This prospectus supplement may add, update or change information in the accompanying prospectus. If the information in this prospectus supplement is inconsistent with any information in the accompanying prospectus, the information in this prospectus supplement will apply and will supersede the inconsistent information in the accompanying prospectus.

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the additional information under the caption Where You Can Find More Information in this prospectus supplement.

You should rely only on the information incorporated by reference or contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with additional or different information. If anyone provides you with additional or different information, you should not rely on it. Neither we nor the underwriters are making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

As used in this prospectus supplement and the accompanying prospectus, all references to we, us, our, Kimco, and Company mean Kimco Realty Corporation, its majority-owned subsidiaries and other entities controlled by Kimco Realty Corporation, except where it is clear from the context that the term means only the issuer, Kimco Realty Corporation.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any materials we file with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of this information by mail from the public reference room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at http://www.sec.gov. You may inspect information that we file with The New York Stock Exchange, as well as our SEC filings, at the offices of The New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The SEC allows us to incorporate by reference certain information we file with the SEC, which means that we can disclose important information to you by referring to the other information we have filed with the SEC. The information that we incorporate by reference is considered a part of this prospectus supplement and information that we file later with the SEC prior to the termination of the offering of the notes will automatically update and supersede the information contained in this prospectus supplement. We incorporate by reference the following documents we filed with the SEC pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the Exchange Act):

our Annual Report on Form 10-K for the fiscal year ended December 31, 2006;

our Current Report on Form 8-K filed on March 21, 2007; and

our Proxy Statement filed on April 6, 2007.

We are also incorporating by reference additional documents that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement and prior to the termination of the offering of the notes. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as Proxy Statements. Any statement contained in this prospectus supplement or the accompanying prospectus or in a document incorporated or deemed to be incorporated by reference herein or therein shall be deemed to be modified or superseded to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus supplement and the accompanying prospectus modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement or the accompanying prospectus.

Documents incorporated by reference are available from us without charge, excluding all exhibits unless we have specifically incorporated by reference the exhibit in this prospectus supplement and the accompanying prospectus. You may obtain documents incorporated by reference in this prospectus supplement and the accompanying prospectus by requesting them in writing or by telephone from:

Kimco Realty Corporation
3333 New Hyde Park Road
New Hyde Park, New York 11042
Attn: Bruce M. Kauderer, Corporate Secretary
(516) 869-9000

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Exchange Act. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company s future plans, strategies and expectations, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. You should n forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company s control and which could materially affect actual results, performances or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to, those listed under the caption Supplemental Risk Factors in this prospectus supplement and under Risk Factors in the accompanying prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2006, incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as the following possibilities: (i) general economic and local real estate conditions, (ii) the inability of major tenants to continue paying their rent obligations due to bankruptcy, insolvency or general downturn in their business, (iii) financing risks, such as the inability to obtain equity, debt, or other sources of financing on favorable terms, (iv) changes in governmental laws and regulations, (v) the level and volatility of interest rates and foreign currency exchange rates, (vi) the availability of suitable acquisition opportunities and (vii) increases in operating costs. Accordingly, there is no assurance that the Company s expectations will be realized.

We caution readers that any such statements are based on currently available operational, financial and competitive information, and they should not place undue reliance on these forward-looking statements, which reflect management s opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur.

SUMMARY

This summary highlights information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and may not contain all of the information that is important to you. You should carefully read the entire prospectus supplement and the accompanying prospectus as well as the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus before making an investment decision to purchase the notes.

Kimco Realty Corporation

Kimco Realty Corporation, a Maryland corporation, is one of the nation s largest owners and operators of neighborhood and community shopping centers. We are a self-administered real estate investment trust (REIT) and manage our properties through present management, which has owned and operated neighborhood and community shopping centers for over 45 years. We have not engaged, nor does we expect to retain, any REIT advisors in connection with the operation of our properties. As of January 31, 2007, we had interests in 1,348 properties, totaling approximately 175.4 million square feet of gross leasable area (GLA) located in 45 states, Canada, Mexico and Puerto Rico. Our ownership interests in real estate consist of our consolidated portfolio and in portfolios where we own an economic interest, such as properties in our investment management program, where we partner with institutional investors and also retain management. We believe our portfolio of neighborhood and community shopping center properties is the largest (measured by GLA) currently held by any publicly-traded REIT.

We believe that we have operated, and we intend to continue to operate, in such a manner to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code). We are self-administered and self-managed through present management, which has owned and managed neighborhood and community shopping centers for more than 45 years. We have not engaged, nor do we expect to retain, any external advisors in connection with the operation of our properties. Our executive officers are engaged in the day-to-day management and operation of our real estate exclusively, and we administer nearly all operating functions for our properties, including leasing, legal, construction, data processing, maintenance, finance and accounting.

In order to maintain our qualification as a REIT for federal income tax purposes, we are required to distribute at least 90% of our net taxable income, excluding capital gains, each year. Dividends on any preferred stock issued by us are included as distributions for this purpose. Historically, our distributions have exceeded, and we expect that our distributions will continue to exceed, our net taxable income each year. A portion of such distributions may constitute a return of capital. As a result of the foregoing, our consolidated net worth may decline. We, however, do not believe that consolidated stockholders equity is a meaningful reflection of net real estate values.

Our executive offices are located at 3333 New Hyde Park Road, New Hyde Park, New York 11042-0020, and our telephone number is (516) 869-9000.

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The Offering

The following is a brief summary of certain terms of the notes. For a more complete description of the terms of the notes (including the definitions of capitalized terms), see Description of the Notes in this prospectus supplement and Description of Debt Securities in the accompanying prospectus.

Issuer	Kimco Realty Corporation
Notes offered	$ aggregate principal amount of % senior notes due 2017
Ranking	The notes will rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. The notes will not be obligations of or guaranteed by any of our subsidiaries. As a result, the notes will be structurally subordinated to all debt and other liabilities of our subsidiaries (including trade payables) to the extent of the assets of those subsidiaries, which means that creditors of our subsidiaries will be paid from their assets before holders of the notes would have any claims to those assets. At December 31, 2006, our subsidiaries had outstanding $1.3 billion of total liabilities, including $1.1 billion of debt (excluding, in each case, intercompany liabilities). The indenture under which the notes will be issued does not limit our ability or the ability of our subsidiaries to issue or incur other debt or issue preferred stock.
Interest rate	% per year
Coupon step-up	If the rating on the notes from Moody s Investors Service, Inc. (Moody s) is a rating set forth in the immediately following table, the per annum interest rate on the notes will increase from that set forth on the cover page of this prospectus supplement by the percentage set forth opposite that rating:

Rating	Percentage
Ba1	.25%
Ba2	.50%
Ba3	.75%
B1 or below	1.00%

If the rating on the notes from Standard & Poor s Ratings Services, a division of McGraw-Hill, Inc. (S&P), is a rating set forth in the immediately following table, the per annum interest rate on the notes will increase from that set forth on the cover page of this prospectus supplement by the percentage set forth opposite that rating:

Rating	Percentage
BB+	.25%

BB	.50%
BB−	.75%
B+ or below	1.00%

If Moody s or S&P subsequently increases its rating to any of the threshold ratings set forth above, the per annum interest rate on the notes will be decreased such that the per annum interest rate equals the interest rate set forth on the cover page of this prospectus supplement plus the percentages set forth opposite the ratings from the tables above in effect immediately following the increase. Each adjustment required by any decrease or increase in a rating set

	forth above, whether occasioned by the action of Moody s or S&P, shall be made independent of any and all other adjustments. In no event shall (1) the per annum interest rate on the notes be reduced below the interest rate set forth on the cover page of this prospectus supplement, and (2) the total increase in the per annum interest rate on the notes exceed 2.00% above the interest rate set forth on the cover page of this prospectus supplement.
Maturity	May 1, 2017
Interest payment dates	Interest on the notes will be payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2007.
Optional redemption	We may redeem all or a portion of the notes at our option at any time or from time to time at the make-whole redemption price equal to the greater of (1) 100% of the aggregate principal amount of the notes being redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, and (2) the sum, as determined by an independent investment banker, of the remaining scheduled payments of principal and interest in respect of the notes being redeemed (exclusive of any interest accrued to, but excluding, the redemption date) discounted to the redemption date on a semi-annual basis at the treasury rate plus basis points, plus accrued and unpaid interest to, but excluding, the redemption date. See Description of the Notes Optional Redemption in this prospectus supplement.
Change of control	If a Change of Control Triggering Event (as defined herein) occurs, we will be required to offer to purchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to, but excluding, the repurchase date designated by us after such Change of Control Triggering Event. See Description of the Notes Change of Control Triggering Event in this prospectus supplement.
Covenants	The indenture governing the notes will include restrictions on mergers, consolidations and transfers of all or substantially all of our assets, but will not include any financial or other similar restrictive covenants that restrict our or our subsidiaries ability to incur additional indebtedness, incur liens on our property, enter into sale and leaseback transactions, pay dividends or make other distributions or issue preferred stock. See Description of the Notes Merger, Consolidation or Sale; No Financial Covenants in this prospectus supplement.
Denominations	The notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Form of notes	The notes will be issued as fully registered notes (to be deposited with the depositary), represented by one or more global notes deposited with The Depository Trust Company (DTC). Investors may elect to hold interests in the global notes through any of DTC, Clearstream, Luxembourg or the

	Euroclear System.
Use of proceeds	We estimate that the net proceeds from this offering will be approximately $ million. We intend to apply the net proceeds

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	from this offering to repay existing indebtedness and to partially fund refinancing obligations. See Use of Proceeds on page S-8 of this prospectus supplement.
Trustee	The Bank of New York.

Risk Factors

Investing in the notes involves risks. Please read the section entitled Supplemental Risk Factors beginning on page S-6 of this prospectus supplement, Risk Factors beginning on page 5 of the accompanying prospectus and Risk Factors beginning on page 22 of our Annual Report on Form 10-K for the year ended December 31, 2006, incorporated by reference in this prospectus supplement and the accompanying prospectus.

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Summary Consolidated and Other Financial Data

The summary consolidated and other financial data at each of the dates and for each of the years presented below were derived from our audited consolidated financial statements, which, except for the ratios of earnings to total fixed charges, have been examined and reported upon by PricewaterhouseCoopers LLP, our independent registered public accounting firm. Because the information in this table is only a summary and does not provide all of the information contained in our financial statements, including the related notes, you should read Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, incorporated by reference in this prospectus supplement and the accompanying prospectus.

