NEW MEXICO SOFTWARE, INC
Form 10KSB/A
April 19, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

COMMISSION FILE #333-30176

NEW MEXICO SOFTWARE, INC.

(Name of small business issuer in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

91-1287406

(I.R.S. Employer Identification No.)

5021 INDIAN SCHOOL RD., SUITE 100

ALBUQUERQUE, NEW MEXICO 87110

(Address of principal executive offices)(Zip code)

(505) 255-1999

(Issuer s telephone number)

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB or any amendment to this Form 10-KSB. [X]

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

REVENUES FOR YEAR ENDED DECEMBER 31, 2006: $913,000

AGGREGATE MARKET VALUE OF THE VOTING COMMON STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT AS OF APRIL 9, 2007, WAS: $ 2,986,257

NUMBER OF SHARES OF THE REGISTRANT'S COMMON STOCK OUTSTANDING AS OF APRIL 9, 2007: 93,320,544

DOCUMENTS INCORPORATED BY REFERENCE

None

Transitional Small Business Disclosure Format YES [ ] NO [X]

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Our History and Background

New Mexico Software, Inc., was originally incorporated under the laws of the state of New Mexico in April 1996. The privately held company was involved in a reverse merger with Raddatz Exploration, Inc. on August 3, 1999, and the corporate name was changed to NMXS.com, Inc., with New Mexico Software, Inc. becoming a wholly-owned subsidiary. NMXS.com, Inc. went public at that time. NMXS was quoted on the OTC Bulletin Board under the symbol NMXS and on the Berlin Stock Exchange with the symbol NM9. In 2004 we filed an alternate name registration in the state of Delaware to use the name New Mexico Software. On January 1, 2006, NMXS.com, Inc merged into its newly incorporated, wholly-owned subsidiary, New Mexico Software, Inc., a Nevada corporation, for the purpose of changing its state of incorporation and its name. The new stock symbol on the OTC Bulletin Board is NMXC .

In April 2000, we acquired Working Knowledge, Inc., a Kansas corporation. Working Knowledge became our wholly-owned subsidiary which provided services necessary to prepare, enter, and maintain the customer s data in our software.

Our Business

New Mexico Software, Inc. develops and markets a range of proprietary Internet-based software products for digital asset management. Our software can assist the customer in the conversion of documents or images into digital media, and the storage, organization, retrieval and search of documents, high-resolution graphic images, video clips and audio recordings. In addition, we provide related services such as software hosting and maintenance, database management and consulting. Our address on the World Wide Web is www.nmxs.com. The information at that web site is not part of our annual report, and we specifically disclaim any liability under federal securities law related there.

Our Products

New Mexico Software develops and markets sophisticated Internet-based document and image management systems for a wide variety of applications. Every industry shares the need to track, organize and distribute information efficiently and accurately. Our products bridge the gap between the paper and digital worlds and reduce dependence on paper files. In addition to organizing and archiving, our products allow a company to control access to and dissemination of its digital files, providing protection of the digital assets.

Our core technology is called the Roswell. Roswell optimizes the movement of information throughout an enterprise, its clients, its suppliers and its partners. As a core product, it can be integrated into a highly customized enterprise-level system on its own, and it is the central technology in all of our other products. Roswell offers extensive file management capabilities which allow information to be intelligently organized so that any particular item can be instantly located. In addition, it allows the customer to track and control the entire flow of information and to create a hierarchy of groups and users with varying levels of access to that information.

Our first product is called XR-EXpress. It is a secure, web-based software that allows medical providers to store, organize and access patient medical images such as x-rays, EKG s, MRI s, CT s, and ultrasounds. It instantly delivers images to radiologists over the Internet; the independent radiologist then diagnoses the case and returns the results, cutting the time it takes for a patient to receive a diagnosis. XR-EXpress is structured and delivered as a hosted model, reducing the customer s need for technology and capital investment.

DFC3 (Digital Filing Cabinet 3) is our second product. DFC3 allows the customer to find the right document at the right time, whether it s an invoice, contract, legal brief, logo or other image. It easily converts paper documents to digital format, and every word of every document is searchable with Optical Character Recognition and DFC3 s advanced search engine. The hierarchical security structure allows the customer to determine who has access to what information. We have diversified the DFC3 product; it now consists of four models of varying price and complexity, ranging from a hosted application to enterprise servers, in order to accommodate a wider variety of customers. It can be used on Windows, Macintosh or Linux operating systems.

Our third product is the TORC backup server. This product allows customers to schedule routine backups, and TORC performs these backups automatically, with no further input from the user. The first backup creates an image of the computer s entire hard disk, including the operating system, and subsequent backups are incremental. The backup files are stored on our servers. Our software is able to locate and restore any or all files to a damaged computer and have it back up and running in minutes. TORC will be widely marketed, because every office or home with one or more computers can benefit from automated backups to protect data.

Our latest product is DDS-Express. DDS-Express is an online dental solution including practice management software, clinical charting, online insurance claim filing, referrals and consultations, and secure off-site data backup. These features are integrated into an online hosted package. DDS-Express will be marketed to dental offices.

Our Technology

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

Our technology is based on Open Source. Open Source is source code from independent programmers who build applications and release their source code in the public interest. By integrating Open Source programs into our technology, we are able to reduce development time and costs, thereby providing well-built, low-cost products for the digital management market. In addition, the code that we deliver to customers is compiled. When software code is compiled it is difficult to use the code to create a similar program, even though the code we create originates from Open Source. This provides better protection and security of our products.

Most of our products are accessed via the Internet. This means that the customer needs only a PC with browser capability to be able to use our products. No additional expensive equipment is required, and training is accomplished smoothly and quickly. The customer s data is available 24 hours per day, so that customers can work according to schedules that are convenient to them and be productive at any time. Additionally, documents and images can be distributed anywhere in the world at any time. We also create two desktop applications, DFC Client and JAL Client, for direct uploading to DFC and XR-EXpress from the desktop.

Another technological advantage our company has is the ability to provide totally integrated services that a customer would normally need to outsource to several different suppliers. For example, with our business model and technology, we are able to provide the software itself, plus custom programming, hosting, and database administration as a total solution.

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

In general, our programmers and engineers are tasked with adding new features to our products and fixing any problems users might encounter on an ongoing basis. There are risks inherent in software development including unanticipated delays, technical problems that could mean significant deviation from original product specifications, and hardware problems. In addition, once improvements and bug fixes are deployed there is no assurance that they will work as anticipated or that they will be durable in actual use by customers.

We are continuing to develop our core products using a mix of readily available Open Source software development tools. Knowledgeable competitors may be able to deduce how we have assembled our code base and be able to develop competing products. The principal advantage in utilizing Open Source tools is the extremely high degree of portability they ensure. Migrating our products from one operating system or hardware base to another is more easily accomplished by avoiding proprietary development tools. The risk factor inherent in the use of such freely available tools is the fact that a sophisticated competitor might be able to imitate our work and produce similar functionality. Any such imitation, should it occur, could have material adverse effects on our business, operations, and financial condition.

Business Strategy

According to an IDC study entitled *Worldwide Digital Asset Management Software 2006 2010 Forecast*, the digital asset management software market posted double-digit growth in 2005 , and expectations are that there will be continued strong growth in this market over the forecast period as organizations seek to manage, share, and monetize their rich media assets . And, according to a Frost & Sullivan study entitled *U.S. Digital Asset Management Systems Markets*, what was once a niche product aimed at specialty markets such as broadcasting, entertainment, and advertising is rapidly moving into the mainstream as businesses realize the need to efficiently manage their growing portfolio of digital assets. New Mexico Software believes that the rapid growth in the digital asset management industry is causing intense competition and rapid changes in the market, but also a number of opportunities as well.

Currently, our competition consists of many large and small vendors offering systems that have some features that are comparable to some of our current products. However, to our knowledge, few if any competitors have all of the features our products offer for the complete management and distribution of both documents and images at a price that is competitive to ours.

One of the challenges of operating in an industry characterized by rapid growth and changes is being able to create a balance between sustaining a consistent vision and business strategy and yet maintaining the flexibility required to adapt to the rapidly changing market conditions. We believe that our product structure allows us to do that. Since our core technology is useful to literally any company that manages digital assets and has access to Internet browser functions, it is the backbone of our product framework. As such, it provides the consistency and stability aspect of the business strategy. The next generation of our products primarily consists of derivative products, new technological combinations, and enhancements to the core product. These have the advantage of taking an extraordinarily short time to develop into a marketable product (sometimes in as little as a few months). This aspect of our product structure provides the flexibility necessary to be able to respond quickly to new market opportunities.

Our main business strategy for the coming year is to take advantage of the current accelerated growth of the digital asset management market. In order to accomplish this strategy, we will concentrate on expanding our reseller and partner programs in the coming year. Management believes that taking advantage of the sales capacity of resellers and partners, particularly for the lower-cost range of products and hosting, is the quickest way to effect market penetration, as well as providing a more profitable business model. At the same time, this model allows us to focus our attention on attracting larger custom projects and facilitating consulting services for more complex systems, making the most effective use of our time and personnel.

One competitive strategy we are using is offering our enterprise-level products as hosted applications. By hosting our applications, we are able to provide the customer with a customized product that is maintained by us, which eliminates the customer s need for an information technology staff. We provide the hardware, connectivity, maintenance, technical support, and automatic backups of the customer s data. Now that our core product has been completed, our cycle time (the time required to get a new customer up and running) is greatly reduced. We are often able to accommodate new customers within days, including training, and even those with complex databases, in a matter of weeks.

In addition, in response to market demand, we have diversified our DFC3 product into four models of varying complexity and price. We anticipate that the variety of options available with this product will allow us to be responsive to the needs of a broader range of customers with less time and effort on our part. In general, we believe that our strategy to provide hosted applications coupled with our custom system design capabilities provide us with a diversity of competitive market penetration opportunities.

