

Net Medical Xpress Solutions, Inc.
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

COMMISSION FILE #333-30176

NET MEDICAL XPRESS SOLUTIONS, INC.

(Formerly NEW MEXICO SOFTWARE, INC.)

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

91-1287406

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

5021 INDIAN SCHOOL RD., SUITE 100

ALBUQUERQUE, NEW MEXICO 87110

(Address of principal executive offices)(Zip code)

(505) 255-1999

(Issuer's telephone number)

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

AGGREGATE MARKET VALUE OF THE VOTING COMMON STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT ON JUNE 30, 2015 WAS: \$5,954,626

THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER S CLASSES OF COMMON STOCK AT MARCH 16, 2016 WAS: 174,622,470

DOCUMENTS INCORPORATED BY REFERENCE

None

USE OF PRONOUNS AND OTHER WORDS

The pronouns *we* , *us* , *our* and the equivalent used in this annual report mean Net Medical Xpress Solutions, Inc. In the notes to our financial statements, the *Company* means Net Medical Xpress Solutions, Inc. The pronoun *you* means the reader of this annual report.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. We use words such as *project* , *believe* , *anticipate* , *plan* , *expect* , *estimate* , *intend* , *should* , *would* , *could* , or *may* , or other the future tense and words and phrases that convey similar meaning and uncertainty of future events or outcomes to identify these forward-looking statements. There are a number of important factors beyond our control that could cause actual results to differ materially from the results anticipated by these forward-looking statements. While we make these forward-looking statements based on various factors and using numerous assumptions, you have no assurance the factors and assumptions will prove to be materially accurate when the events they anticipate actually occur in the future.

The forward-looking statements are based upon our beliefs and assumptions using information available at the time we make these statements. We caution you not to place undue reliance on our forward-looking statements as (i) these statements are neither predictions nor guaranties of future events or circumstances, and (ii) the assumptions, beliefs, expectations, forecasts and projections about future events may differ materially from actual results. We undertake no obligation to publicly update any forward-looking statement to reflect developments occurring after the date of this prospectus.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Our History and Background

Our business was incorporated in New Mexico in 1996 under the name of New Mexico Software, Inc. We were acquired by Raddatz Exploration, Inc., a publicly traded Delaware corporation, in 1999. At that time, Raddatz changed its name to NMXS.com, Inc., and operated New Mexico Software, Inc. as a wholly-owned subsidiary. On January 1, 2006, NMXS.com, Inc. merged into its newly incorporated, wholly-owned subsidiary, New Mexico Software, Inc., a Nevada corporation, for the sole purpose of changing its state of incorporation and its name. On January 1, 2013, we changed our name to Net Medical Xpress Solutions, Inc.

In May 2008, we created a wholly-owned subsidiary called Telerad Service, Inc. to provide teleradiological services. Beginning in January 2012, Telerad Service, Inc. has operated under the trade names Net Medical Xpress Services and Net Medical Xpress Specialists. Detailed descriptions of these divisions are provided in the Our Business section below.

On July 1, 2013, we purchased MedTel Solutions, LLC (MedTel), an Alabama limited liability company. MedTel was organized on June 13, 2012 for the purpose of engaging in the business of providing licensed medical practitioners to perform services via telemedicine. On November 1, 2014, MedTel Solutions, LLC was absorbed into Telerad Service, Inc. We now operate MedTel Solutions, LLC as Net Medical Xpress Staffing.

Our primary address on the World Wide Web is www.nmxs.com. We use several additional web addresses, including www.netmedical.com and www.nmxc.net, which broadcast the same information as www.nmxs.com. The information at that web site is not part of our annual report, and we specifically disclaim any liability under federal securities law related to the web site.

Our Business

We provide a broad range of telemedicine services, including telemedicine software-as-a-service, online diagnostic services, virtual specialist services, virtual primary care services, and recruitment of telemedicine physicians. We provide global, real-time, 24/7/365 access to top-quality physicians and telemedicine services via our secure internet-based software solutions, along with our growing group of contracted physicians.

We currently operate under four business units, each of which is also a reportable segment.

Net Medical Xpress Solutions

Our parent company, Net Medical Xpress Solutions (Solutions), primarily provides Picture Archiving and Communication System (PACS) hardware and software to hospitals and other medical facilities.