The Company believes that the book value of its real estate assets, which reflects the historical costs of such real estate assets less accumulated depreciation, is not indicative of the current market value of its properties. Further, historical operating results are not necessarily indicative of future operating performance.

	Year ended December 31,(2)				
	2006	**2005**	**2004**	**2003**	**2002**
	(in thousands, except per share information)				
Operating Data:					
Revenues from rental property(1)	$ 593,880	$ 505,557	$ 490,901	$ 448,203	$ 399,725
Interest expense(3)	$ 172,888	$ 126,901	$ 106,239	$ 101,438	$ 83,916
Depreciation and amortization(3)	$ 141,070	$ 101,432	$ 95,398	$ 79,322	$ 64,318
Gain on sale of development properties	$ 37,276	$ 33,636	$ 16,835	$ 17,495	$ 15,880
Gain on transfer/sale of operating properties, net(3)	$ 2,460	$ 2,833	$	$ 3,177	$
Provision for income taxes	$ 16,542	$ 10,989	$ 8,320	$ 8,514	$ 12,904
Income from continuing operations	$ 345,131	$ 325,947	$ 274,110	$ 234,827	$ 225,316

	December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Balance Sheet Data:					
Real estate, before accumulated depreciation	$ 6,001,319	$ 4,560,406	$ 4,092,222	$ 4,174,664	$ 3,398,971
Total assets	$ 7,869,280	$ 5,534,636	$ 4,749,597	$ 4,641,092	$ 3,758,350
Total debt	$ 3,587,243	$ 2,691,196	$ 2,118,622	$ 2,154,948	$ 1,576,982
Total stockholders equity	$ 3,366,959	$ 2,387,214	$ 2,236,400	$ 2,135,846	$ 1,908,800
Cash flow provided by operations	$ 455,569	$ 410,797	$ 365,176	$ 308,632	$ 278,931
Cash flow used for investing activities	$ (246,221)	$ (716,015)	$ (299,597)	$ (637,636)	$ (396,655)
Cash flow provided by (used for) financing activities	$ 59,444	$ 343,271	$ (75,647)	$ 341,330	$ 59,839
Ratio of earnings to total fixed charges(4)(5)	2.8x	3.3x	3.4x	3.2x	3.3x

(1) Does not include (i) revenues from rental property relating to unconsolidated joint ventures, (ii) revenues relating to the investment in retail stores leases and (iii) revenues from properties included in discontinued operations.

(2) All years have been adjusted to reflect the impact of operating properties sold during the years ended December 31, 2006, 2005, 2004 and 2003 and properties classified as held for sale as of December 31, 2006, which are reflected in discontinued operations in our Consolidated Statements of Income.

(3) Does not include amounts reflected in discontinued operations.

(4) See Ratio of Earnings to Total Fixed Charges in this prospectus supplement for an explanation of the calculation of these ratios.

(5) Note (2) above does not apply to Ratio of Earnings to Total Fixed Charges.

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SUPPLEMENTAL RISK FACTORS

You should carefully consider the supplemental risks described below in addition to the risks described under Risk Factors in the accompanying prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2006, incorporated by reference in this prospectus supplement and the accompanying prospectus, as well as the other information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, before investing in the notes. You could lose part or all of your investment.

A liquid trading market for the notes may not develop or be maintained.

The notes constitute a new issue of securities for which there is no existing market. We do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes in any automated dealer quotation system. We cannot provide you with any assurance regarding whether a liquid trading market for the notes will develop or be maintained, the ability of holders of the notes to sell their notes or the price at which holders may be able to sell their notes. The underwriters have advised us that they currently intend to make a market in the notes. However, the underwriters are not obligated to do so, and any market-making with respect to the notes may be discontinued at any time without notice. If a liquid trading market does not develop or is not maintained, you may be unable to resell your notes at a price that exceeds the price you paid or at all.

Changes in our credit ratings or the debt markets could adversely affect the market value of the notes.

The market value for the notes depends on many factors, including:

- our credit ratings with major credit rating agencies;
- the prevailing interest rates being paid by, or the market price for the notes issued by, other companies similar to us;
- our financial condition, liquidity, leverage, financial performance and prospects; and
- the overall condition of the financial markets.

The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Such fluctuations could have an adverse effect on the market value of the notes.

In addition, credit rating agencies continually review their ratings for the companies that they follow, including us. The credit rating agencies also evaluate our industry as a whole and may change their credit rating for us based on their overall view of our industry. A negative change in our rating could have an adverse effect on the market value of the notes.

There are no financial covenants in the indenture governing the notes.

Neither we nor any of our subsidiaries are restricted from incurring additional debt or other liabilities, including additional senior debt, under the terms of the notes. If we incur additional debt or liabilities, our ability to pay our obligations on the notes could be adversely affected. We expect that we will from time to time incur additional debt and other liabilities. In addition, there are no financial covenants in the indenture governing the notes. Accordingly, neither we nor our subsidiaries will be restricted from incurring additional indebtedness, incurring liens on our property, entering into sale and leaseback transactions, paying dividends or making other distributions or issuing preferred stock. Furthermore, you will not be protected in the event of a highly leveraged transaction, reorganization, change of control, restructuring, merger or similar transaction, any of which could adversely affect you, except to the extent described under Description of the Notes Merger, Consolidation or Sale; No Financial Covenants and Description of the Notes Change of Control Triggering Event in this prospectus supplement.

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The notes will not be guaranteed by any of our subsidiaries and will be structurally subordinated to the debt and other liabilities and any preferred equity of our subsidiaries, which means that creditors and preferred equity holders of our subsidiaries will be paid from their assets before holders of the notes would have any claims to those assets.

We conduct the substantial majority of our operations through subsidiaries that own a significant percentage of our consolidated assets. Consequently, our cash flow and our ability to meet our debt service obligations depend in large part upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries to us in the form of loans, dividends or otherwise. Our subsidiaries are not obligated to make funds available to us for payment of our debt securities or otherwise. In addition, their ability to make any payments will depend on their earnings, the terms of their indebtedness, business and tax considerations and legal restrictions.

The notes will be obligations exclusively of Kimco Realty Corporation and will not be guaranteed by any of our subsidiaries. As a result, the notes will be structurally subordinated to all debt and other liabilities and any preferred equity of our subsidiaries (including trade payables), which means that creditors and preferred equity holders of our subsidiaries will be paid from their assets before holders of the notes would have any claims to those assets. In the event of a bankruptcy, liquidation or dissolution of a subsidiary, that subsidiary may not have sufficient assets remaining to make payments to us as a shareholder or otherwise after payment of its liabilities and any preferred equity. At December 31, 2006, our subsidiaries had outstanding $1.3 billion of total liabilities, including $1.1 billion of debt (excluding, in each case, intercompany liabilities). Our subsidiaries currently have no preferred equity outstanding. The indenture under which the notes will be issued does not limit the ability of our subsidiaries to incur unsecured or secured debt or other liabilities or to issue preferred stock. See Description of the Notes Merger, Consolidation or Sale; No Financial Covenants in this prospectus supplement.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $ million. We intend to apply the net proceeds from this offering to (i) repay our outstanding balance of $200 million on our $850 million U.S. line of credit, which matures in July 2008 and currently accrues interest at 5.77% per annum, and (ii) to partially fund refinancing requirements of our $250 million of bonds maturing during 2007, having a weighted average interest rate of 6.83% per annum. Certain of the lenders under our credit facility are affiliates of the underwriters and will receive their pro rata share of repayments thereunder. See   Underwriting.

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RATIO OF EARNINGS TO TOTAL FIXED CHARGES

The following table sets forth our ratio of earnings to total fixed charges for the periods indicated.

	Year ended December 31,				
	2006	2005	2004	2003	2002
Ratio of earnings to total fixed charges	2.8x	3.3x	3.4x	3.2x	3.3x

For purposes of determining the ratio of earnings to total fixed charges, earnings consist of income from continuing operations before income taxes and minority interest, (income) loss related to equity method investees, distributed income of equity method investees, minority interest in pre-tax (income) loss, amortization of interest capitalized and fixed charges. Total fixed charges consist of interest expense (including interest costs capitalized) and other financial charges and an interest factor attributable to rentals. The interest factor attributable to rentals consists of one-third of rental charges, which we deem to be representative of the interest factor inherent in rents.

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DESCRIPTION OF THE NOTES

The notes will be issued as a series of debt securities under an Indenture, dated September 1, 1993, as amended by the First Supplemental Indenture, dated August 4, 1994, and the Second Supplemental Indenture, dated April 7, 1995, which is more fully described in the accompanying prospectus, and further amended by the Third Supplemental Indenture, dated June 2, 2006, and the Fourth Supplemental Indenture, to be dated April , 2007, between us and The Bank of New York (as successor to IBJ Schroder Bank & Trust Company), as trustee. We refer to the Fourth Supplemental Indenture as the fourth supplemental indenture, and as used in this prospectus supplement, the term indenture refers to the Indenture, dated September 1, 1993, as amended by the First Supplemental Indenture, dated August 4, 1994, the Second Supplemental Indenture, dated April 7, 1995, the Third Supplemental Indenture, dated June 2, 2006, the Fourth Supplemental Indenture, to be dated April , 2007, and as further amended or supplemented from time to time. The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. The following description of the particular terms of the notes offered hereby supplements and, to the extent inconsistent, replaces the description of the general terms and provisions of Debt Securities set forth in the accompanying prospectus under the caption Description of Debt Securities, to which reference is hereby made. The following description does not purport to be complete and is qualified in its entirety by reference to the actual provisions of the notes and the indenture. Capitalized terms used but not defined in this prospectus supplement will have the meanings given to them in the accompanying prospectus, the notes or the indenture, as the case may be. The term debt securities, as used in this prospectus supplement, refers to all of our debt securities, including the notes, issued and issuable from time to time under the indenture.

General

The notes will be limited initially to $ million aggregate principal amount. We may in the future, without the consent of holders, issue additional notes on the same terms and conditions and with the same CUSIP number as the notes being offered hereby. The notes and any additional notes subsequently issued under the indenture would be treated as a single series for all purposes under the indenture.

The notes will bear interest at % per year, except as otherwise provided below under Coupon Step-Up, and will mature on May 1, 2017, unless redeemed or repurchased in whole as described below. We will pay interest on the notes in U.S. dollars semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2007, to the holders of the notes on the preceding April 15 or October 15, as the case may be. We will pay the principal of, and (to the extent applicable), interest on, each note payable upon maturity or earlier redemption or repurchase in U.S. dollars against presentation and surrender thereof at the corporate trust office of the trustee, located initially at 101 Barclay Street, New York, New York 10286.

The notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

The notes will not be entitled to the benefit of any sinking fund.

Ranking

The notes will be our direct, unsecured obligations and will rank equally with all of our existing and future unsecured and unsubordinated obligations. However, the notes are effectively subordinated to our mortgages and other secured indebtedness to the extent of our assets securing the same and to the liabilities of our subsidiaries to the extent of the assets of those subsidiaries.

The notes will not be guaranteed by any of our subsidiaries. As a result, the notes will be structurally subordinated to all debt and other liabilities of our subsidiaries (including trade payables) to the extent of the assets of those subsidiaries, which means that creditors of our subsidiaries will be paid from their assets before holders of the notes would have any claims to those assets. In the event of a bankruptcy, liquidation or dissolution of a subsidiary, that subsidiary may not have sufficient assets remaining to make payments to us as a sharehotom:0pt; margin-top:0pt;text-align:justify;'>Other expense also increased $7,000, which was a combination of two factors. The first factor is an increase of $82,000 due to the settlement of the Manhattan Scientifics and Grossman legal issues in the first quarter of 2006. This $82,000 represents the conclusion of these issues. The second factor is a decrease of $75,000 due to the write-off of goodwill during 2004. There was no loss on disposal of fixed assets during the year 2005.

In general, our key indicator of operating progress is still gross revenue. For the years ending December 2005 and 2004, personnel-related expenses have accounted for approximately 55% of our total operating expenses, with fixed costs such as building and equipment rent, utilities, insurance, communications and depreciation accounting for an additional 10%. The only personnel-related costs that are directly variable with sales are those associated with custom programming, because they are directly billable. This means that over 65% of our expenses are relatively fixed. All of the remaining expenses vary, but less than 5% varies directly with sales. Until we have been marketing our products consistently for a certain period of time, gross revenue will remain the best gauge of our progress.

REPORTABLE SEGMENTS

On January 1, 2005, we reorganized our company s segments to more clearly reflect the company s direction and growth. In addition to having a variety of products and services available, we have formulated a business strategy for the next two years that will take advantage of opportunities to market these products. Our current business strategy is to form up to twenty joint venture projects over the next two to three years. These joint venture projects would be formed to develop, market and distribute various digital lifecycle management applications built around our core Roswell technology.

In the past, Working Knowledge, Inc. provided data maintenance services related to the NMS digital asset management system. We have absorbed the data maintenance services into New Mexico Software, and redefined Working Knowledge, Inc. to include those product divisions for which we are forming the joint venture projects. Therefore, at this time, Working Knowledge, Inc. includes the healthcare division, which is centered around the product XR-EXpress. Information related to the Company s reportable segments for the nine months ended December 31, 2005 is as follows:

	2005	
	NMS	**WKI**
Revenue	$ 1,302,000	$ 97,000
Cost of services	533,000	50,000
General and administrative	1,340,000	8,000
Research and development	213,000	2,000
Bad Debt	61,000	-
Operating income (loss)	(845,000)	37,000
Total assets	$ 1,002,000	$ 47,000

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In the year ended 2004, XR-EXpress and the healthcare division did not exist. Therefore, only 2005 data is reflected in the table, since no comparison is available.

Liquidity and Capital Resources

As of December 31, 2005, cash and cash equivalents totaled $157,000, representing a $157,000 increase from the beginning of the period. The increase in available cash was due to a combination of several factors during the year.

Operating activities used $343,000 of cash for the year ended December 31, 2005, as compared to $107,000 for the comparable prior year period, an increase of $236,000. This increase in operating funds used was mainly due to our operating loss for 2005, partially offset by the issuance of common stock for salaries and outside services. The barter transactions effected in 2005 caused in a net decrease in operating cash flow of $465,000, but will result in positive net cash flow in 2006 as we use the available advertising credits without impacting cash.

Although we continued to reduce our notes and taxes payable during 2005, this activity was offset by additional interest accrued on the tax obligation and additional attorney fees owed due to the settlement of the two lawsuits, resulting in only a slight decrease in current liabilities during 2005.

The following table shows current balances and payment details of our obligations as of December 31, 2005:

	Dec 31 Balance	Negotiated Payment	Payment Frequency
Notes Payable:			
Los Alamos National Bank note + interest	89,000	25,000	semiannually
Demand notes	13,000		
Past due payroll taxes:			
New Mexico payroll taxes	9,000	1,000	monthly
IRS + estimated penalties & interest	262,000	25,000	monthly
Legal Settlements	150,000	25,000	monthly
Other payables and accrued expenses	180,000		
Subscriptions payable	105,000		
Accrued payroll and deferred revenue	214,000		
Total Liabilities per Balance Sheet	1,022,000		

Based on our payment plans and our progress over the last six months, we anticipate that our liabilities will be reduced by approximately 40% by the end of 2006.

Investing activities used $26,000 for the year ended December 31, 2005, as compared to $16,000 for the comparable prior year period. The increase in the cash used for investing activities for the current period was due to the purchase of equipment to provide additional data facilities and security for our customers.

Financing activities provided $526,000 in cash for the year ended December 31, 2005, as compared to $112,000 for the comparable prior year period. This increase was due to an increase in issuance of common stock for cash during the year ended 2005. During the year we issued over six million shares of common stock for gross proceeds of approximately $600,000.

During the year ended December 31, 2005, we have had two barter transactions totaling $600,000 for the sale of software to Forbes.com in return for advertising credits. These transactions are in addition to $135,000 of advertising remaining from a prior barter transaction, which was used during the fourth quarter of 2005. Although no schedule has been determined (nor is one required by the agreement), we anticipate using the remaining advertising credits during 2006. Since the advertising agreements were barter transactions, the sale of the software will not directly generate cash. This results in a short-term negative impact on cash flow since we won t be collecting cash for that transaction. However, it will allow us to advertise our new products in the coming year without expending cash, which will result in a long-term positive impact on cash flow as it will contribute to revenue generation.

In these barter transactions we transferred customized software to the customer in return for print advertising. Paragraph 2 of the Minutes of the 11/18/93 Meeting on EITF Issue 93-11 specifically refers to the transfer of non-monetary assets such as inventory in return for barter credits used to purchase goods and services such as advertising. Paragraph 7 of those Minutes states that it should be presumed that the fair value of the non-monetary asset exchanged is more clearly evident than the fair value of the barter credits received and that the barter credits should be reported at the fair value of the non-monetary asset exchanged. The software and customization was valued at the same price it would have been valued if it had been sold for cash, so no impairment was recorded before the asset was transferred. The revenue was recognized when the software was transferred to the customer in accordance with paragraph 8 of SOP 97-2, and a corresponding receivable for the barter credits was recorded at that time. During the third quarter of 2005, the receivable was reclassified as prepaid advertising. The advertising expense will be recognized as the ads are placed. The value of any remaining barter credits will be reviewed at the end of each fiscal year for possible impairment, and any such impairment loss will be recorded at that time.

At December 31, 2005, we had an outstanding balance on a line of credit with Los Alamos National Bank (LANB) which was originally due on July 24, 2002. The outstanding principal amount due at that date was $300,000, plus interest of $10,545. 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 on July 24, 2002. The note was extended until April 24, 2003 by paying $25,000 of the principal amount due and $4,555 in interest due on October 24, 2002. On April 24, 2003, we paid $12,224 of principal and $12,768 of interest, and we negotiated another six-month extension to October

20, 2003. On October 20, 2003 we negotiated an extension of the amount due until April 23, 2004 by paying $25,000 in principal and $7,500 in interest. On March 27, 2004 the note was extended until October 15, 2004 upon payment of $25,000 of principal and approximately $6,000 of interest. On October 4, 2004 the note was extended until April 15, 2005 upon payment of $25,000 of principal and approximately $6,000 of interest. In May 2005, we paid $25,000 of principal and approximately $5,000 of interest, and the remaining balance was extended until October 15, 2005. In October 2005, we paid $25,000 of principal and approximately $5,000 of interest, and the remaining balance was extended until April 15, 2006. The outstanding principal balance was $88,035 at December 31, 2005. The company has the necessary cash to continue to reduce the note under these circumstances. Our inability to retire this debt, negotiate an 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 foreclosed on the note. However, the bank has continued to extend the note six months at a time, providing we pay an agreed-upon amount of principal and interest at the time of the extension. We believe that LANB will continue to work with us in this manner.

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

At December 31, 2005 we had working capital of $15,000 as opposed to a working capital deficit of $500,000 at the end of 2004. This increase is primarily due to a reduction in notes payable as well as the barter transactions which generated advertising credits during 2005. 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. Approximately 35% of our cash flow for 2005 was funded by the sale of equity securities during the year. We expect our focus on direct sales and the establishment of reseller channels to have a significant positive impact on revenues during 2006. As a result, we believe that we will be generating positive cash flow from operations by the end of 2006. We may also continue to sell equity securities and incur debt as needed to meet our operating needs, especially in the first half of 2006. In addition, we may continue to issue equity compensation to employees and outside consultants to meet payroll and pay for needed legal and other services.

We anticipate that our primary uses of cash in the next year will be allocated to continue to satisfy delinquent obligations and for general operating purposes. Based on cash flow projections, our working capital requirements for the next twelve months will be approximately $1,000,000 - $1,500,000. We are currently generating working capital from recurring revenues of approximately $55,000 per month, and our goal is to be funding our operating requirements entirely from revenues by the end of 2006.

We have received a non-binding letter of intent from a fiduciary trust, In God We Trust, to invest up to $500,000 in the company through December 31, 2006. These funds, if made available, would provide additional working capital necessary for operations over the next twelve months and to retire long-term debt and past-due payroll taxes if needed. The letter of intent does not require the investor to fund. If we are not able to raise funds through sales of products and services, sales of stock or debt, and the funds from this investor are also not obtainable, the company may have to drastically reduce its size and operations, and could possibly have to cease operations. To date, we have not received any financing from this investor, because we have been able to raise any needed financing through other means. However, we have had a long-term relationship with this investor and believe that the investor has the willingness and wherewithal to provide funds should our cash requirements exceed our abilities to generate cash elsewhere.