We believe that establishing and maintaining brand identity of our products and services is critical to attracting new customers and retaining our customer base of large corporations. The importance of brand recognition will continue to increase as new competitors enter the digital lifecycle management marketplace. In the coming year, we will be emphasizing our product brands in our marketing efforts, rather than our company name, in order to boost the brand recognition of our products. Promotion and enhancement of our brands will depend largely on our success in continuing to provide high quality service and developing leading-edge products, and this cannot be assured. If we are unable to provide high quality services, or otherwise fail to promote and maintain our products, or if we incur excessive expenses in an attempt to improve our services, or promote and maintain our products, our business, results of operations, and financial condition could be adversely affected.

Other, better-financed companies may be developing similar products that could compete with our products. Such competition could materially adversely affect our financial condition. There may exist better-capitalized companies on a parallel development path with similar products addressing our target markets. While the Internet technology marketplace is extremely competitive, we have anticipated a first-to-market advantage with our products. However, other highly capitalized companies that have recognized the absence of digital image management products could overwhelm our first-to-market advantage with expensive and expansive media blitzes that create the perception of a dominant market presence and/or superior products. If we are unsuccessful in addressing these risks and uncertainties, our business, results of operations, and financial condition will be materially and adversely affected.

Marketing and Customers

During the last two years we have concentrated on expanding our customer base for recurring revenues. Although our XR-Express and DDS-Express products have particular target markets, our other products are useful for any customers that deal with paper or images and have access to the Internet. As discussed in the Business Strategy section above, Management believes that the most effective way to achieve broad market penetration for our DFC3 and TORC backup systems is to expand our reseller and partner programs. This approach, coupled with targeted trade shows and direct marketing to XR-Express and DDS-Express customers, as well as to larger customers requiring more complex systems, will be our marketing focus for the coming year. Overall, we anticipate that our customer base will continue to broaden in the next year, giving more stability, steady growth, and predictability to our revenues.

Our Intellectual Properties

We have several proprietary aspects to our software that we believe make our products unique and desirable in the marketplace. Consequently, we regard protection of the proprietary elements of our products to be of paramount importance and we attempt to protect them by relying on trademark, service mark, trade dress, copyright and trade secret laws, and restrictions on disclosure and transferring of title. In addition, as stated above in the technology section, the compiled software code that we offer makes it difficult to use the source code to create other similar programs, even though the code used originates from Open Source. Because we maintain our enterprise software code on dedicated servers in our Albuquerque data center, it provides better protection and security of our products.

We have entered into confidentiality and non-disclosure agreements with our employees and contractors in order to limit access to, and disclosure of, our proprietary information. There can be no assurance that these contractual arrangements or the other steps taken by us to protect our intellectual property will prove sufficient to prevent misappropriation of our technology or to deter independent third-party development of similar technologies.

Although we do not believe that we infringe the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by us with respect to past, current, or future technologies. We expect that participants in our markets will be increasingly subject to infringement claims as the number of services and competitors in our industry grows. Any such claim, whether meritorious or not, could be time-consuming, result in costly litigation, cause service upgrade delays, or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements may not be available on terms acceptable to us or at all. As a result, any such claim could have a material adverse effect upon our business, results of operations, and financial condition.

While we have commenced the process to protect our trade names, we have not completed the process. Thus, others could attempt to use trade names that we have selected. Such misappropriation of our brand identity could cause significant confusion in the highly competitive Internet technology marketplace and legal defense against such misappropriation could prove costly and time-consuming. As part of the brand identity creation process that defines our products to be unique in the Internet technology marketplace and proprietary in nature, we have begun the process to protect certain product names and slogans as registered trademarks to designate exclusivity and ownership.

Although trademarked in the U.S., effective trademark, copyright or trade secret protection may not be available in every country in which our products may eventually be distributed. There can also be no assurance that the steps taken by us to protect our rights to use these trademarked names and slogans and any future trademarked names or slogans will be adequate, or that third parties will not infringe or misappropriate our copyrights, trademarks, service marks, and similar proprietary rights.

Government Regulation

Our operations, products, and services are all subject to regulations set forth by various federal, state and local regulatory agencies. We take measures to ensure our compliance with all such regulations as promulgated by these agencies from time to time. The Federal Communications Commission sets certain standards and regulations regarding communications and related equipment.

There are currently few laws and regulations directly applicable to the Internet. It is possible that a number of laws and regulations may be adopted with respect to the Internet covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. The growth of the market for online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. Tax authorities in a number of states are currently reviewing the appropriate tax treatment of companies engaged in online commerce, and new state tax regulations may subject us to additional state sales and income taxes.

Because our services are accessible worldwide, other jurisdictions may claim that we are required to qualify to do business as a foreign corporation in a particular state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties for the failure to qualify and could result in our inability to enforce contracts in such jurisdictions. Any such new legislation or regulation, or the application of laws or regulations from jurisdictions whose laws do not currently apply to our business, could have a material adverse effect on our business, results of operations, and financial condition.

Employees

As of April 9, 2007, we had 14 full-time and one part-time staff, including 6 in systems engineering and quality assurance; 4 in sales and customer support; and 5 in administration.

ITEM 2. DESCRIPTION OF PROPERTY

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

In March 2005, we leased approximately 400 square feet of office space in Santa Monica, California, to house the scanning and site development operations. Monthly lease payments were $1,400. The lease expired on February 28, 2006, and at that time we discontinued the California site and absorbed those activities into the Albuquerque site.

ITEM 3. LEGAL PROCEEDINGS

We are not engaged in any legal proceedings, and do not know of any threatened litigation or claims.

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

No matters were submitted to a vote of the security holders during the fourth quarter ended December 31, 2006.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our stock has historically been quoted on the OTC Bulletin Board under the symbol "NMXS." When we merged NMXS.com, Inc. with New Mexico Software on January 1, 2006 our new symbol became NMXC. The table below sets forth, for the periods indicated below, our high and low sales prices. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. The source of this information is Big Charts.

	Quarter	High	Low
FISCAL YEAR ENDED	First	$0.505	$0.135
DECEMBER 31, 2005	Second	$0.25	$0.134
	Third	$0.16	$0.098
	Fourth	$0.13	$0.098
FISCAL YEAR ENDED	First	$0.24	$0.101
DECEMBER 31, 2006	Second	$0.155	$0.09
	Third	$0.109	$0.055
	Fourth	$0.095	$0.031
FISCAL YEAR ENDED	First	$0.061	$0.036
DECEMBER 31, 2007			

Recent Sales of Unregistered Securities

On October 9, 2006, we issued 1,000,000 shares of our common stock to Anthony Jeffries, our legal counsel. We did not pay and no one acting on his behalf or to our knowledge paid any commissions of other compensation with respect to the sale of any of these shares to Mr. Jeffries. We made the sale directly to Mr. Jeffries. We issued the shares to him in payment of legal services during the year ended December 31, 2006. Mr. Jeffries acknowledged the investment nature of the securities issued, and we believe Mr. Jeffries has such knowledge and experience in business and financial transactions that he was able to understand and evaluate the risks and merits of investment in a high-risk enterprise. A legend was placed on each certificate, prohibiting public resale of the shares, except in compliance with Rule 144. We claim exemption from the registration requirement of the Securities Act of 1933, as amended (the Act) by reason of Section 4(2) of the Act and the rules and regulations thereunder, on grounds that this sale did not involve a public offering within the meaning of the Act.

On December 27, 2006, we issued 11,060,000 shares of our common stock to Mr. Govatski, one of our directors and our chief executive officer. We did not pay and no one acting on his behalf or to our knowledge paid any commissions or other compensation with respect to the sale of any of these shares to Mr. Govatski. We made the sale directly to Mr. Govatski. We issued the shares to him in replacement of shares that he surrendered in March 2005 in satisfaction of a guaranty of a loan on our behalf. From his preexisting relationship with us, it is clear he has access to material investment information and financial statements needed by a purchaser to make an informed investment decision. We believe Mr. Govatski has such knowledge and experience in business and financial transactions that he was able to understand and evaluate the risks and merits of investment in a high-risk enterprise. A legend was placed on each certificate, prohibiting public resale of the shares, except in compliance with Rule 144. We claim exemption from the registration requirement of the Securities Act of 1933, as amended (the Act) by reason of Section 4(2) of the Act and the rules and regulations thereunder, on grounds that this sale did not involve a public offering within the meaning of the Act.

Beginning in 2001, we issued shares in compensation to employees and consultants pursuant to stock issuance plans and related registration statements on Form S-8. It has been brought to our attention in connection with out 2006 audit that the number of shares issued under these plans has exceeded the plan amounts and registered amounts, as follows:

Plan Designation	Shares Authorized and Registered	Shares issued
2001 Stock Issuance Plan	4,900,000	5,947,196
2004 Stock Issuance Plan	3,000,000	3,074,143
2005 Stock Issuance Plan	5,000,000	9,603,733
2006 Stock Issuance Plan	15,000,000	17,361,419

An aggregate of 8,086,491 were issued in excess of the number of shares authorized and registered. We believed we were issuing these shares in reliance upon the related S-8 registration statement and did not require a restrictive legend. Notwithstanding the fact that we may have been able to rely in all cases on an exemption from registration had a restrictive legend been applied to the share certificates, including but not limited to Rule 701, we believe that most of the recipients of the shares have resold the shares into the public market before one year after the issue date and, not knowing the shares were in fact restricted securities, they did so without compliance with the Form 144 filing requirement and the other applicable requirements of Rule 144. We are notifying those persons who received the shares in excess of the plan and registered amounts that the shares are restricted securities and that compliance with Rule 144 is required with respect to any shares that remain unsold. We did not pay any commissions or other compensation in connection with the issuances of these shares, which may be deemed to have been made by our officers on our behalf to persons with whom we had a previously existing relationship, all of whom were acquainted with us, our business, our financial condition and our prospects. While we believed our compliance with the number of shares authorized under each of the respective plans was being monitored by our transfer agent, we have learned that this was not the case. We have instituted procedures to assure that over issuances do not occur in the future.