Solutions Division Products and Services

XR-EXpress is our flagship Picture Archiving and Communications System (PACS) software. XR-Express is compliant with the Health Insurance Accountability and Portability Act (HIPAA). We sell XR-Express to medical facilities and also provide it as a hosted Software as a Service (SaaS), where the customer is billed on a monthly basis according to usage. The SaaS option allows our customers to optimize their operations without investing significant time and money on upfront fixed costs for hardware, software, tech support and training.

XR-EXpress enables medical providers to examine multiple types of medical images over the Internet. The originating medical facility or service provider uploads medical images as high-resolution DICOM (digital imaging and communications in medicine) files to our secure servers. The DICOM files are tagged with patient information. The radiologist then accesses the images on our secure servers through his or her own computer and returns the diagnostic report to our secure server for access by the treating physician. XR-EXpress significantly reduces the time between the imaging events and report delivery. Our workflow technology provides scheduling, dispatching, monitoring and reporting functions, which boosts the customer's efficiency and productivity while enhancing patient care. Our average turn-around time for x-rays is approximately ten minutes, and for ultrasounds it is approximately twenty minutes.

In addition, XR-Express is the platform we use for our Net Medical Xpress Services and Net Medical Xpress Specialists business units. In the Specialists division, XR-Express enables a referring hospital to instantly transmit digital diagnostic images and reports to a consulting physician, providing a means for the consulting physician to aid the attending physician in applying the appropriate care. XR-EXpress is especially useful when the patient is located a substantial distance from an appropriate specialist physician, and transport decisions must be made quickly and effectively, while keeping costs down. XR-EXpress enables remote hospitals to more effectively utilize resources, make better triage and management decisions, and keep patients in their local facilities, thus saving money and facilitating superior patient care.

We also collaborated with the New Mexico Heart Institute (NMHI) to develop cardiology and vascular extensions to our XR-EXpress software. By working with the experts at NMHI, we have added comprehensive and customizable support for cardiology services, including visualization, automated data collection, measurement tools, and report writing. These software extensions now allow the system to support echocardiograms, stress echocardiograms, dobutamine stress tests, exercise stress tests, nuclear exams, upper and lower venous and arterial exams, carotid exams, renal artery exams, and vascular wellness screening. The extensions run onsite at NMHI and backup to Net Medical Xpress Solutions cloud servers.

Solutions Customers and Competition

Our customers in our Solutions division are chiefly mobile radiology companies that provide their own doctors and use our PACS system to provide their services to their customers.

There are other companies providing PACS systems similar to ours. Some of these companies also charge their customers on a per-usage basis as we do. However, the majority of PACS systems on the market still require considerable up-front investment in both monetary costs and training time, along with annual upgrades. We were among the industry leaders in offering a PACS system via the cloud, and we believe that our structure and pricing is still competitive.

Net Medical Xpress Services

Net Medical Xpress Services (Services) provides medical diagnostic reading services.

Services Division Products and Services

We provide physicians who specialize in diagnosing patient disorders via all types of studies: plain film, ultrasound, CT, MRI, EEG, echocardiogram, nuclear bone scan, EKG, and fluoroscopy. The studies are read and diagnosed within a web-based environment using our XR-EXpress software. There is no overhead impact, and data integrity, security and HIPAA compliance are maintained.

We provide radiology and cardiology diagnostic services 24 hours per day, seven days per week, and 365 days per year. We are able to provide either final or preliminary reports depending on the customer's need. Our operations team manages the workload for over 10,000 facilities on our system. Our response time averages fifteen minutes for plain film stats and eighteen minutes for most routine plain film exams.

Services Division Customers and Competition

Our customers in our Services division are primarily small and medium-sized mobile digital service providers, as well as some smaller medical centers and urgent care centers.

This sector of the telemedicine market has become exceptionally competitive over the last five years. We have observed increasingly intense downward pressure on prices during that time, even though margins for these services were already low when we entered the market. Profitability in this division depends on volume, but more and more customers are following the low prices rather than placing value on additional services such as quality assurance, customizable reports, and programming according to spec for individual customers.

Net Medical Xpress Specialists

Net Medical Xpress Specialists (Specialists) provides virtual specialist services to hospitals and other medical entities, and virtual primary care services to individual patients via our WebRTC conference switch described below.

Specialists Division Products and Services

The Specialists division provides a web-based clinical telemedicine solution that eliminates unnecessary transport of patients from one medical facility to another by facilitating the real-time assessment of patients through a virtual examination. It can save lives by reducing the time required to diagnose and treat patients.