ITEM 7. FINANCIAL STATEMENTS

(Beginning on the following page)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board

of New Mexico Software, Inc.:

We have audited the accompanying consolidated balance sheets of New Mexico Software, Inc. and subsidiaries as of December 31, 2005 and 2004 and the related statements of operations, stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Mexico Software, Inc. and subsidiaries as of December 31, 2005 and 2004, and the consolidated results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Epstein, Weber & Conover, PLC

Scottsdale, Arizona

March 27, 2006

New Mexico Software, Inc. and Subsidiaries

Consolidated Balance Sheets

(Rounded to the nearest thousand)

	For the years ended December 31, 2005	2004
Assets		
Current assets:		
Cash and equivalents	$ 157,000	$
Accounts receivable, net	151,000	433,000
Inventory	50,000	7,000
Prepaid expenses and other assets	607,000	26,000
Total current assets	965,000	466,000
Furniture, equipment and improvements, net	71,000	85,000
Security deposits	13,000	11,000
	$ 1,049,000	$ 562,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 152,000	$ 111,000
Legal settlements payable	150,000	
Accrued expenses	437,000	459,000
Deferred revenue	77,000	86,000
Subscriptions payable	105,000	130,000
Notes payable	101,000	276,000
Total current liabilities	1,022,000	1,062,000
Stockholders' equity/(deficit):		
Preferred stock, $0.001 par value, 500,000 shares authorized, 75 and 135 shares issued and outstanding as of 12/31/05 and 12/31/04, respectively		
Common stock, $0.001 par value, 200,000,000 shares authorized, 50,916,041 and 32,834,458 shares issued and outstanding as of 12/31/05 and 12/31/04, respectively	51,000	33,000
Additional paid-in capital	10,994,000	9,279,000
Deferred compensation	(319,000)	(161,000)
Accumulated (deficit)	(10,699,000)	(9,651,000)
Total stockholders' equity/(deficit)	27,000	(500,000)
	$ 1,049,000	$ 562,000

The financial notes are an integral part of this financial statement.

New Mexico Software, Inc. and Subsidiaries

Consolidated Statements of Operations

(Rounded to the nearest thousand)

	For the years ended December 31, 2005	2004
Revenue		
Software sales and licenses	$539,000	$391,000
Software hosting and maintenance	410,000	323,000
Custom programming	277,000	63,000
Scanning services	114,000	181,000
Hardware sales	48,000	58,000
XR-EXpress report fees	8,000	
Other	3,000	2,000
	1,399,000	1,018,000
Operating costs and expenses:		
Cost of services	583,000	374,000
General and administrative	1,348,000	992,000
Research and development	215,000	207,000
Bad debt	61,000	
Total operating costs and expenses	2,207,000	1,573,000
Net operating income/(loss)	(808,000)	(555,000)
Other income (expense):		
Interest (expense)	(158,000)	(73,000)
Impairment of goodwill		(75,000)
Legal settlement	(82,000)	
Total other income (expense)	(240,000)	(148,000)
Net income(loss)	$(1,048,000)	$(703,000)
Earnings (loss) per share - basic and fully diluted	$(0.03)	$(0.02)
Weighted average number of common shares outstanding - basic and fully diluted	40,539,127	30,744,304

The financial notes are an integral part of this financial statement.

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New Mexico Software, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Rounded to the nearest thousand)

	Preferred Stock		Common Stock		Additional Paid-in	Deferred	Accumulated	Total Stockholders
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Compensation**	**(Deficit)**	**Equity**
Balance, December 31, 2003	135	$	29,392,256	$ 29,000	$ 8,861,000	$ (135,000)	$ (8,948,000)	$ (193,000)
Issuance of common stock for services			90,000		22,000			22,000
Issuance of common stock for services to be rendered			1,425,000	1,000	85,000	(86,000)		
Cash received for exercise of warrants								
Compensation earned						60,000		60,000
Cancellation of common stock for bonus correction			(22,500)		(9,000)			(9,000)
Issuance of common stock for cash			243,000	1,000	60,000			61,000
Issuance of common stock for exercise of warrants/options			345,000	1,000	50,000			51,000
Issuance of common stock for cashless exercise of warrants			309,000					
Issuance of common stock for salaries			1,052,702	1,000	210,000			211,000
Net (loss) For the year ended December 31, 2004							(703,000)	(703,000)
Balance, December 31, 2004	135	$	32,834,458	$ 33,000	$ 9,279,000	$ (161,000)	$ (9,651,000)	$ (500,000)
Issuance of common stock for services			558,660	1,000	61,000			62,000
Issuance of common stock for services to be rendered			4,405,000	4,000	404,000	(408,000)		

The financial notes are an integral part of this financial statement.

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(continued)

	Preferred Stock		Common Stock		Additional Paid-in	Deferred	Accumulated	Total Stockholders
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Compensation**	**(Deficit)**	**Equity**
Issuance of common stock for cash			6,546,939	7,000	600,000			607,000
Issuance of common stock for exercise of warrants/options			720,517	1,000	52,000			53,000
Issuance of common stock for conversion of preferred convertible stock	(60)		912,108	1,000	(1,000)			
Issuance of common stock for repayment of note plus interest			270,517		31,000			31,000
Issuance of common stock for salaries			4,867,842	5,000	567,000			572,000
Compensation earned						250,000		250,000
Net (loss) For the year ended December 31, 2005							(1,048,000)	(1,048,000)
Balance, December 31, 2005	75	$	51,116,041	$52,000	$10,993,000	$(319,000)	$(10,699,000)	$27,000

The financial notes are an integral part of this financial statement.

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New Mexico Software, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Rounded to the nearest thousand)

	For the years ended December 31, 2005	2004
Cash flows from operating activities		
Net loss	$(1,048,000)	$(703,000)
Adjustments to reconcile net (loss) to net cash provided (used) by operating activities:		
Common stock issued for salaries	572,000	211,000
Common stock issued for services	312,000	82,000
Common stock issued/(cancelled) for bonuses		(9,000)
Common stock issued for interest	6,000	
Depreciation and amortization	40,000	72,000
Legal settlements	82,000	
Impairment of goodwill		75,000
Changes in operating assets and liabilities:		
Accounts receivable	282,000	17,000
Inventory	(43,000)	(4,000)
Prepaid expenses and other assets	(583,000)	(5,000)
Security deposits		28,000
Accounts payable	41,000	(11,000)
Accrued expenses	5,000	(6,000)
Subscriptions payable		130,000
Deferred revenue	(9,000)	16,000
Net cash (used) by operating activities	(343,000)	(107,000)
Cash flows from investing activities		
Acquisition of fixed assets	(26,000)	(16,000)
Net cash (used) by investing activities	(26,000)	(16,000)
Cash flows from financing activities		
Proceeds from notes payable		50,000
Repayment of note payable	(50,000)	(50,000)
Net proceeds from the issuance of common stock	523,000	61,000
Net proceeds from warrants/options exercised	53,000	51,000
Net cash provided by financing activities	526,000	112,000
Net increase (decrease) in cash equivalents	157,000	(11,000)
Cash and equivalents - beginning		11,000
Cash and equivalents - ending	$157,000	$
Supplemental disclosures:		
Interest paid	$36,000	$12,000

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Supplemental schedule of noncash investing and financing activities:		
Extinguishment of note payable obligation by conversion to common stock	$25,000	$
Note payable converted to legal settlement liability	$50,000	$
Extinguishment of note payable through foreclosure of collateral (common stock)	$75,000	$
Cashless exercise of warrants	$	$38,000
Common stock issued for subscriptions payable	$85,000	$

The financial notes are an integral part of this financial statement.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE A - ORGANIZATION AND OPERATIONS

New Mexico Software, Inc. and its wholly-owned subsidiary Working Knowledge, Inc. (WKI) (collectively the Company), each operate as a business segment that develops and markets proprietary internet technology-based software for the management of digital high- resolution graphic images, video clips and audio recordings. The Company believes that its software has applications for the media, advertising, publishing, medical, entertainment, e-commerce and university markets.

NMS, a New Mexico corporation, was formed in April 1996. NMS develops and markets proprietary internet technology-based software.

In August 1999, the Company effected a reverse merger in which NMXS.com, Inc. acquired all of the outstanding common stock of NMS, and NMS became a wholly-owned subsidiary of NMXS.com, Inc.

During April 2000, the Company purchased 100% of the capital stock of WKI, a Kansas corporation located in California, for a total price of $152,000. The business combination has been accounted for using the purchase method. Tangible assets purchased were of nominal value. WKI provides services which are necessary to prepare, enter, and maintain the customer s data on the Company s digital asset management system. The Company recorded goodwill of $150,000 in connection with the acquisition.

On January 1, 2006, the Company merged New Mexico Software, Inc. with NMXS.com, Inc. The new company is New Mexico Software, Inc., with Working Knowledge, Inc. its wholly-owned subsidiary. At the same time, the company registration for New Mexico Software, Inc. was transferred to Nevada.

The Company has received a non-binding letter of intent from a fiduciary trust, In God We Trust, to invest up to $500,000 in the Company through December 31, 2006. These funds, if made available, would provide additional working capital necessary for operations over the next twelve months and to retire long-term debt and past-due payroll taxes. Subsequent to December 31, 2004, the investor has placed $150,000 in escrow subject to clearance of a registration by state securities regulators. The Company has had a long-term relationship with this investor and believe that the investor has the willingness and wherewithal to provide funds should our cash requirements exceed our abilities to generate cash elsewhere.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

[2] Revenue recognition:

Our revenues are generally classified into three main categories: the sale of software licenses to end users, software hosting and maintenance contracts, and software licenses that require us to provide significant production, customization or modification to our core software product. The Company also derives revenue from scanning services, hardware sales, XR-EXpress customer usage fees, and other services such as consulting, training and installation. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2 *Software Revenue Recognition* as amended.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Revenue recognition (continued):

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

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

Charges for hosting are likewise spread ratably over the term of the hosting agreement, with the typical hosting agreement having a term of 12 months, with renewal on an annual basis. The Company sells some hosting contracts in conjunction with the sale of software, and some hosting contracts without an associated software sale. When the hosting arrangement is sold in conjunction with a software sale, the Company allocates a portion of the fee to the software license. Hosting services do not require the customer to purchase the software license, and for those hosting contracts that are sold without an associated software sale, the customer does not have the right nor the ability to operate the software on its own.

Should the sale of its 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 SOP 81-1, *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 paragraphs 85 91 of SOP 97-2. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At December 31, 2004 and December 31, 2005, there were no custom software development arrangements in progress.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Revenue recognition (continued):

From time to time, the Company effects sales of its enterprise-level software in return for barter credits for advertising. The software is valued at the same price it would have been valued if it had been sold for cash. The revenue is recognized when the software is transferred to the customer, along with a corresponding receivable for the barter credits. The advertising expense is recognized as the ads are placed. The value of any remaining barter credits is reviewed at the end of each fiscal year for possible impairment, and any such impairment loss is recorded at that time. During the fiscal years ended December 31, 2005 and 2004, the Company recognized $600,000 and $0 in revenue from barter transactions. At December 31, 2005, the Company had $600,000 in prepaid barter credits.