Shareholders

As of April 9, 2007, there were 342 holders of record of our common shares.

Dividends

We did not declare any cash dividends on our common stock during the year ended December 31, 2006. We have no plans to pay any dividends to the holders of our common stock in 2007.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS

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

OVERVIEW

We presently realize revenues from four primary sources: (i) software sales and license fees; (ii) software hosting and maintenance services; (iii) custom programming; and (iv) XR-Express usage fees. We also occasionally realize revenues from scanning services, hardware sales when the hardware is sold together with the software, and occasionally from other services. With each sale of our enterprise-level products, the end user enters into a license agreement for which an initial license fee is paid. The license agreement also provides that in order to continue the license, the licensee must pay an annual software maintenance fee for which the party receives access to product upgrades and bug fixes or product patches. Software maintenance consists primarily of hosting and managing our customers data on our servers, as well as technical support programs for our products.

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

In general, our key indicator of operating progress is gross revenue. For the years ending December 2006 and 2005, personnel-related expenses have accounted for approximately 60% 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 70% 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.

During the year ended 2006, our focus was on increasing our monthly recurring revenues, rather than relying on large one-time software sales. This means that our revenues have temporarily decreased since we had no large software sales this year. However, our monthly recurring revenues increased from approximately $28,000 per month at December 2005 to approximately $61,000 per month at December 2006. We expect this growth to continue during 2007, although there is no guarantee that it will continue at the same rate. During 2007, we will also be focusing our attention on reducing our general and administrative expenses by concentrating on allocating our resources where they provide the most value. We anticipate that the combination of efforts in growing our recurring revenues and reducing our administrative expenses will help us meet our goal of becoming profitable by the end of 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

Our software recognition policies are in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition* as amended. Revenue is recognized when (a) persuasive evidence of an arrangement exists, (b) delivery has occurred, (c) the fee is fixed or determinable, and (d) collectibility is probable. We follow the guidance in SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for custom software development arrangements that require us to provide significant production, customization or modification to our core software. Revenue is generally recognized for such arrangements under the percentage of completion method. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred revenue.

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

Income Taxes

Management evaluates the probability of the utilization of the deferred income tax assets. We have estimated a $5,228,000 deferred income tax asset at December 31, 2006, related primarily to net operating loss carryforwards at December 31, 2006. Management determined that because we have not yet generated taxable income it was not appropriate to recognize a deferred income tax asset related to the net operating loss carryforward. Therefore, the fully deferred income tax asset is offset by an equal valuation allowance. If we begin to generate taxable income, we may determine that some, if not all of the deferred income tax asset may be recognized. Recognition of the asset could increase after tax income in the future. Management is required to make judgments and estimates related to the timing and utilization of net operating loss carryforwards, utilization of other deferred income tax assets, applicable tax rates and feasible tax planning strategies.

Stock Based Compensation

We grant stock awards and stock options to employees and non-employees as consideration for services. Management believes that the best indicator of value for stock awards is the trading value of the shares of stock on the date the Company enters into the agreements. For non-employees, that date is generally the date on which the company is committed to such an agreement. At times the Company may grant stock as payment for accrued but unpaid payroll. In these cases, the Company values the shares at the trading price on the date they are granted and reduces the payroll accrual by the same amount. We have elected to apply the intrinsic value method prescribed in SFAS 123(R) for stock options granted to employees. For options granted to non-employees, we estimate the value of those awards using the Black-Scholes option pricing model.

Contingencies

We are subject to the possibility of various law contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an assets or the incurrence of a liability, as well as our ability to reasonably estimate the amount of the loss contingencies.

Software Development Costs

We account for software development costs in accordance with SFAS No. 86 *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. Product research and development expenses consist primarily of personnel, outside consulting and related expenses for development, and systems personnel and consultants and are charged to operations as incurred until technological feasibility is established. The Company considers technological feasibility to be established when all planning, designing, coding and testing have been completed to design specifications. After technological feasibility is established, costs are capitalized. Historically, product development has been substantially completed with the establishment of technological feasibility and, accordingly, no costs have been capitalized.

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

RESULTS OF OPERATIONS

A summary of operating results for the twelve months ended December 31, 2006 and 2005 is as follows:

	2006		2005	
		% of		% of
	Amount	Revenue	Amount	Revenue
Revenues	$913,000	100.0%	$1,399,000	100.0%
Cost of service	467,000	51.0%	583,000	41.7%
Gross profit	446,000	49.0%	816,000	58.3%
General & administrative	2,906,000	318.5%	1,348,000	96.4%
Research & development	195,000	21.4%	215,000	15.4%
Bad Debt Expense	23,000	2.5%	61,000	4.3%

Net operating (loss)	(2,678,000)	(293.4)%	(808,000)	(63.6)%
Other income (expense)	(45,000)	(4.8)%	(240,000)	(11.3)%
Net income (loss)	(2,723,000)	(298.2)%	(1,048,000)	(74.9)%
Earnings (loss) per share	$ (0.04)		$ (0.03)	

Revenues: Total revenues decreased 34.7%, or $486,000, for the year ended December 31, 2006, as compared to the same period in the prior year (the comparable prior year period). These revenues were primarily generated from the following four revenue streams:

1. Revenues generated by software sales and licenses decreased 79%, or $426,000 for the year ended December 31, 2006, as compared to the comparable prior year period. This decrease was mostly attributable to several large software sales during 2005 as compared with none in 2006. Since software based on our Roswell ICMS technology is a highly customized enterprise-level system, its sales are characterized by a small number of contracts with much higher revenues than our other products. As a result, its sales growth will most likely be inconsistent from one year to the next. We anticipate that sales of our DFC3 Model 100 appliances will begin to provide more consistent revenue in this category during 2007.

2. Revenues from software hosting and maintenance increased 12% or $49,000 for the year 2006 as compared to the comparable prior year period. Revenue from hosting and maintenance for our products marketed prior to DFC3 and XR-Express decreased approximately $57,000 during 2006 as compared to 2005, while revenue from hosting our DFC3 and XR-Express products increased $106,000 during 2006 as compared to 2005. These changes reflect a gradual shift in our customer base from our older products to our newer ones. Overall, we have doubled our customer base for recurring monthly revenues during 2006. Software maintenance consists mainly of hosting and managing our customers data on our systems, and to a lesser extent includes technical support programs associated with our products. Based on the market response to our DFC3 and XR-Express products during 2006, and with the addition of the TORC backup system and the DDS-Express dental management system in 2007, management anticipates that revenues from software hosting and maintenance will continue to increase in the coming year, although it is not possible to predict the rate of increase until we have been actively marketing the products for some time.

3. Custom programming revenue decreased 82%, or $227,000 for the year ended December 31, 2006, as compared to the comparable prior year period. This increase was primarily due to the fact that we recognized revenue on two custom programming contracts during 2005, and we had no major custom programming contracts during 2006. Our Roswell ICMS technology is only available as a highly customized enterprise-level product, and our DFC3 Models 300 and 400 are customizable products. In addition, approximately 10% of the customers that purchase our other products will require customization, and we continue to offer this service. As discussed in the Business Strategy and Marketing sections above, we will be concentrating on attracting customers seeking more complex systems that require custom programming and other services in the coming year. Based on this strategy, coupled with the history of this revenue category, we anticipate that custom programming projects associated with new product purchases will continue to provide revenues in this category, although there is no assurance they will remain at this level. We also continue to offer programming services for customer database integration, and for other projects for our existing customers.

4. XR-Express report fees increased $188,000 (over 2,000%) for the year ended December 31, 2006, as compared to the comparable prior year period. This increase is due to the addition of new XR-Express customers during 2006. Although we began marketing XR-EXpress during the first quarter of 2005, there were almost no revenues from

report fees until the fourth quarter of 2005. We expect further increases in this revenue category for 2007, but it is not possible to predict the rate of increase until we have been actively marketing the products for some time.

We also generated revenue from scanning services, hardware sales, and other services. Our long-term scanning project with a major movie studio was completed near the end of 2005; we had one major scanning project in the second half of 2006 that has been extended into 2007. Although we still offer scanning, we are not emphasizing this service, so we do not anticipate any major projects in the future. All hardware sales were associated with sales of our XR-EXpress and DFC3 software. Although we have not emphasized hardware sales in the past, we expect that the diversification of our DFC3 product into various appliance models will result in increased hardware revenues during 2007. It will not be possible to predict the impact of these sales on hardware revenues until we have been actively marketing the products for some time.

Cost of Services. Cost of services decreased 19.9%, or $116,000 for the year ended December 31, 2006, as compared to the comparable prior year period. This decrease is a combination of a decrease in personnel costs relative to 2005 (approximately $125,000) and a net increase in costs for hardware and shipping related to our DFC3 and XR-Express products (approximately $17,000). During 2006, approximately 80% of our cost of sales consisted of salaries, contract services and other personnel-related expenses for our engineering staff. We consider these expenses to be directly associated with our ability to generate revenues, however, they do not vary with revenues in that much of those costs are fixed. As a result, the gross margin percent will vary as sales vary.

For the year ended December 31, 2006, cost of services as a percentage of revenues was 51.0%, as compared with 41.7% for the comparable prior year period. Although we experienced several large software sales in 2005 that were not repeated in 2006, our customer base actually increased during 2006. This means that the personnel necessary to provide high-quality customer service remained constant; as a result, our cost of service did not decrease at the same rate as revenues. Management anticipates that as revenues increase in the coming year, the cost of goods and services required to support those revenues will continue to increase, and engineering salaries will also increase as we hire additional staff to support a greater number of products and customers. However, we expect that revenues will increase at a greater rate than cost of services, since most of our costs are relatively fixed.

General and Administrative. General and administrative expenses increased 115.6%, or $1,558,000 for the year ended December 31, 2006, as compared to the comparable prior year period. Although we have streamlined the majority of our administrative expenses during the last several years, our marketing and consulting expenses increased considerably during 2006. We terminated three consulting agreements at the end of 2006 and wrote off the remaining balances of those contracts, resulting in a charge to expense of $269,000 in December. Overall, general and administrative expenses increased approximately $565,000 during 2006 as a result of these consulting contracts. We expect consulting expenses to be nominal in 2007. Management also used approximately $215,000 in prepaid advertising credits during 2006, and at the end of the year concluded that we were not seeing value from the ads in terms of increased sales leads. We therefore wrote off the remainder of the ads in December, resulting in a $385,000 charge to expense. Advertising expenses overall increased approximately $556,000 during 2006. We also expect advertising expenses to be nominal during 2007.

For the year ended December 31, 2006, general and administrative expenses as a percentage of revenues was 318.5%, as compared with 96.4% for the comparable prior year period. This change is a result of the combination of reduced revenues and increased general and administrative expenses during 2006. We anticipate that the ratio of general and administrative costs to revenues will decrease in the future because revenues will increase at a greater rate than general and administrative costs, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

Research and Development. Research and development expenses decreased 9.3%, or $20,000 for the year ended December 31, 2006, as compared to the comparable prior year period. This decrease is entirely due to reduction in staffing costs as we continue to shift our focus toward marketing and supporting our completed products.

During 2006, over 90% of our research and development costs are directly associated with staffing. In the software industry it is common for research and development costs to be ongoing, since development of the next version of the software begins as soon as the current version is completed. In addition, we are constantly developing new applications for our existing software that require modification. Management anticipates that research and development costs in the future will focus both on the upgrading of our existing products and the continued development of new products using our core technology; therefore they will remain relatively steady during the coming year.

Bad Debt. Bad debt expense decreased 62.3%, or $38,000 for the year ended December 31, 2006, as compared to the comparable prior year period. This decrease is due to improved communications with our customers and more targeted collections efforts.

Other Income. Interest expense decreased 81.3%, or $195,000 for the year ended December 31, 2006, as compared to the comparable prior year period. This decrease was due to the payment during 2006 of a substantial portion both of our IRS obligation and our long-term debt, resulting in significantly reduced interest charges.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2006, cash and cash equivalents totaled $21,000, representing a $136,000 decrease from the beginning of the period. The decrease in available cash was due to a combination of several factors during the year:

Operating activities used $342,000 of cash for the year ended December 31, 2006, as compared to $343,000 for the comparable prior year period, a decrease of $1,000. Although the total cash used for operating activities was similar for the two years, the uses of cash differed in several areas. Stock and options issued for salaries and services was approximately $884,000 in 2005 as compared with $2,246,000 in 2006. The primary reasons for this increase are the issuance of stock for several consulting contracts during 2006 and options issued to the Directors at the end of 2005.

Prepaid expenses represented a use of $448,000 during 2005 and a source of $587,000 during 2006. In 2005 we sold software in return for advertising credits rather than cash, resulting in a net use of cash. In 2006 we used the advertising credits; since this was a cashless expense it resulted in a net source of cash. Finally, in 2006 our accrued expenses represented a use of $315,000. This use of cash primarily corresponded to the payment of our past-due tax obligation during 2006.

Investing activities used $67,000 for the year ended December 31, 2006, as compared to $26,000 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 $273,000 in cash for the year ended December 31, 2006, as compared to $526,000 for the comparable prior year period. This decrease was entirely due to a decrease in the issuance of common stock for cash during the year ended 2006. During the year we issued approximately 3,326,591 shares of common stock for gross proceeds of approximately $323,000.

During the year ended December 31, 2006, we 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 2006. We used approximately $215,000 of advertising credits during 2006. After evaluation, Management determined that the ads were not providing the value we anticipated in terms of sales leads, and the remaining $385,000 of advertising credits was charged to expense in December 2006.

During January 2001, we borrowed $300,000 from 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. Management has continued to negotiate extensions by paying a portion of the principal and all accumulated interest owed at the due dates. The outstanding principal balance was approximately $39,000 at December 31, 2006. 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 expect to pay the remainder of this balance during 2007.

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, 2006 we had a working capital deficit of $130,000 as opposed to a working capital deficit of $57,000 at the end of 2005. This reduction is primarily due to the write-off of the remaining advertising credits during 2006. 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 27% of our cash flow for 2006 was funded by the sale of equity securities during the year, as compared to 43% for the prior year. Our monthly recurring revenues increased from $28,000 per month to $61,000 per month during 2006, and we expect our marketing programs and new products will continue to positively impact revenues during 2007. We may also continue to sell equity securities and incur debt as needed to meet our operating needs during 2007. 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 finish satisfying delinquent obligations and for general operating purposes. Based on cash flow projections, our cash requirements for the next twelve months will continue to be approximately $1,200,000 - $1,500,000. Our goal during 2006 was to be funding our operating requirements entirely from revenues by the end of the year, and although we did not achieve that goal, we made substantial progress toward it. We are currently generating cash flow from recurring revenues of approximately $70,000 per month, and this amount has increased steadily since the beginning of 2006. This level of cash flow will allow us to meet current obligations and maintain our current level of operations as long as we continue to issue equity compensation to employees and consultants. Our goal for 2007 is to generate the cash flow necessary to fund all operating expenses as well as expected growth in the near future and to become profitable by the end of the year. We expect the upward trend in recurring revenues to continue in 2007, although it is not possible to predict the rate of increase until our new products have been established in the market for a reasonable period of time.

As noted under Item 5, "Recent Sales of Unregistered Securities", we issued an aggregate of 8,086,491, beginning in 2001 and ending in 2006, in excess of the number of shares we had registered on Form S-8 to issue as compensation to employees and consultants. Notwithstanding the fact that these shares were not registered, they were issued as if they were registered without a restrictive legend and other precautions typically applied in unregistered offerings exempt from registration and have in most cases probably been resold into the public market. Accordingly, most of the shares have probably been issued and resold in violation of the registration requirements of the Securities Act of 1933. We have notified the U.S. Securities and Exchange Commission regarding these probable violations; but we are not able to predict what action, if any, the Commission may take. Such action could include among other things, administrative proceedings or civil court proceedings and, if taken, could result in consent order, fines and penalties which impact our future financial condition and restrict our ability to rely on exemptions from registration in the future sale of securities which have been essential in supporting our operations in the past.

ITEM 7. FINANCIAL STATEMENTS

AUDITOR S REPORT AND FINANCIAL STATEMENTS AND FOOTNOTES BEGIN ON THE NEXT PAGE

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of

New Mexico Software, Inc.

Albuquerque, New Mexico

We have audited the accompanying consolidated balance sheet of New Mexico Software, Inc. as of December 31, 2006, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of New Mexico Software, Inc. for the year ended December 31, 2005. Those statements were audited by other auditors whose report has been furnished to us.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New Mexico Software, Inc. as of December 31, 2006, and the consolidated results of their operations and cash flows for the years ended December 31, 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A, the Company has incurred an accumulated deficit of $13,422,000 as of December 31, 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ De Joya Griffith & Company, LLC

Certified Public Accountants & Consultants

Henderson, Nevada

April 17, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board

of New Mexico Software, Inc.:

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

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audit provides 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 the consolidated results of its operations and cash flows for the year 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.

Consolidated Balance Sheets

(Rounded to the nearest thousand)

	December 31, 2006		December 31, 2005	
Assets				
Current assets:				
Cash and equivalents	$	21,000	$	157,000
Accounts receivable, net		166,000		151,000
Inventory		24,000		50,000
Prepaid expenses and other assets		21,000		607,000
Total current assets		232,000		965,000
Furniture, equipment and improvements, net		103,000		71,000
Security deposits		4,000		13,000
Total Assets	$	339,000	$	1,049,000
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities:				
Accounts payable	$	106,000	$	152,000
Legal settlements payable		-		150,000
Accrued expenses		122,000		437,000
Deferred revenue		62,000		77,000
Stock subscriptions payable		21,000		105,000
Notes payable		51,000		101,000
Total current liabilities		362,000		1,022,000
Stockholders' equity (deficit):				
Preferred stock, $0.001 par value, 500,000 shares authorized, 0 and 75 shares issued and outstanding				

as of 12/31/06 and 12/31/05, respectively		-		-
Common stock, $0.001 par value, 200,000,000 shares authorized, 87,760,322 and 50,916,041 shares issued and outstanding as of 12/31/06 and 12/31/05, respectively		88,000		51,000
Additional paid-in capital		13,497,000		10,994,000
Deferred compensation paid with stock		(186,000)		(319,000)
Accumulated deficit		(13,422,000)		(10,699,000)
Total stockholders' equity (deficit)		(23,000)		27,000
Total Liabilities and Stockholders' Equity (Deficit)	$	339,000	$	1,049,000

New Mexico Software, Inc.

Consolidated Statements of Operations

(Rounded to the nearest thousand)

	For the year ended December 31, 2006	2005
Revenues		
Software sales and licenses	$ 113,000	$ 539,000
Software hosting and maintenance	458,000	410,000
Custom programming	50,000	277,000
XR-EXpress report fees	196,000	8,000
Scanning services	16,000	114,000
Hardware sales	78,000	48,000
Other	2,000	3,000
	913,000	1,399,000
Cost of services	467,000	583,000
Gross profit	446,000	816,000
Operating costs and expenses:		
General and administrative	2,875,000	1,308,000
Depreciation and amortization	31,000	40,000
Research and development	195,000	215,000
Bad debt	23,000	61,000
Total operating costs and expenses	3,124,000	1,624,000
Net operating loss	(2,678,000)	(808,000)

Other income (expense):				
Interest (expense)		(45,000)		(158,000)
Legal settlement		-		(82,000)
Total other income (expense)		(45,000)		(240,000)
Net loss	$	(2,723,000)	$	(1,048,000)
Loss per share - basic	$	(0.04)	$	(0.03)
Weighted average number of common shares outstanding - basic		63,424,938		40,539,127

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New Mexico Software, Inc.