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

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

The application of SOP 97-2, as amended, requires judgment, including a determination that collectibility is probable and the fee is fixed and determinable. On occasion, the Company has approved extended payment arrangements for certain customers. These arrangements generally do not exceed 120 days, therefore collectibility is considered probable at the time of delivery. If an installment payment is allowed which exceeds twelve months, revenue for that installment is recognized at the time payment is received.

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

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

The cost of services, consisting of staff payroll, outside services, equipment rental, communication costs and supplies, is expensed as incurred.

[3] Cash and cash equivalents:

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2005, the Company had approximately $56,000 in cash and equivalents that exceeded federally insured limits.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] 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 $15,000 and $40,000 at December 31, 2005 and 2004, respectively. The estimate is based upon management s review of all accounts and an assessment of the Company s historical evidence of collections. Specific accounts are charged directly to the reserve when management obtains evidence of a customer s insolvency. Charge-offs, net of recoveries, for the years ended December 31, 2005 and 2004 totaled $86,000 and $9,000, respectively.

[5] Inventory:

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

[6] 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.

[7] Income taxes:

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

[8] 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 10,041,045 and 5,865,092 shares of common stock have been excluded from the diluted loss per share calculation for the years ended December 31, 2005 and 2004 respectively, because inclusion of such would be antidilutive.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Research and development expenses:

Costs of research and development activities are expensed as incurred.

[10] Advertising expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $161,000 and $33,000 for the years ended December 31, 2005 and 2004, respectively.

[11] Use of estimates:

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

[12] Stock-based compensation:

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123) allows companies to either expense the estimated fair value of stock options and warrants, or to continue following the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) but disclose the pro forma effects on net loss had the fair value of the options and warrants been expensed. The Company has elected to apply APB 25 in accounting for grants to employees under its stock based incentive plans. Equity instruments issued to non-employees are measured based on their fair values.

Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148) provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation.

The following table summarizes the pro forma operating results of the Company for December 31, 2005 and 2004 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.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	2005	2004
Net (loss) as reported	($1,048,000)	($703,000)
Stock-base compensation included in statement of operations	0	0
Pro forma effects of stock-based compensation	(16,000)	(30,000)
Net (loss) pro forma	($1,064,000)	($733,000)
(Loss) per share as reported	($0.03)	($0.02)
Pro forma effects of stock-based compensation	-	-
(Loss) per share pro forma	($0.03)	($0.02)

[12] Stock-based compensation (continued):

As of December 31, 2005, the Company has reserved 1,000,000 shares of its common stock for issuance upon exercise of stock options and warrants.

[13] 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 December 31, 2005 and 2004.

[14] Goodwill:

The Financial Accounting Standards Board (FASB) recently issued Statements of Financial Accounting Standards Nos. 141 Business Combinations , 142 Goodwill and Other Intangible Assets and 144 Accounting for the Impairment or Disposal of Long-Lived Assets . (SFAS 141 , SFAS 142 and SFAS 144). All of these pronouncements are effective for fiscal years beginning after December 31, 2001. Under SFAS 141, a company must use the purchase method of accounting for all business acquisitions. SFAS 142 requires a company to periodically evaluate for impairment (as opposed to amortize) goodwill and intangible assets.

Goodwill resulting from the acquisition of Working Knowledge, Inc., accounted for as a purchase, was being amortized on a straight-line basis over 5 years through December 31, 2001. The Company adopted SFAS No. 142 effective January 1, 2002 and as such, has tested the goodwill balance for impairment at least on an annual basis. Such analysis has been based upon the expected future cash flows of Working Knowledge, Inc. In December 2004, based upon the Company s impairment analysis, the remainder of the goodwill was written off; therefore, there was $0 and $75,000 as impairment of goodwill as of December 31, 2005 and 2004.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Recent pronouncements:

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others , an interpretation of FIN No. 5, 57 and 107, and rescission of FIN No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The company believes that the adoption of such interpretation will not have a material impact on its financial position or results of operations and has adopted such interpretation during fiscal year 2003, as required.

[15] Recent pronouncements (continued):

In December 2004 the FASB issued a revised Statement 123 (SFAS 123R), Accounting for Stock-Based Compensation requiring public entities to measure the cost of employee services received in exchange for an award of equity instruments based on grant date fair value. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award -- usually the vesting period. The effective date for this statement is as of the first interim period that begins after June 15, 2005. The Company is evaluating the impact of this new pronouncement and has not yet estimated the effect of implementation on the Company s financial statements.

In December 2004, the FASB issued Staff Position No. FAS 109-1 (FAS 109-1), Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 . FSP 109-1 clarifies SFAS No. 109 s guidance that applies to the new tax deduction for qualified domestic production activities. FAS 109-1 was adopted at the beginning of 2005. This standard did not have a material impact on the Company s consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections- a replacement of APB Opinion No. 20 and FASB Statement No. 3 , which replaces APB No. 20, Accounting Changes , and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements , and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle, and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS No. 154. The Company does not currently believe that the adoption of SFAS No.154 will have a material impact on its consolidated financial statements.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29 . APB No. 29 requires a nonmonetary exchange of assets to be accounted for at fair value, recognizing any gain or loss, if the exchange meets a commercial substance criterion and fair value is determinable. The commercial substance criterion is assessed by comparing the entity s expected cash flows immediately before and after the exchange. SFAS No. 153 eliminates the similar productive assets exception , which accounts for the exchange of assets at book value with no recognition of gain or loss. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not currently believe that the adoption of SFAS No. 153 will have a material impact on its consolidated financial statements.

NOTE C - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of December 31, 2005 consisted of the following:

Computers	$ 322,000
Furniture, fixtures and equipment	113,000
Automobiles	38,000
Leasehold improvements	11,000
	484,000
Accumulated depreciation	(413,000)
	$ 71,000

NOTE D - 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. 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. The remaining $225,000 of principal was extended until April 24, 2003 at a current interest rate of 7%. On April 24, 2003, the Company paid $12,224 of principal and $12,768 of interest. The remaining $212,776 of principal was extended until October 15, 2003 at a current interest rate of 7%. On October 20, 2003, the Company has negotiated a payment of $25,000 in principal and $7,500 in interest and extended the note to April 23, 2004. On March 27, 2004, the Company received a notice from the bank to extend the note to October 15, 2004 upon payment of an additional $25,000 of principal and approximately $6,000 of accrued interest. On October 8, 2004, the Company paid $25,000 of principal and $6,000 of interest. The remaining $138,168 was extended until April 15, 2005. In May 2005, the Company paid $25,000 of principal and $5,000 of interest. The remaining $114,000 was extended until October 15, 2005. In October 2005, the Company paid $25,000 in principal and $5,000 in interest. The remaining $88,000 was extended until April 15, 2006. As of December 31, 2005, the Company had a balance due of $88,000 plus accrued interest of approximately $1,000.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE D - NOTE PAYABLE (CONTINUED)

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 December 31, 2004, the Company is in default and is negotiating with the note holder. The lender filed a complaint for Breach of Contract on a Promissory Note against us on November 25, 2003 (see Note K for discussion of legal proceedings). The remaining balance on this note was reclassified to legal settlement upon settlement of the lawsuit.

In April 2002, the Company borrowed $12,500. The loan is due on demand and bears no interest. As of December 31, 2005, the Company had a balance due of $12,500.

On March 1, 2003, the Company borrowed $25,000. The loan was due on September 30, 2003 at a current interest rate of 7% per annum until the due date and 18% per annum thereafter. On August 29, 2003, the note was extended to December 31, 2003. On December 31, 2003, the note was extended to April 15, 2004. On April 15, 2004, the note was extended to June 30, 2004. On May 21, 2004, the Company borrowed an additional $50,000. The loan was due on demand at a current interest rate of 8% per annum. The loans were secured by 400,000 shares of NMXS.com, Inc. common stock owned by the Company s President/CEO. On January 12, 2005, the Company received a letter requesting payment of the loans. On March 31, 2005, the Company elected to surrender the 400,000 shares owned by the President/CEO as payment in full of the loan and accumulated interest of approximately $9,000. The Board of Directors has approved the issuance of 400,000 shares of restricted common stock to the President/CEO to replace the shares surrendered. As of December 31, 2005 these shares have not been issued, and approximately $84,000 is included in subscriptions payable on the balance sheet. This amount is derived from $75,000 of principal and approximately $9,000 of interest on the note that the President/CEO paid on behalf of the Company.

NOTE E CAPITAL TRANSACTIONS

<u>Series A convertible preferred stock:</u>

The Series A convertible preferred shares are convertible at any time by the shareholder at a rate equal to 70% of the average bid price of the common stock on the conversion date, at a minimum of $0.05 and a maximum of $.25 per share. The Series A convertible preferred stock has no preference with respect to dividends declared by New Mexico Software.

During the year ended December 31, 2004, the Company effected no transactions involving preferred convertible stock.

During the year ended December 31, 2005, the Company issued 912,108 shares of its $0.001 par value common stock which were related to the conversion of 60 shares of convertible preferred stock.

Common stock:

During the year ended December 31, 2004, the Company effected the following stock transactions:

The Company issued a total of 1,052,702 shares of the Company s $0.001 par value common stock to employees in lieu of salary and bonuses which were valued at $211,000.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

E CAPITAL TRANSACTIONS (CONTINUED)

The Company issued a total of 1,425,000 shares of its $0.001 par value common stock to Brian McGowan of the Company as part of a five-year consulting agreement in the amount of $86,000. The amount is considered deferred compensation. During the year ended December 31, 2004, $60,000 of the compensation was earned.

The Company issued a total of 90,000 shares the Company s $0.001 par value common stock to outside contractors in exchange for services rendered of $22,000.

The Company cancelled 22,500 shares of its $0.001 par value common stock that was erroneously issued to an employee as a bonus on December 10, 2003.

The Company issued a total of 243,000 shares of the Company s $0.001 par value common stock in exchange for cash of $61,000.

The Company issued a total of 345,000 shares of the Company s $0.001 par value common stock which were related to the exercise of options/warrants in exchange for $51,000 cash.

The Company issued a total of 309,000 shares of its $0.001 par value common stock to First Mirage for the cashless exercise of warrants. In return for the shares, First Mirage agreed to surrender 170,483 of their remaining warrants which were valued at $25,000. The Company originally issued 1,000,000 NOTE

Common stock (continued):

warrants to First Mirage in August 2003; therefore, First Mirage retains a total of 520,517 warrants as of December 31, 2004.