Consolidated Statements of Cash Flows

(Rounded to the nearest thousand)

	For the year ended December 31, 2006	2005
Cash flows from operating activities		
Net loss	$ (2,723,000)	$ (1,048,000)
Adjustments to reconcile net (loss) to net cash used by operating activities:		
Common stock issued for salaries	732,000	572,000
Common stock issued for services	1,183,000	312,000
Common stock issued for interest	20,000	6,000
Stock options issued for salaries	331,000	-
Depreciation and amortization	31,000	40,000
Depreciation and amortization allocated to cost of goods sold	5,000	-
Changes in operating assets and liabilities:		
Accounts receivable	(16,000)	282,000
Inventory	26,000	(43,000)
Prepaid expenses and other assets	587,000	(583,000)
Security deposits	8,000	-
Accounts payable	(46,000)	41,000
Legal settlements payable	(150,000)	82,000
Accrued expenses	(315,000)	5,000
Deferred revenue	(15,000)	(9,000)
Net cash used by operating activities	(342,000)	(343,000)
Cash flows from investing activities		
Acquisition of fixed assets	(67,000)	(26,000)
Net cash used by investing activities	(67,000)	(26,000)
Cash flows from financing activities		
Repayment of note payable	(50,000)	(50,000)

Net proceeds from the issuance of common stock		323,000		523,000
Net proceeds from warrants/options exercised		-		53,000
Net cash provided by financing activities		273,000		526,000
Net increase (decrease) in cash equivalents		(136,000)		157,000
Cash equivalents - beginning		157,000		-
Cash equivalents - ending	$	21,000	$	157,000
Supplemental disclosures:				
Interest paid	$	32,000	$	36,000
Supplemental schedule of noncash operating and investing activities:				
Inventory converted to fixed asset	$	15,000	$	-
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
Common stock issued for subscriptions payable	$	84,000	$	-

New Mexico Software, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)

(Rounded to the nearest thousand)

	Preferred Stock		Common Stock		Additional Paid-in	Deferred	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Compensation	(Deficit)	Equity (Deficit)
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)	-	-
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
Issuance of common stock for services	-	-	11,812,528	12,000	752,000	-	-	764,000
Issuance of common stock for services to be rendered	-	-	1,100,000	1,000	98,000	(99,000)	-	-

New Mexico Software, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)

(Rounded to the nearest thousand)

-CONTINUED-

		Preferred Stock		Common Stock		Additional			Total
						Paid-in	Deferred	Accumulated	Stockholders' Equity
		Shares	Amount	Shares	Amount	Capital	Compensation	(Deficit)	(Deficit)
Issuance of common stock									102.92
2015	First Quarter	115.00	107.96						
	Second Quarter	112.37	101.60						
	Third Quarter (through August 3, 2015)	110.74	102.49						

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Bank of America Corporation

Bank of America Corporation accepts deposits and offers banking, investing, asset management, and other financial and risk-management products and services. The company has a mortgage lending subsidiary, and an investment banking and securities brokerage subsidiary. Its common stock is traded on the NYSE under the symbol "BAC."

Historical Information of the Common Stock of Bank of America Corporation

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	18.04	14.45
	Second Quarter	19.48	14.37
	Third Quarter	15.67	12.32
	Fourth Quarter	13.56	10.95
2011	First Quarter	15.25	13.33
	Second Quarter	13.72	10.50
	Third Quarter	11.09	6.06
	Fourth Quarter	7.35	4.99
2012	First Quarter	9.93	5.80
	Second Quarter	9.68	6.83
	Third Quarter	9.55	7.04
	Fourth Quarter	11.60	8.93
2013	First Quarter	12.78	11.03
	Second Quarter	13.83	11.44
	Third Quarter	14.95	12.83
	Fourth Quarter	15.88	13.69
2014	First Quarter	17.92	16.10
	Second Quarter	17.34	14.51
	Third Quarter	17.18	14.98
	Fourth Quarter	18.13	15.76
2015	First Quarter	17.90	15.15
	Second Quarter	17.67	15.41
	Third Quarter (through August 3, 2015)	18.45	16.25

Costco Wholesale Corporation

Costco Wholesale Corporation operates wholesale membership warehouses in multiple countries. The company sells food, automotive supplies, toys, hardware, sporting goods, jewelry, electronics, apparel, health and beauty aids, as well as other goods. Its common stock is traded on NASDAQ under the symbol "COST."

Historical Information of the Common Stock of Costco Wholesale Corporation

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	61.65	57.07
	Second Quarter	61.74	54.83
	Third Quarter	65.01	53.61
	Fourth Quarter	72.85	62.21
2011	First Quarter	75.43	69.76
	Second Quarter	83.86	74.17
	Third Quarter	85.07	70.39
	Fourth Quarter	88.06	79.02
2012	First Quarter	91.52	78.98
	Second Quarter	95.00	82.62
	Third Quarter	102.81	93.68
	Fourth Quarter	105.94	94.47
2013	First Quarter	106.64	99.45
	Second Quarter	114.83	103.61
	Third Quarter	120.07	110.43
	Fourth Quarter	125.43	112.21
2014	First Quarter	118.51	110.18
	Second Quarter	118.23	110.65
	Third Quarter	127.62	115.44
	Fourth Quarter	144.15	122.95
2015	First Quarter	155.92	139.14
	Second Quarter	152.50	135.06
	Third Quarter (through August 3, 2015)	146.38	135.88

The Walt Disney Company

The Walt Disney Company is an entertainment company that conducts operations in media networks, studio entertainment, theme parks and resorts, consumer products, and interactive media. The company produces motion pictures, television programs, and musical recordings, as well as books and magazines. Its common stock is traded on the NYSE under the symbol "DIS."

Historical Information of the Common Stock of The Walt Disney Company

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	35.31	29.32
	Second Quarter	37.56	31.50
	Third Quarter	35.29	31.38
	Fourth Quarter	37.95	33.14
2011	First Quarter	44.07	37.82
	Second Quarter	43.91	37.58
	Third Quarter	40.74	29.55
	Fourth Quarter	37.71	29.00
2012	First Quarter	44.38	38.31
	Second Quarter	48.50	40.98
	Third Quarter	52.92	47.27
	Fourth Quarter	52.97	47.06
2013	First Quarter	57.75	50.58
	Second Quarter	67.67	56.69
	Third Quarter	67.11	60.69
	Fourth Quarter	76.40	63.59
2014	First Quarter	83.34	69.99
	Second Quarter	85.74	77.01
	Third Quarter	90.94	85.03
	Fourth Quarter	95.50	81.74
2015	First Quarter	108.43	90.96
	Second Quarter	114.99	105.43
	Third Quarter (through August 3, 2015)	121.12	114.97

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Ford Motor Company

Ford Motor Company designs, manufactures, and services cars and trucks. The company also provides vehicle-related financing, leasing, and insurance through its subsidiary. Its common stock is traded on the NYSE under the symbol "F."

Historical Information of the Common Stock of Ford Motor Company

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	14.10	10.28
	Second Quarter	14.46	9.88
	Third Quarter	13.16	10.16
	Fourth Quarter	17.00	12.26
2011	First Quarter	18.79	14.01
	Second Quarter	15.79	12.78
	Third Quarter	14.12	9.62
	Fourth Quarter	12.51	9.37
2012	First Quarter	12.96	11.13
	Second Quarter	12.64	9.59
	Third Quarter	10.59	8.92
	Fourth Quarter	12.95	9.79
2013	First Quarter	14.30	12.13
	Second Quarter	15.90	12.44
	Third Quarter	17.66	15.74
	Fourth Quarter	17.76	15.15
2014	First Quarter	16.73	14.55
	Second Quarter	17.28	15.46
	Third Quarter	17.84	14.79
	Fourth Quarter	16.01	13.54
2015	First Quarter	16.57	14.46
	Second Quarter	16.07	14.78
	Third Quarter (through August 3, 2015)	15.21	14.33

Johnson & Johnson

Johnson & Johnson manufactures health care products and provides related services for the consumer, pharmaceutical, and medical devices and diagnostics markets. The company sells products such as skin and hair care products, acetaminophen products, pharmaceuticals, diagnostic equipment, and surgical equipment in countries located around the world. Its common stock is traded on the NYSE under the symbol "JNJ."

Historical Information of the Common Stock of Johnson & Johnson

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	65.36	62.37
	Second Quarter	66.03	58.00
	Third Quarter	62.43	57.02
	Fourth Quarter	64.76	61.55
2011	First Quarter	63.35	57.66
	Second Quarter	67.29	59.46
	Third Quarter	67.92	60.20
	Fourth Quarter	66.02	61.27
2012	First Quarter	65.96	64.30
	Second Quarter	67.56	61.78
	Third Quarter	69.53	67.21
	Fourth Quarter	72.52	67.97
2013	First Quarter	81.53	70.74
	Second Quarter	88.59	81.11
	Third Quarter	94.39	86.17
	Fourth Quarter	95.63	85.61
2014	First Quarter	98.23	86.62
	Second Quarter	105.76	96.54
	Third Quarter	108.64	99.82
	Fourth Quarter	109.07	96.78
2015	First Quarter	106.39	98.32
	Second Quarter	103.96	97.46
	Third Quarter (through August 3, 2015)	101.11	97.77

Kimberly-Clark Corporation

Kimberly-Clark Corporation is a health and hygiene company that manufactures and provides consumer products. The company's products include diapers, tissues, paper towels, incontinence care products, surgical gowns, and disposable face masks. Its common stock is traded on the NYSE under the symbol "KMB."

Historical Information of the Common Stock of Kimberly-Clark Corporation

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	61.65	56.41
	Second Quarter	60.51	57.68
	Third Quarter	64.13	57.69
	Fourth Quarter	64.08	58.74
2011	First Quarter	63.16	60.03
	Second Quarter	65.59	61.57
	Third Quarter	68.27	59.97
	Fourth Quarter	70.92	65.67
2012	First Quarter	71.08	68.17
	Second Quarter	80.29	70.47
	Third Quarter	84.27	78.92
	Fourth Quarter	84.04	79.17
2013	First Quarter	93.91	80.54
	Second Quarter	101.69	90.73
	Third Quarter	96.03	88.43
	Fourth Quarter	105.15	89.32
2014	First Quarter	106.43	98.99
	Second Quarter	108.41	103.89
	Third Quarter	109.49	99.55
	Fourth Quarter	118.28	100.67
2015	First Quarter	118.98	104.15
	Second Quarter	113.15	105.48
	Third Quarter (through August 3, 2015)	115.69	107.55

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The Coca-Cola Company

The Coca-Cola Company manufactures, markets, and distributes soft drink concentrates and syrups. The company also distributes and markets juice and juice-drink products. Its common stock is traded on the NYSE under the symbol "KO."

Historical Information of the Common Stock of The Coca-Cola Company

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	28.57	26.33
	Second Quarter	27.66	25.04
	Third Quarter	29.55	25.02
	Fourth Quarter	32.89	29.44
2011	First Quarter	33.18	30.80
	Second Quarter	34.23	32.47
	Third Quarter	35.62	31.98
	Fourth Quarter	35.08	32.37
2012	First Quarter	37.01	33.50
	Second Quarter	39.10	35.97
	Third Quarter	40.56	37.14
	Fourth Quarter	38.58	35.97
2013	First Quarter	40.69	36.84
	Second Quarter	43.09	39.13
	Third Quarter	41.09	37.88
	Fourth Quarter	41.31	37.05
2014	First Quarter	40.66	37.10
	Second Quarter	42.36	38.07
	Third Quarter	42.66	39.18
	Fourth Quarter	44.83	40.39
2015	First Quarter	43.78	39.91
	Second Quarter	41.52	39.23
	Third Quarter (through August 3, 2015)	41.54	39.42

The Kroger Co.

The Kroger Co. operates supermarkets and convenience stores in the United States. The company also manufactures and processes some of the foods that its supermarkets sell. Its common stock is traded on the NYSE under the symbol “KR.”

Historical Information of the Common Stock of The Kroger Co.

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	22.90	20.24
	Second Quarter	23.70	19.16
	Third Quarter	22.43	19.73
	Fourth Quarter	23.86	20.63
2011	First Quarter	24.29	21.29
	Second Quarter	25.48	22.95
	Third Quarter	25.83	21.73
	Fourth Quarter	24.48	21.74
2012	First Quarter	24.65	22.98
	Second Quarter	24.39	21.29
	Third Quarter	23.99	21.11
	Fourth Quarter	26.90	23.30
2013	First Quarter	33.14	25.28
	Second Quarter	35.52	31.88
	Third Quarter	40.99	34.67
	Fourth Quarter	43.42	39.53
2014	First Quarter	44.02	35.38
	Second Quarter	49.92	43.62
	Third Quarter	52.78	48.71
	Fourth Quarter	64.51	51.22
2015	First Quarter	38.62	31.54
	Second Quarter	38.57	34.11
	Third Quarter (through August 3, 2015)	39.40	36.56

Nike, Inc.

Nike, Inc. designs, develops, and markets athletic footwear, apparel, equipment, and accessory products for men, women, and children. The company sells its products worldwide to retail stores, through its own stores, subsidiaries, and distributors. Its common stock is traded on the NYSE under the symbol "NKE."

Historical Information of the Common Stock of Nike, Inc.

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	37.33	30.65
	Second Quarter	39.12	33.78
	Third Quarter	40.32	33.61
	Fourth Quarter	46.15	39.94
2011	First Quarter	44.94	37.73
	Second Quarter	44.99	38.27
	Third Quarter	46.83	39.29
	Fourth Quarter	48.89	41.53
2012	First Quarter	56.07	48.41
	Second Quarter	57.20	43.89
	Third Quarter	50.42	44.43
	Fourth Quarter	52.80	45.30
2013	First Quarter	59.56	51.84
	Second Quarter	65.91	58.26
	Third Quarter	73.64	62.33
	Fourth Quarter	79.86	70.28
2014	First Quarter	79.64	70.51
	Second Quarter	77.68	70.83
	Third Quarter	89.50	76.35
	Fourth Quarter	99.33	85.09
2015	First Quarter	101.98	91.17
	Second Quarter	109.71	98.55
	Third Quarter (through August 3, 2015)	115.22	109.27

Starbucks Corporation

Starbucks Corporation retails, roasts, and provides its own brand of specialty coffee. The company operates retail locations worldwide and sells whole bean coffees through its sales group, direct response business, supermarkets, and on the Internet. The company also produces and sells bottled coffee drinks and a line of ice creams. Its common stock is traded on NASDAQ under the symbol "SBUX."

Historical Information of the Common Stock of Starbucks Corporation

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	12.78	10.85
	Second Quarter	14.06	12.12
	Third Quarter	13.14	11.43
	Fourth Quarter	16.47	12.85
2011	First Quarter	18.99	15.77
	Second Quarter	19.75	17.43
	Third Quarter	20.58	17.03
	Fourth Quarter	23.23	18.10
2012	First Quarter	28.13	22.67
	Second Quarter	30.84	25.64
	Third Quarter	27.10	21.58
	Fourth Quarter	27.29	22.49
2013	First Quarter	29.34	26.61
	Second Quarter	33.55	28.44
	Third Quarter	38.67	33.12
	Fourth Quarter	41.00	37.64
2014	First Quarter	39.02	34.49
	Second Quarter	39.06	34.36
	Third Quarter	40.23	36.98
	Fourth Quarter	41.90	36.10
2015	First Quarter	48.96	39.62
	Second Quarter	54.62	46.51
	Third Quarter (through August 3, 2015)	58.19	53.39

Waste Management, Inc.

Waste Management, Inc. provides waste management services including collection, transfer, recycling, resource recovery and disposal services, and operates waste-to-energy facilities. The company serves municipal, commercial, industrial, and residential customers throughout North America. Its common stock is traded on the NYSE under the symbol "WM."

Historical Information of the Common Stock of Waste Management, Inc.

The following table sets forth the high and low closing prices of this Reference Share from the first quarter of 2010 through August 3, 2015.

		High ($)	Low ($)
2010	First Quarter	34.88	31.40
	Second Quarter	35.66	31.29
	Third Quarter	35.85	31.65
	Fourth Quarter	36.99	34.25
2011	First Quarter	38.34	36.04
	Second Quarter	39.61	36.37
	Third Quarter	38.00	28.17
	Fourth Quarter	34.68	29.83
2012	First Quarter	35.64	32.35
	Second Quarter	36.08	32.15
	Third Quarter	35.68	31.59
	Fourth Quarter	34.33	30.96
2013	First Quarter	39.21	33.97
	Second Quarter	42.75	38.14
	Third Quarter	43.50	39.85
	Fourth Quarter	46.10	40.40
2014	First Quarter	44.20	40.41
	Second Quarter	44.84	41.06
	Third Quarter	47.53	43.89
	Fourth Quarter	51.58	46.28
2015	First Quarter	55.18	51.23
	Second Quarter	55.14	46.35
	Third Quarter (through August 3, 2015)	51.20	46.37

The WhiteWave Foods Company

The WhiteWave Foods Company produces and markets dairy and dairy alternatives. The company's products include soy milk, flavored creamers, organic milk, yogurt, cheese, butter, sour creams, and whipped creams. Its common stock is traded on the NYSE under the symbol "WWAV."

Historical Information of the Common Stock of The WhiteWave Foods Company

The following table sets forth the high and low closing prices of this Reference Share from December 31, 2012, the date when this Reference Share began trading, through August 3, 2015.

		High ($)	Low ($)
2012	Fourth Quarter (from December 31, 2012)	16.75	14.31
2013	First Quarter	17.64	14.85
	Second Quarter	19.19	15.78
	Third Quarter	20.18	16.71
	Fourth Quarter	23.45	18.37
2014	First Quarter	30.04	22.57
	Second Quarter	33.02	26.14
	Third Quarter	37.37	29.66
	Fourth Quarter	37.46	32.94
2015	First Quarter	45.23	32.64
	Second Quarter	50.46	43.25
	Third Quarter (through August 3, 2015)	51.62	48.95

Xylem Inc.

Xylem Inc. is a designer, manufacturer, equipment and service provider for water and wastewater applications addressing the full-cycle of water from collection, distribution, and use to the return of water to the environment. The company's products include water and wastewater pumps, treatment and testing equipment, industrial pumps, valves, heat exchangers, and dispensing equipment. Its common stock is traded on the NYSE under the symbol "XYL."

Historical Information of the Common Stock of Xylem Inc.

The following table sets forth the high and low closing prices of this Reference Share from October 31, 2011, the date when this Reference Share began trading, through August 3, 2015.

		High ($)	Low ($)

2011	Fourth Quarter (from October 31, 2011)	27.31	23.00
2012	First Quarter	28.73	25.14
	Second Quarter	28.38	23.61
	Third Quarter	25.98	23.16
	Fourth Quarter	27.57	23.44
2013	First Quarter	29.34	26.68
	Second Quarter	28.93	25.77
	Third Quarter	29.08	24.19
	Fourth Quarter	34.77	27.21
2014	First Quarter	39.40	32.80
	Second Quarter	39.78	34.89
	Third Quarter	39.13	34.98
	Fourth Quarter	38.95	31.91
2015	First Quarter	38.08	34.10
	Second Quarter	37.30	34.96
	Third Quarter (through August 3, 2015)	36.81	33.85

SUPPLEMENTAL TAX CONSIDERATIONS

Supplemental Canadian Tax Considerations

For a summary of Canadian tax considerations relevant to an investment in the notes, please see the sections entitled "Canadian Taxation" in the accompanying prospectus and the section entitled "Certain Income Tax Consequences—Certain Canadian Income Tax Considerations " in the accompanying prospectus supplement.