Commons stock issued in these noncash transactions are valued at the trading price of the Company s shares at the time the agreements are entered into.

During the year ended December 31, 2005, the Company effected the following stock transactions:

The Company issued a total of 4,867,842 shares of the Company s $0.001 par value common stock to employees in lieu of salary and bonuses which were valued at $572,000.

The Company issued a total of 1,325,000 shares of its $0.001 par value common stock to Brian McGowan of the Company as part of a five-year consulting agreement in the amount of $80,000. The amount is considered deferred compensation. During the year ended December 31, 2005, $60,000 of the compensation was earned.

The Company issued a total of 1,280,000 shares of its $0.001 par value common stock to Brian McGowan of the Company as part of a seven-year consulting agreement in the amount of $167,000. All of the compensation was earned and expensed as consulting services, and that contract has been terminated.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

E CAPITAL TRANSACTIONS (CONTINUED)

The Company issued a total of 1,800,000 shares of its $0.001 par value common stock to Brian McGowan of the Company as part of a five-year consulting agreement in the amount of $162,000. The amount is considered deferred compensation. During the year ended December 31, 2005, $23,000 of the compensation was earned.

The Company issued a total of 558,660 shares the Company s $0.001 par value common stock to outside contractors in exchange for services rendered of $62,000.

The Company issued a total of 6,546,939 shares of the Company s $0.001 par value common stock in exchange for cash of $607,000.

The Company issued a total of 520,517 shares of the Company s $0.001 par value common stock which were related to the exercise of options/warrants in exchange for $42,000 cash.

The Company issued a total of 912,108 shares of the Company s $0.001 par value common stock which were related to the conversion of preferred convertible stock.

The Company issued a total of 270,517 shares the Company s $0.001 par value common stock in repayment of notes and interest in the amount of $31,000.

Warrants:

During the year ended December 31, 2004 there were no warrants issued and 664,483 warrants exercised. These warrants were exercised on a cashless basis resulting in 309,000 shares being issued in the transaction.

Warrants (continued):

During the year ended December 31, 2005 there were no warrants issued and 520,517 warrants exercised.

The following is a summary of warrants outstanding as of December 31, 2005:

Number of Warrants	Exercise Price	Expiration Date
1,161,545	$0.21	July 24, 2012

Stock options:

In 1999 the Company adopted a Stock Option Plan which permits the grant of options exercisable for shares of common stock to corporate officers, directors, employees, and consultants upon such terms, including exercise price and conditions and timing of exercise, as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 3,000,000 shares of common stock. A total of 4,972,896 options have been granted under the plan, of which 2,371,127 have been forfeited as a result of employee terminations. At December 31, 2005, 100,000 options have been exercised and 2,501,769 options remain outstanding and unexercised, all of which have vested.

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

E CAPITAL TRANSACTIONS (CONTINUED)

In 2001 the Company adopted a Stock Issuance Plan. The plan as amended permits the grant of shares of common stock to employees, non-employee members of the board, and consultants and other independent advisors who provide services to the Company, upon such terms and conditions as may be determined by the Board of Directors. The plan as amended authorizes the grants of awards up to a maximum of 5,700,000. At December 31, 2005, an aggregate of 5,518,973 shares had been granted under the plan, all of which were fully vested upon issuance.

In 2004 the Company adopted a new Stock Issuance Plan. The plan permits the grant of shares of common stock to employees, non-employee members of the board, and consultants and other independent advisors who provide services to the Company, upon such terms and conditions as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 3,000,000. At December 31, 2005, an aggregate of 2,985,085 shares had been granted under the plan, all of which were fully vested upon issuance.

In 2005 the Company adopted a new Stock Issuance Plan. The plan permits the grant of shares of common stock to employees, non-employee members of the board, and consultants and other independent advisors who provide services to the Company, upon such terms and conditions as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 5,000,000. At December 31, 2005, an aggregate of 8,293,935 shares had been granted under the plan, all of which were fully vested upon issuance.

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 December 31, 2005 are as follows:

Stock options (continued):

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$0.05-$0.30	8,659,500	7.93	$0.08	3,659,500	$0.06
$0.31-$0.50	160,000	3.38	$0.36	160,000	$0.36
$0.54-$0.83	60,000	0.33	$0.61	60,000	$0.61

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NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

E CAPITAL TRANSACTIONS (CONTINUED)

[12] Stock-based compensation (Continued):

Summary of Options Granted and Outstanding:

	For the Years Ended December 31,			
	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	4,183,030	$0.08	6,042,824	$0.09
Granted	5,000,000	$0.09	-	$ -
Cancelled	(103,530)	$0.06	(1,699,794)	$0.10
Exercised	200,000	$0.06	(160,000)	$0.08
Outstanding at end of year	8,879,500	$0.09	4,183,030	$0.08

During the year ended December 31, 2004, the Company granted no stock options.

During the year ended December 31, 2005, the Company granted 5,000,000 stock options at prices ranging from $0.09 to $0.10 per share.

NOTE F - INCOME TAXES

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

As of December 31, 2005, the Company had net operating loss carryforwards of approximately $10,699,000, which expire in varying amounts between 2016 and 2025. Realization of this potential future tax benefit is dependent on generating sufficient taxable income prior to expiration of the loss carryforward. The deferred tax asset related to this potential future tax benefit has been offset by a valuation allowance in the same amount. The amount of the deferred tax asset ultimately realizable could be increased in the near term if estimates of future taxable income during the carryforward period are revised.

Deferred income tax assets of $3,831,000 and $99,600 at December 31, 2005 relate to the net operating loss carryforward and deferred compensation, respectively. The total deferred income tax asset of $3,930,600 is offset by an equal valuation allowance. The valuation allowance was increased by $429,000 in the year ended December 31, 2005.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE F - INCOME TAXES (CONTINUED)

The difference between the statutory federal income tax rate on the Company s pre-tax loss and the Company s effective income tax rate and the valuation allowance is summarized as follows:

	Rate	Valuation Allowance 2005	Valuation Allowance 2004
Statutory federal income tax	(34.0%)	(356,000)	(244,500)
State income tax	(6.0%)	(63,000)	(43,100)
Increase in valuation allowance	40.0%	426,000	286,800
Other	0.0%	7,000	800
Effective income tax	0.0%	0	0

NOTE G - RELATED PARTY TRANSACTIONS

Consulting agreement:

The Company entered into a consulting agreement with Brian McGowan to advise the CEO on business strategy and to formulate marketing ideas. The term of the employment agreement is for approximately five years commencing on July 1, 2003 and terminating on December 31, 2008. Mr. McGowan will receive a total of 5,500,000 shares of the Company s $0.001 par value common stock valued at $330,000. As of December 31, 2005, he was paid a total of 5,500,000 shares of common stock, but he has earned only 2,500,000 shares and the difference of 3,000,000 shares is considered deferred compensation. During the year ended December 31, 2005, the Company has expensed $60,000 in consulting fees pursuant to this contract.

On January 27, 2005, the Company entered into a second consulting agreement with Brian McGowan to assist the Company s CEO in the structure, formation, marketing and growth of two joint venture partnerships involving the Company s consumer products division and the Company s wholly-owned subsidiary (Working Knowledge, Inc.). The term of the employment agreement is for approximately seven years commencing on January 27, 2005 and terminating on December 31, 2011. Mr. McGowan will receive a total of 3,220,000 shares of the Company s $0.001 par value common stock valued at $419,000. As of September 30, 2005, he was paid a total of 1,280,000 shares of common stock. At the beginning of October the Company determined that this strategy would no longer be pursued and terminated this contract. No additional shares were issued, and the remaining deferred compensation of $126,000 was expensed. During the year ended December 31, 2005, the Company has expensed $167,000 in consulting fees pursuant to this contract.

On October 4, 2005, the Company entered into a third consulting agreement with Brian McGowan to coordinate a number of material events for the purpose of presenting the Company and its products to potential investors and customers. The term of the agreement is for five years commencing on October 4, 2005 and terminating on September 30, 2010. Mr. McGowan will receive a total of 5,000,000 shares of the Company s $0.001 par value common stock valued at $450,000. As of December 31, 2005 he was paid a total of 1,800,000 shares of common stock, but he has earned only 250,000 shares and the difference of 1,550,000 shares is considered deferred compensation. During the year ended December 31, 2005, the Company has expensed $23,000 in consulting fees pursuant to this contract.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE H - MAJOR CUSTOMERS

During the year ended December 31, 2005, two customers accounted for 55% of the Company s revenue. During the year ended December 31, 2004, five customers accounted for 55% of the Company s revenue.

As of December 31, 2005, balances due from three customers comprised 75% of total accounts receivable. As of December 31, 2004, balances due from two customers comprised 50% of total accounts receivable.

NOTE I - REPORTABLE SEGMENTS

Management has identified the Company s reportable segments based on separate legal entities. NMS derives revenues from the development and marketing proprietary internet technology-based software and WKI provides data maintenance services related to NMS digital asset management system. Information related to the Company s reportable segments for 2005 is as follows:

	NMS	**WKI**	**Total**
Revenue	$1,302,000	$ 97,000	$1,399,000
Cost of services	533,000	50,000	583,000
General and administrative	1,340,000	8,000	1,348,000
Research and development	213,000	2,000	215,000
Bad debt	61,000	0	61,000
Operating income (loss)	(845,000)	37,000	(808,000)
Total assets	$1,002,000	$ 47,000	$1,049,000

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 loss	$(808,000)
Other income (expense)	(240,000)
Consolidated net loss/comprehensive loss	$(1,048,000)

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

For the year ended December 31, 2005, amortization and depreciation expense amounted to $40,000 and $0 for NMS and WKI, respectively. Total fixed asset additions amounted to $26,000 and $0 for NMS and WKI, respectively.

For the year ended December 31, 2004, amortization and depreciation expense amounted to $50,000 and $22,000 for NMS and WKI, respectively. Total fixed asset additions amounted to $16,000 and $0 for NMS and WKI, respectively.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE J COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico and California expiring through April 30, 2009. The Company also leases copier equipment and one automobile. Future minimum lease payments as of December 31, 2005 are as follows:

Year	Amount
2006	73,000
2007	60,000
2008	60,000
2009	20,000

Rent expense for the years ended December 31, 2005 and 2004 amounted to $77,000 and $85,000, respectively.