With respect to any interest payable on the notes, or any portion of the principal amount of the notes in excess of the issue price, such interest or principal, as the case may be, should not be subject to Canadian Non-Resident withholding tax.

Supplemental U.S. Federal Income Tax Considerations

The following, together with the discussion of U.S. federal income taxation in the accompanying prospectus and prospectus supplement, is a general description of the material U.S. tax considerations relating to the notes. It does not purport to be a complete analysis of all tax considerations relating to the notes. Prospective purchasers of the notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Canada and the U.S. of acquiring, holding and disposing of the notes and receiving payments under the notes. This summary is based upon the law as in effect on the date of this pricing supplement and is subject to any change in law that may take effect after such date.

The following section supplements the discussion of U.S. federal income taxation in the accompanying prospectus and prospectus supplement with respect to United States holders (as defined in the accompanying prospectus). It applies only to those holders who are not excluded from the discussion of U.S. federal income taxation in the accompanying prospectus.

You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the notes in your particular circumstances, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

NO STATUTORY, JUDICIAL OR ADMINISTRATIVE AUTHORITY DIRECTLY DISCUSSES HOW THE NOTES SHOULD BE TREATED FOR U.S. FEDERAL INCOME TAX PURPOSES. AS A RESULT, THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES ARE UNCERTAIN. BECAUSE OF THE UNCERTAINTY, YOU SHOULD CONSULT YOUR TAX ADVISOR IN DETERMINING THE U.S. FEDERAL INCOME TAX AND OTHER TAX CONSEQUENCES OF YOUR INVESTMENT IN THE NOTES, INCLUDING THE APPLICATION OF STATE, LOCAL OR OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

We will not attempt to ascertain whether a Reference Share Issuer would be treated as a "passive foreign investment company" within the meaning of Section

1297 of the Code or a "U.S. real property holding corporation" within the meaning of Section 897 of the Code. If a Reference Share Issuer were so treated, certain adverse U.S. federal income tax consequences could possibly apply. You should refer to any available information filed with the SEC by Reference Share Issuers and consult your tax advisor regarding the possible consequences to you in this regard.

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat a note with terms described in this pricing supplement as a pre-paid cash-settled derivative contract in respect of the Basket for U.S. federal income tax purposes, and the terms of the notes require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the notes for all tax purposes in accordance with such characterization. If the notes are so treated, it would be reasonable for a United States holder to take the position that it will recognize capital gain or loss upon the sale or maturity of the notes in an amount equal to the difference between the amount a United States holder receives at such time and the United States holder's tax basis in the notes. In general, a United States holder's tax basis in the notes will be equal to the price the holder paid for the notes. Capital gain recognized by an individual United States holder is generally taxed at preferential rates where the property is held for more than one year and is generally taxed at ordinary income rates where the property is held for one year or less. The deductibility of capital losses is subject to limitations. The holding period for notes of a United States holder who acquires the notes upon issuance will generally begin on the date after the issue date (i.e., the settlement date) of the notes. If the notes are held by the same United States holder until maturity, that holder's holding period will generally include the maturity date. It is possible that the Internal Revenue Service could assert that a United States holder's holding period in respect of the notes should end on the date on which the amount the holder is entitled to receive upon the maturity of the notes is determined, even though the holder will not receive any amounts from us in respect of the notes prior to the maturity of the notes. In such case, a United States holder may be treated as having a holding period in respect of the notes that is one year or less even if the holder receives cash upon maturity of the notes at a time that is more than one year after the beginning of its holding period.

Alternative Treatments

Alternative tax treatments of the notes are also possible and the Internal Revenue Service might assert that a treatment other than that described above is more appropriate. For example, it is possible that a holder would be required to include the Dividend Amount (including any interest earned thereon) in income over the term of the notes even though the holder will not receive any payments from us until maturity of the notes. In addition, it would also be possible to treat the notes, and the Internal Revenue Service might assert that the notes should be treated, as a single debt instrument. Such a debt instrument would be subject to the special tax rules governing contingent payment debt instruments. If the notes are so treated, a United States holder would generally be required to accrue interest currently over the term of the notes even though that holder will not receive any payments from us prior to maturity. In addition, any gain a United States holder might recognize upon the sale or maturity of the notes would be ordinary income and any loss recognized by a holder at such time would be ordinary loss to the extent of interest that same holder included in income in the current or previous taxable years in respect of the notes, and thereafter, would be capital loss.

Because of the absence of authority regarding the appropriate tax characterization of the notes, it is also possible that the Internal Revenue Service could seek to characterize the notes in a manner that results in other tax consequences that are different from those described above. For example, the Internal Revenue Service could possibly assert that any gain or loss that a holder may recognize upon the sale or maturity of the notes should be treated as ordinary gain or loss. In addition, it is possible that the amount a holder receives upon sale or maturity that is attributable to the Dividend Amount (and any interest earned thereon) will be taxable as ordinary income. Holders should consult their tax advisors as to the tax consequences of such characterizations and any possible alternative characterizations of the notes for U.S. federal income tax purposes.

The Internal Revenue Service has released a notice that may affect the taxation of holders of the notes. According to the notice, the Internal Revenue Service and the Treasury Department are actively considering whether the holder of an instrument such as the notes should be required to accrue ordinary income on a current basis, and they sought taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The Internal Revenue Service and the Treasury Department are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital and whether the special “constructive ownership rules” of Section 1260 of the Code might be applied to such instruments. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. We intend to treat the notes for U.S. federal income tax purposes in accordance with the treatment described in this pricing supplement unless and until such time as the Treasury Department and Internal Revenue Service determine that some other treatment is more appropriate.

Backup Withholding and Information Reporting

Please see the discussion under "United States Federal Income Taxation—Other Considerations—Backup Withholding and Information Reporting" in the accompanying prospectus for a description of the applicability of the backup withholding and information reporting rules to payments made on your notes.

Non-U.S. Holders

The following discussion applies to non-U.S. holders of the notes. A non-U.S. holder is a beneficial owner of a note that, for U.S. federal income tax purposes, is a non-resident alien individual, a foreign corporation or a foreign estate or trust.

While the U.S. federal income tax treatment of the notes (including proper characterization of the Dividend Amount for U.S. federal income tax purposes) is uncertain, U.S. federal income tax at a 30% rate (or at a lower rate under an applicable income tax treaty) will be withheld in respect of the Dividend Amount paid to a non-U.S. holder unless such payments are effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States (in which case, to avoid withholding, the non-U.S. holder will be required to provide a Form W-8ECI). We will not pay any additional amounts in respect of such withholding. To claim benefits under an income tax treaty, a non-U.S. holder must obtain a taxpayer identification number and certify as to its eligibility under the appropriate treaty's limitations on benefits article, if applicable (which certification may generally be made on an Internal Revenue Service Form W-8BEN or W-8BEN-E, or a substitute or successor form). In addition, special rules may apply to claims for treaty benefits made by corporate non-U.S. holders. A non-U.S. holder that is eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service. The availability of a lower rate of withholding or an exemption from withholding under an applicable income tax treaty will depend on the proper characterization of the Dividend Amount under U.S. federal income tax laws and whether such treaty rate or exemption applies to such payments. No assurance can be provided on the proper characterization of the Dividend Amount for U.S. federal income tax purposes and, accordingly, no assurance can be provided on the availability of benefits under any income tax treaty. Non-U.S. holders must consult their tax advisors in this regard.

A non-U.S. holder will generally not be subject to U.S. federal income or withholding tax on any gain (not including for the avoidance of doubt any amounts representing Dividend Amount which would be subject to the rules discussed in the previous paragraph) upon the sale or maturity of the notes, provided that (i) the holder complies with any applicable certification requirements (which certification may generally be made on an Internal Revenue Service Form W-8BEN or W-8BEN-E, or a substitute or successor form), (ii) the payment is not effectively connected with the conduct by the holder of a U.S. trade or business, and (iii) if the holder is a non-resident alien individual, such holder is not present in the U.S. for 183 days or more during the taxable year of the sale or maturity of the notes. In the case of (ii) above, the holder generally would be subject to U.S. federal income tax with respect to any income or gain in the same manner as if the holder were a U.S. holder and, in the case of a holder that is a corporation, the holder may also be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable U.S. income tax treaty) of a portion of its earnings and profits for the taxable year that are effectively connected with its conduct of a trade or business in the U.S., subject to certain adjustments.

As discussed above, alternative characterizations of the notes for U.S. federal income tax purposes are possible. Should an alternative characterization, by reason of change or clarification of the law, by regulation or otherwise, cause payments as to the notes to become subject to withholding tax in addition to the withholding tax described above, we will withhold tax at the applicable statutory rate and we will not be required to pay any additional amounts in respect of such withholding. Prospective investors should consult their own tax advisors in this regard.

Payments made to a non-U.S. holder may be subject to information reporting and to backup withholding unless the holder complies with applicable certification and identification requirements as to its foreign status.

A “dividend equivalent” payment is treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-United States holder. Under proposed Treasury Department regulations, payments (including deemed payments) that are contingent upon or determined by reference to actual or estimated U.S. source dividends, with respect to certain equity-linked instruments, whether explicitly stated or implicitly taken into account in computing one or more of the terms of such instruments, may be treated as dividend equivalents. If enacted in their current form, the regulations will impose a withholding tax on payments or deemed payments made on the notes on or after January 1, 2016 that are treated as dividend equivalents. However, the U.S. Treasury Department and Internal Revenue Service have announced that they intend to limit this withholding to equity-linked instruments issued on or after the date that is 90 days after the date of publication in the U.S. Federal Register of final regulations addressing dividend equivalent withholding. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable paying agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act imposes a 30% U.S. withholding tax on certain U.S. source payments, including interest (and OID), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S. source interest or dividends ("Withholdable Payments"), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the Treasury Department to collect and provide to the Treasury Department substantial information regarding U.S. account holders, including certain account holders that are foreign entities with U.S. owners, with such institution. A note may constitute an account for these purposes. The legislation also generally imposes a withholding tax of 30% on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity.