Employment agreement:

The Company entered into an employment and non-competition agreement with a stockholder to act in the capacity of President and Chief Executive Officer (CEO). The term of the employment agreement is for three years commencing on January 1, 2003. The agreement allows for a one-year renewal option unless terminated by either party. Base salary is $44,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $44,000 is included in general and administrative expenses for the year ended December 31, 2005. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of December 31, 2005, there was a total of $113,000 in accrued payroll for this executive.

Outstanding Payroll Taxes:

The Company has estimated unpaid Federal and State payroll taxes totaling $271,000 as of December 31, 2005, including estimated penalties and interest. The penalties and interest associated with this liability is estimated to be in excess of 20% of the total payroll taxes due, and the Company has accrued approximately $120,000 in penalties and interest during the year ended December 31, 2005.

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 year ended December 31, 2005, the Company paid a total of $13,000 of past due payroll taxes.

On October 17, 2003, the Company settled with the IRS and agreed to pay $5,000 per month of past due payroll taxes plus the current amount due. On September 1, 2005, the Company negotiated a final settlement with the IRS and agreed to pay $25,000 per month of past due payroll taxes plus the current amount due. During the year ended December 31, 2005, the Company paid a total of $145,000 of past due payroll taxes.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE K BARTER TRANSACTIONS

During the nine months ended September 30, 2005, the Company had two barter transactions totaling $600,000 for the sale of software to Forbes.com in return for advertising credits. In these barter transactions customized software was transferred to the customer in return for print advertising. The software and customization was valued at the same price it would have been valued if it had been sold for cash, so no impairment was recorded before the asset was transferred. The revenue was recognized when the software was transferred to the customer in accordance with paragraph 8 of SOP 97-2, and a corresponding receivable for the barter credits was recorded at that time. During the third quarter of 2005, the receivable was reclassified as prepaid advertising. The advertising expense will be recognized as the ads are placed. The value of any remaining barter credits will be reviewed at the end of each fiscal year for possible impairment, and any such impairment loss will be recorded at that time.

NOTE L LEGAL PROCEEDINGS

Grossman Lawsuit: Kurt Paul Grossman and Ann Grossman filed a complaint for Breach of Contract on a Promissory Note against us on November 25, 2003, in the Superior Court of California, Orange County Division, case # 03CC14074. There was a question of whether the complaint was properly served and whether the California courts have jurisdiction over us. The Grossmans filed an Application for Writ of Attachment which was denied on January 30. The Grossmans asked for $55,000 ($50,000 on the promissory note plus $5,000 interest); $304.40 in costs; and $24,000 in attorney s fees. The Grossmans, through a separate entity, Doctors Telehealth Network, purchased software from us, and it has not been paid for. We filed a motion to quash the service of summons for lack of personal jurisdiction and to vacate a default judgment against us. The court tentatively ruled in favor of the Grossmans. However, after our oral argument on April 23, 2004, the court withdrew its tentative ruling and ruled in favor of us. Specifically, the court ruled that we do not have sufficient contact with California to warrant the exercise of personal jurisdiction. The Grossmans then filed suit in the U.S. District Court in New Mexico alleging breach of a promissory note in the original principal balance of $50,000 and other causes of action. The case was mediated on February 8, 2006, resulting in a settlement of all claims and causes of action. Approximately $32,000 of expense was included in the statement of operations at December 31, 2005 for this settlement.

Internal Revenue Service Payments: In October 2003 the we entered into an interim agreement with the Internal Revenue Service concerning the repayment of federal tax deposits which we failed to pay for the six operating quarters ended September 30, 2003. We agreed to pay and did pay $5,000 per month toward the past due tax obligation beginning November 1, 2003. On September 1, 2005 we negotiated a final settlement with the IRS. We agreed to pay $25,000 per month until the total past-due balance of $358,000 has been paid, as well as pay our current payroll taxes on time. During 2005 we paid a total of $145,000 in past-due payroll taxes to the IRS.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE L LEGAL PROCEEDINGS (CONTINUED)

Manhattan Scientifics Lawsuit: On March 9, 2004, our legal counsel received a letter from an attorney representing Manhattan Scientifics. The letter threatened litigation against us for alleged breach of contract and against Richard Govatski for alleged tortious interference with contract. This is based on the fact that we were alleged to have declined to honor Manhattan Scientifics request for a cashless exercise of 150,000 of our Common Stock Purchase Warrants (the Warrants) allegedly issued to Manhattan Scientifics. It is our position that the Warrants, among other things, were issued in a transaction that was not an arms-length transaction and therefore, the Warrants should be cancelled, and that in any event, the alleged cashless exercise was not properly done and itself is a nullity. In May 2004, Manhattan Scientifics filed a suit in Federal Court in New York against us and Mr. Govatski for damages in this matter. The case was dismissed by the Federal Court due to a lack of diversity jurisdiction. On June 25, 2004, we were served with a complaint filed in the Supreme Court of the State New York, County of New York, Index No. 601793/04, asserting the same claims. Manhattan Scientifics seeks damages against us for an alleged breach of contract for failure to allow the cashless exercise, in an amount of $1.5 million, and alleges a tortuous interference claim against Mr. Govatski.

We served our Answer to the Complaint on August 16, 2004. Mr. Govatski is seeking dismissal of the claim against him for lack of personal jurisdiction and for failure to state a claim. Mr. Govatski s motion to dismiss has been fully submitted to the court, but has not yet been decided. Along with our Answer, we are asserting Counterclaims against Manhattan Scientifics for monies owed by Manhattan Scientifics and for a declaratory judgment, and against a former Company Director, Marvin Maslow for fraud and breach of fiduciary duty due to his persuading the Company to enter into the Warrant transaction with Manhattan Scientifics, which we contend was done for the benefit of Maslow and Manhattan Scientifics, and not for the benefit of the Company. We believe that due to the fact that Mr. Maslow and a second former Company director (Scott Bach), were also Directors of Manhattan Scientifics at the time of the transactions in dispute, and constituted two of the Company s three Directors at the time, Mr. Maslow and Mr. Bach should have excused themselves from participating in negotiating and voting on the issue of whether to approve the Warrants. Messrs. Maslow and Bach resigned as our Directors in December 2002. It is our position that such financial conflicts include Mr. Maslow s causing the Company to pay for third-party consulting services provided to Manhattan Scientifics, while stating that such services would be provided to, and were needed by, the Company as part of the transaction. It is our position that Mr. Maslow also misrepresented the fairness of the transaction in dispute at the time to us, which we contend was being done for the benefit of Mr. Maslow and Manhattan Scientifics, to the detriment of the Company In our counterclaims, we are seeking, among other relief, a determination that the Warrants should be declared null and void from inception, plus damages against Mr. Maslow. It is further our position that even if the Warrants were properly issued (we contend they were not), the Warrants were never properly exercised by Manhattan Scientifics. Manhattan Scientifics and Mr. Maslow have moved to dismiss certain of our Counterclaims alleged against them.

These claims were negotiated out of court on February 17, 2006, resulting in a settlement of all claims and causes of action. Approximately $50,000 of expense was included in the statement of operations at December 31, 2005 for this settlement.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE M SUBSEQUENT EVENTS

During the first quarter of 2006, one preferred shareholder converted his preferred shares into common shares. The following table summarizes the conversion activity:

Preferred Shares	Preferred Value	Conversion Rate	Common Shares issued
75	75,000.00	0.0525	1,428,571

On March 28, 2006 Avodah Publishing, Inc. filed a complaint in District Court in New Mexico for Breach of Contract. They are requesting $20,000 plus interest, attorney s fees and court costs pursuant to an advertising contract.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two most recent fiscal years, there have been no disagreements with Epstein, Weber and Conover, PLC, our independent auditor for the years ended December 31, 2004 and December 31, 2005 on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

ITEM 8A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer (collectively the Certifying Officers) maintain a system of disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange 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. Under the supervision and with the participation of management, the Certifying Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal year. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective in ensuring that information that is required to be reported is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms.

(b) Changes in internal controls

In connection with our evaluation of our internal controls during the period ended December 31, 2005, our Certifying Officers have not identified any material deficiencies or weaknesses or other factors that have materially affected or are reasonably likely to materially affect these controls, and therefore, we have not made any changes to these controls.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Our directors and officers, as of March 30, 2006, are set forth below. The directors hold office for their respective term and until their successors are duly elected and qualified. Vacancies in the existing board are filled by a majority vote of the remaining directors. The officers serve at the will of the board of directors. The following is a biographical summary of our directors and officers:

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Name	Age	Position	Director Since
Richard Govatski	61	Chairman, President & CEO	1999
Teresa B. Dickey	62	Director, Secretary & Treasurer	2003
John E. Handley	44	Director	2003
Frank A. Reidy	64	Director	2005

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

RICHARD GOVATSKI has been the President of NMXS.com, Inc. since August 1999, and has been chairman, CEO, and President of New Mexico Software, Inc., since 1996. Mr. Govatski founded New Mexico Software in 1995 after identifying market inefficiencies in how intellectual property owners managed their image assets. Prior to New Mexico Software, Mr. Govatski spent 18 years in systems integration and publishing, both in sales management and software development. Mr. Govatski led the sales teams for Popular Electronics, Computer Shopper, Shutterbug, and MacWeek. Later he sold numerous solutions for vendors, including Kodak, Apple Computer, and Sun Microsystems. Mr. Govatski also spent several years in systems development as President of Media Publishing Group and built graphic applications for companies including Ferrari Color, Time Magazine, New York Daily News, and Getty Images. He received a Bachelor of Science Degree in Communications from Butler University, located in Indianapolis, Indiana in 1968.

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

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

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

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ITEM 10. EXECUTIVE COMPENSATION

Compensation of Executive Officers

Summary Compensation Table. The following table sets forth information concerning the annual and long-term compensation awarded to, earned by, or paid to the named executive officer for all services rendered in all capacities to our company, or any of its subsidiaries, for the years ended December 31, 2004, 2003 and 2002:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options
Richard Govatski	2005	$44,000 (1)	-0-	$0	-0-	-0-
President and CEO	2004	$44,000	-0-	$0	-0-	-0-
	2003	$20,000	-0-	$0	-0-	-0-

(1) Mr. Govatski s contract salary is $44,000 per year, and he has waived the unpaid balance.

Option Grants Table. The following table sets forth information concerning individual grants of stock options to purchase our common stock made to the executive officer named in the Summary Compensation Table during fiscal 2005.

OPTIONS GRANTS IN LAST FISCAL YEAR

(Individual Grants)

Name	**Number of securities underlying options granted (#)**	**Percent of total options granted to employees in last fiscal year**	**Exercise or base price ($/Share)**	**Expiration date**
Richard Govatski	-0-	N/A	N/A	N/A

Aggregated Option Exercises and Fiscal Year-End Option Value Table. The following table sets forth certain information regarding stock options exercised during fiscal 2005 and held as of December 31, 2005, by the executive officer named in the Summary Compensation Table.