These withholding and reporting requirements generally apply to payments made after June 30, 2014 and to payments of gross proceeds from a sale or redemption made after December 31, 2016. If we determine withholding is appropriate with respect to the notes, we will withhold tax at the applicable statutory rate, and we will not pay any additional amounts in respect of such withholding. Account holders subject to information reporting requirements pursuant to the Foreign Account Tax Compliance Act may include holders of the notes. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing the Foreign Account Tax Compliance Act may be subject to different rules. Holders are urged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in the notes.

EMPLOYEE RETIREMENT INCOME SECURITY ACT

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") (each, a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the notes. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan, and whether the investment would involve a prohibited transaction under ERISA or the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans, as well as individual retirement accounts, Keogh plans any other plans that are subject to Section 4975 of the Code (also "Plans"), from engaging in certain transactions involving "plan assets" with persons who are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the Plan. A violation of these prohibited transaction rules may result in excise tax or other liabilities under ERISA or the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) ("Non-ERISA Arrangements") are not subject to the requirements of Section 406 of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S., or other laws ("Similar Laws").

The acquisition of notes by a Plan or any entity whose underlying assets include "plan assets" by reason of any Plan's investment in the entity (a "Plan Asset Entity") with respect to which we or certain of our affiliates is or becomes a party in interest or disqualified person may result in a prohibited transaction under ERISA or Section 4975 of the Code, unless the notes are acquired pursuant to an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or "PTCEs," that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of notes. These exemptions are PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 95-60 (for transactions involving certain insurance company general accounts), and PTCE 96-23 (for transactions managed by in-house asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities offered hereby, provided that neither the issuer of notes offered hereby nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more and receives no less than "adequate consideration" in connection with the transaction (the "Service Provider

Exemption"). Any Plan fiduciary relying on the Service Provider Exemption and purchasing the notes on behalf of a Plan must initially make a determination that (x) the Plan is paying no more than, and is receiving no less than, "adequate consideration" in connection with the transaction and (y) neither we nor any of our affiliates directly or indirectly exercises any discretionary authority or control or renders investment advice with respect to the assets of the Plan which such fiduciary is using to purchase, both of which are necessary preconditions to reliance on the Service Provider Exemption. If we or any of our affiliates provides fiduciary investment management services with respect to a Plan's acquisition of the notes, the Service Provider Exemption may not be available, and in that case, other exemptive relief would be required as precondition for purchasing the notes. Any Plan fiduciary considering reliance on the Service Provider Exemption is encouraged to consult with counsel regarding the availability of the exemption. There can be no assurance that any of the foregoing exemptions will be available with respect to any particular transaction involving the notes, or that, if an exemption is available, it will cover all aspects of any particular transaction.

Because we or our affiliates may be considered to be a party in interest with respect to many Plans, the notes may not be purchased, held or disposed of by any Plan, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase, holding or disposition is not otherwise prohibited. Except as otherwise set forth in any applicable pricing supplement, by its purchase of any notes, each purchaser (whether in the case of the initial purchase or in the case of a subsequent transferee) will be deemed to have represented and agreed by its purchase and holding of the notes offered hereby that either (i) it is not and for so long as it holds a note, it will not be a Plan, a Plan Asset Entity, or a Non-ERISA Arrangement, or (ii) its purchase and holding of the notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of such a Non-ERISA Arrangement, under any Similar Laws.

In addition, any purchaser that is a Plan or a Plan Asset Entity or that is acquiring the notes on behalf of a Plan or a Plan Asset Entity, including any fiduciary purchasing on behalf of a Plan or Plan Asset entity, will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase and holding of the notes that (a) neither we nor any of our respective affiliates or agents are a "fiduciary" (under Section 3(21) of ERISA, or under any final or proposed regulations thereunder, or with respect to a non-ERISA Arrangement under any Similar Laws with respect to the acquisition, holding or disposition of the notes, or as a result of any exercise by us or our affiliates or agents of any rights in connection with the notes), (b) no advice provided by us or any of our affiliates or agents has formed a primary basis for any investment decision by or on behalf of such purchaser in connection with the notes and the transactions contemplated with respect to the notes, and (c) such purchaser recognizes and agrees that any communication from us or any of our affiliates or agents to the purchaser with respect to the notes is not intended by us or any of our affiliates or agents to be impartial investment advice and is rendered in our or our affiliates' or agents' capacity as a seller of such notes and not a fiduciary to such purchaser.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing notes on behalf of or with the assets of any Plan, a Plan Asset Entity or Non-ERISA Arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above, the Service Provider Exemption or the potential consequences of any purchase or holding under Similar Laws, as applicable. Purchasers of notes have exclusive responsibility for ensuring that their purchase and holding of notes do not violate the fiduciary or prohibited transaction rules of ERISA or the Code or any similar provisions of Similar Laws. The sale of any notes to a Plan, Plan Asset Entity or Non-ERISA Arrangement is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by any such Plans, Plan Asset Entities or Non-ERISA Arrangements generally or any particular Plan, Plan Asset Entity or Non-ERISA Arrangement or that such investment is appropriate for such Plans, Plan Asset Entities or Non-ERISA Arrangements generally or any particular Plan, Plan Asset Entity or Non-ERISA Arrangement.

USE OF PROCEEDS AND HEDGING

We will use the net proceeds we receive from the sale of the notes for the purposes we describe in the accompanying prospectus and the accompanying prospectus supplement under "Use of Proceeds." We or our affiliates may also use those proceeds in transactions intended to hedge our respective obligations under the notes as described below.

We or our affiliates expect to enter into hedging transactions involving, among other transactions, purchases or sales of one or more of the Reference Shares, or listed or over-the-counter options, futures and other instruments linked to the Reference Shares. In addition, from time to time after we issue the notes, we or our affiliates expect to enter into additional hedging transactions and to unwind those we have entered into in connection with the notes. Consequently, with regard to the notes, we or our affiliates from time to time expect to acquire or dispose of the Reference Shares or positions in listed or over-the-counter options, futures or other instruments linked to one or more of the Reference Shares.

We or our affiliates may acquire a long position in securities similar to the notes from time to time and may, in our or their sole discretion, hold, resell or repurchase those securities.

In the future, we or our affiliates expect to close out hedge positions relating to the notes and possibly relating to other securities or instruments with returns linked to one or more of the Reference Shares. We expect these steps to involve sales of instruments linked to the Reference Shares on or shortly before the valuation date. These steps may also involve transactions of the type contemplated above. Notwithstanding the above, we are permitted to and may choose to hedge in any manner not stated above; similarly, we may elect not to enter into any such transactions. Investors will not have knowledge about our hedging positions.

We have no obligation to engage in any manner of hedging activity and will do so solely at our discretion and for our own account. No holder of any notes will have any rights or interest in our hedging activity or any positions we or any counterparty may take in connection with our hedging activity.

SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

We, either ourselves or through BMOCM as agent, have entered into an arrangement with Ameriprise Financial, whereby Ameriprise Financial will distribute the notes. Such distribution may occur on or subsequent to the Issue Date. The notes sold by Ameriprise Financial to investors will be offered at the issue price of $1,000 per note. Ameriprise Financial will receive the compensation set forth on the cover page of this pricing supplement.

We own, directly or indirectly, all of the outstanding equity securities of BMOCM, the agent for this offering. In accordance with FINRA Rule 5121, BMOCM may not make sales in this offering to any of its discretionary accounts without the prior written approval of the customer.

We reserve the right to withdraw, cancel or modify the offering of the notes and to reject orders in whole or in part. You may cancel any order for the notes prior to its acceptance.

You should not construe the offering of the notes as a recommendation of the merits of acquiring an investment linked to any of the Reference Shares or investment advice, or as to the suitability of an investment in the notes.

BMOCM may, but is not obligated to, make a market in the notes. BMOCM will determine any secondary market prices that it is prepared to offer in its sole discretion.

We may use this pricing supplement in the initial sale of the notes. In addition, BMOCM or another of our affiliates may use the final pricing supplement relating to the notes in market-making transactions in any notes after their initial sale. Unless BMOCM or we inform you otherwise in the confirmation of sale, the final pricing supplement is being used by BMOCM in a market-making transaction.

For a period of approximately three months following issuance of the notes, the price, if any, at which we or our affiliates would be willing to buy the notes from investors, and the value that BMOCM may also publish for the notes through one or more financial information vendors and which could be indicated for the notes on any brokerage account statements, will reflect a temporary upward adjustment from our estimated value of the notes that would otherwise be determined and applicable at that time. This temporary upward adjustment represents a portion of (a) the hedging profit that we or our affiliates expect to realize over the term of the notes and (b) the underwriting discount and selling concessions paid in connection with this offering. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the three-month period.

ADDITIONAL INFORMATION RELATING TO THE ESTIMATED INITIAL VALUE OF THE NOTES

Our estimated initial value of the notes on the date of this preliminary pricing supplement, and that will be set forth on the cover page of the final pricing supplement relating to the notes, equals the sum of the values of the following hypothetical components:

- a fixed-income debt component with the same tenor as the notes, valued using our internal funding rate for structured notes; and
- one or more derivative transactions relating to the economic terms of the notes.

The internal funding rate used in the determination of the initial estimated value generally represents a discount from the credit spreads for our conventional fixed-rate debt. The value of these derivative transactions are derived from our internal pricing models. These models are based on interest rates and other factors. As a result, the estimated initial value of the notes on the pricing date will be determined based on market conditions at that time.