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

Name	Shares acquired on exercise (#)	Value realized ($)	Number of securities underlying unexercised options at fiscal year-end (#) Exercisable/Unexercisable	Value of unexercised in-the-money options at fiscal year-end ($) (1) Exercisable/Unexercisable
Richard Govatski	-0-	N/A	500,000/0	$22,000/$0 (2)

(1) Value is based on the closing sale price of the Common Stock on December 31, 2005, the last trading day of fiscal 2004 ($0.104), less the applicable option exercise price.

(2) Of these options, 500,000 were exercisable at $0.06 per share.

Employment Contracts

The Company entered into an employment and non-competition agreement with Mr. Govatski 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, 2003. The agreement allows for a one-year renewal option unless terminated by either party. Base salary is $44,000 per annum with available additional cash compensation as defined in the agreement. The non-competition agreement commences upon the termination of the employment agreement for a period of one year.

Compensation of Directors

Directors are permitted to receive fixed fees and other compensation for their services to the company, but they are not permitted to receive compensation for their services as directors. The Board of Directors has the authority to fix the compensation of directors. No amounts have been paid to, or accrued to, directors in such capacity.

Stock Option and Stock Issuance Plans

Our 1999 Stock Option Plan permits the grant of options exercisable for shares of our common stock to corporate officers, directors, employees, and consultants upon such terms, including exercise price and conditions and timing of exercise, as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 3,000,000 shares of our common stock. A total of 4,972,896 options have been granted under the plan, of which 2,371,127 have been forfeited as a result of employee terminations. At December 31, 2005, 100,000 options have been exercised, and 2,501,769 options remained outstanding and unexercised, all of which have vested.

Our 2001 Stock Issuance Plan, as amended, permits the grant of shares of our common stock to employees of our company and any of its subsidiaries, non-employee members of our board or non-employee members of the board of directors of any of our subsidiaries, and consultants and other independent advisors who provide services to us or any of our subsidiaries, upon such terms and conditions as may be determined by the Board of Directors. The plan as amended authorizes the grants of awards up to a maximum of 5,700,000. At December 31, 2005, an aggregate of 5,518,973 shares had been granted under the plan, all of which were fully vested upon issuance.

Our 2004 Stock Incentive Plan permits the grant of shares of our common stock, options or warrants to employees of our company and any of its subsidiaries, non-employee members of our board or non-employee members of the board of directors of any of our subsidiaries, and consultants and other independent advisors who provide services to us or any of our subsidiaries, upon such terms and conditions as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 3,000,000. At December 31, 2005, an aggregate of 2,985,085 shares had been granted under the plan, all of which were fully vested upon issuance.

Our 2005 Stock Incentive Plan permits the grant of shares of our common stock, options or warrants to employees of our company and any of its subsidiaries, non-employee members of our board or non-employee members of the board of directors of any of our subsidiaries, and consultants and other independent advisors who provide services to us or any of our subsidiaries, upon such terms and conditions as may be determined by the Board of Directors. The plan authorizes the grants of awards up to a maximum of 5,000,000. At December 31, 2005, an aggregate of 8,293,935 shares had been granted under the plan, all of which were fully vested upon issuance.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information derived from the named person, or from the transfer agent, concerning the ownership of common stock as of March 28, 2006, of (i) each person who is known to us to be the beneficial owner of more than 5 percent of the common stock; (ii) all directors and executive officers; and (iii) directors and executive officers as a group:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
Richard Govatski 5021 Indian School Rd. NE Albuquerque, NM 87110	4,445,500 6,445,500 (2) (including 2,000,000 options)	7.90% 11.46%
Teresa B. Dickey	107,563 2,307,563 (3) (including 2,200,000 options)	* 4.10%
John Handley	765,000 (4) 1,515,000 (4) (including 750,000 options)	1.36% 2.69%
Frank Reidy	785,000 (5) 1,535,000 (5) (including 750,000 options)	1.40% 2.73%
Executive Officers and Directors as a Group (3 Persons)	6,103,063 11,803,063 (including the options set forth above)	10.85% 19.73% on a fully diluted basis

* - Represents beneficial ownership of less than 1% of the total number of shares of common stock outstanding.

(1) All of the persons are believed to have sole voting and investment power over the shares of common stock listed or share voting and investment power with his or her spouse, except as otherwise provided. Percentage is based on 56,263,421 shares outstanding as of March 28, 2006. Fully diluted percentage includes 3,560,167 options.

(2) This number of shares includes options to purchase 2,000,000 shares. Of these options, 500,000 have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Mr. Govatski. The number of shares also includes 400,000 shares pledged by Mr. Govatski to First Mirage, Inc. to secure a loan to the company which was due and payable on June 30, 2004. Such shares are presently in the name of David A. Rapaport, President of First Mirage, Inc. Mr. Govatski retains the right to vote these shares until foreclosure under the terms of the pledge agreement. However, in the first quarter of 2005, the shares were foreclosed on by First Mirage, Inc. Therefore, Mr. Govatski s shareholdings have been reduced accordingly.

(3) This number of shares includes 107,563 shares issued to Ms. Dickey and options to purchase 2,200,000 shares. Of these options, 700,000 have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Ms. Dickey.

(4) This number of shares includes 765,000 shares issued to Mr. Handley and options to purchase 750,000 shares. None of these options have vested. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage held by Mr. Handley.

(5) This number of shares includes 785,000 shares issued to Mr. Reidy and options to purchase 750,000 shares. None of these options have vested. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage held by Mr. Reidy.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Richard Govatski, our president, director, and principal shareholder, may be deemed a promoter or founder in relation to the organization of our business. In connection with the acquisition of New Mexico Software, Mr. Govatski exchanged all 1,000 of his shares of New Mexico Software for 5,597,000 shares in the public company.

In January 2001 our wholly owned subsidiary, New Mexico Software, Inc., entered into a line of credit agreement with Los Alamos National Bank in the maximum principal amount of $300,000. It also issued a promissory note dated January 24, 2001, in the principal amount of $300,000, representing the amount that it borrowed under the line of credit. The note is secured by all of New Mexico Software s furniture, fixtures, equipment, inventory, accounts, chattel paper, tangibles and general intangibles, and a letter of credit in the amount of $250,000 issued by another bank and provided by Murray Kelly. We issued 250,000 shares to Mr. Kelly for providing this letter of credit as collateral on this note. The note was originally due on or before July 24, 2001, and was extended to July 24, 2002. At July 24, 2002, we negotiated a three-month extension until October 24, 2002, by paying $50,000, plus accrued interest. At or about October 24, 2002, we were able to negotiate an extension of the note until April 24, 2003, by paying $25,000, plus interest. The bank has continued to extend the note for six-month intervals upon payment of $25,000 of principal plus accrued interest. The note bears interest at 7%. Mr. Govatski has personally guaranteed to the bank repayment of $50,000 of this line of credit. The lease payments for our office space in Albuquerque, New Mexico, of $47,000 and improvements of approximately $28,000 were provided through the payment of 75,000 shares of our common stock to the landlord by Richard Govatski, our president, a director, and a principal shareholder. In March 2001 we issued 75,000 shares to Mr. Govatski for providing his shares to the landlord.

We have granted options to Mr. Govatski under our option plan to purchase an aggregate of 500,000 shares of common stock. The options were granted in August 1999 and vest at the rate of 20% per year. Of the total options, 500,000 are exercisable at $0.06 per share. In December 2005 we granted options to Mr. Govatski to purchase an additional 1,500,000 shares of common stock. These options vest at the rate of 50% per year and are exercisable at $0.10 per share.

We have granted options under our option plan to Teresa Dickey, one of our executive officers, to purchase an aggregate of 700,000 shares. Of the total options, 56,000 were granted in January 2000 and are exercisable at $0.06 per share; 56,000 were granted in July 2000 and are exercisable at $0.06 per share; 3,000 were granted in January 2001 and are exercisable at $0.06 per share; 400,000 were granted in October 2001 and are exercisable at $0.06 per share; 3,780 were granted in January 2002 and are exercisable at $0.06 per share, and 181,220 were granted in August 2003 and are exercisable at $0.06 per share. The options vest at the rate of 50% per year. In December 2005 we granted options to Ms. Dickey to purchase an additional 1,500,000 shares of common stock. These options vest at the rate of 50% per year and are exercisable at $0.09 per share.

In March 2003 we borrowed $25,000 from an outside lender. To secure repayment of this loan Mr. Govatski pledged 400,000 of his personal shares as collateral. In March 2005, we received a

demand notice for repayment of the loan. In order to settle the matter in the most expeditious manner, Mr. Govatski agreed to surrender his shares as repayment in full of the loan and all accumulated interest (approximately $82,000). New Mexico Software will issue 400,000 restricted shares to Mr. Govatski to replace the surrendered shares.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

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

1. Financial statements; see index to financial statement and schedules in Item 7 herein.

2. Financial statement schedules; see index to financial statements and schedules in Item 7 herein.

3. Exhibits: None

(a) Reports on Form 8-K.

There were no Form 8-K s filed with the SEC during the fourth quarter of 2004.

Item 14. Principal Accountant Fees and Services

Audit Fees

For our fiscal year ended December 31, 2005 and 2004, respectively, we were billed approximately $25,000 and $30,000 for professional services rendered for the audit of our financial statements. We also were billed approximately $15,000 and $8,000 for the review of financial statements included in our periodic and other reports filed with the Securities and Exchange Commission for our year ended December 31, 2005 and 2004, respectively.

Tax Fees

For our fiscal years ended December 31, 2005 and 2004, we were billed approximately $13,000 and $5,000 for professional services rendered for tax compliance, tax advice, and tax planning.

All Other Fees

We did not incur any other fees related to services rendered by our principal accountant for the fiscal year ended December 31, 2005.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

NMXS.COM, Inc.

Date: March 31, 2006 By /s/ Richard Govatski

Richard Govatski

President, Chief Executive Officer and

Chairman of the

Board of Directors

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 31, 2006 /s/ Richard Govatski

Richard Govatski, President, Chief Executive Officer and Chairman of the Board of Directors

Date: March 31, 2006 /s/ Teresa B. Dickey

Teresa B. Dickey, Director, Secretary, Treasurer and Principal Financial Officer

Date: March 31, 2006 /s/ John Handley

John E. Handley, Director

Date: March 31, 2006 /s/ Frank L. Reidy

Frank L. Reidy, Director