Our initial services were in emergency room neurology and stroke evaluation. For potential stroke patients, the specialists program enables neurologists in major urban facilities to diagnose and treat stroke patients at remote medical service areas. Once the customer facility is ready, we usually can connect the neurologist and the patient within fifteen to thirty minutes for the initial evaluation. The high definition imaging and video system maintenance costs are part of the service and are maintained by us, minimizing costs for the customer. The specialists program provides patient care 24 hours per day, seven days per week, and 365 days per year.

During 2014, we also began providing virtual primary care services. Patients can access a primary care physician at any time, from anywhere, with any device that has an internet connection. Physicians are available within minutes, which eliminates drive time and wait time for the patients. Virtual primary care can be used for a variety of routine medical conditions, patient education, prescription renewal, and follow-up appointments, to name just a few possibilities. One of the issues with the current healthcare system is that patients do not always have prompt access to their primary care physicians when they have an acute but non-emergency situation such as an upper respiratory infection. The result is often that the patient will visit an urgent care or emergency facility for a situation that doesn't require that level of care. Virtual primary care can improve efficiency by increasing access and saving time for both patients and doctors, while still providing exceptional patient care.

At this time, we have physicians in our Specialists division credentialed to provide services for neurology/stroke evaluation, behavioral medicine, cardiology, critical care and primary care. We currently are marketing numerous other services within the specialist program.

We also have initiated a quality assurance program within the specialists division. Our radiologists will provide additional reads to support our specialists. For example, in addition to providing a neurologist for a stroke assessment, we also will have one of our radiologists read the patient's CT scan. This will provide an extra layer of confirmation and support for the neurologist's diagnosis. We are not aware of any other telemedicine company providing this service.

WebRTC Conference Switch: The WebRTC (real-time communications) video conferencing tool is an application that allows organizations to set up users, groups and subgroups with crystal clear, real time, face-to-face web-based connections significantly facilitating doctor-patient and hospital communications. It is web-based and HIPAA-compliant, so it can be used for confidential physician to patient communications. Although designed specifically for the healthcare industry, other types of companies and organizations can also use the system. We are using it in our Specialists division, and it also has been released on the Apple App Store and is ready for purchase by any organization.

Specialists Division Customers and Competition

The customers in our Specialists division are mainly hospitals that use our physicians for consults in the emergency rooms.

We are participating in a \$15.1 million federal grant with the University of New Mexico Health Science Center to establish a statewide 30 hospital telemedicine network to support critical cerebral emergency support services. The grant was awarded by the Center for Medicare and Medicaid Services (CMS) to help CMS study the impact of providing telemedicine for critical care services in rural areas. The project calls for the university to form a statewide 30-hospital telehealth system (THS) in conjunction with Net Medical Xpress Solutions for a three-year period. The program will provide remote emergency neurological consultations using Net Medical's video conferencing equipment and telemedicine management services. The added goal of the model is to maintain patient care in the local facility without needing patient transport to tertiary care hospitals when non-operative care is appropriate.

There are several other companies offering specialists consultations at this time, but this market still has a great deal of room to grow. Our current strategy is to take advantage of this growth with the goal of being well-established by the time the market matures.

Net Medical Xpress Staffing

Net Medical Xpress Staffing (Staffing) specializes in the recruitment and staffing of physicians for telemedicine services.

Staffing Division Products and Services

We currently have a database of over 400 physicians in varying stages of contracting, credentialing, training and providing services with us. The majority of these physicians are primary care physicians.

Our staffing division recruits highly competent primary care physicians and specialists to meet the growing demand for telemedicine physicians. In addition, we will use this division to extend our internal medical staff. This will allow us to continue expanding and developing our range of services.

Staffing Division Customers and Competition

Our Staffing division customers are mainly companies providing virtual primary care services.

The Staffing division can serve the entire telemedicine market by providing physicians for any type of telemedicine services. The competitive advantage for this division is that as one market segment becomes saturated, we are able to shift focus to serve a different segment by recruiting different physicians. In addition, it is impossible for any telemedicine services company to sign new customers if they don't have the doctors contracted and available. We believe that the pool of doctors we have already recruited gives us a distinct competitive advantage, especially given the shortage of doctors that market experts project will happen in the near future.

Our Technology

Our technology is the key to our product differentiation. We engineer our products around a central core of unique Internet technology. This proprietary technology makes it possible to rapidly view, distribute and manage a variety of media files such as documents, graphic images, animation sequences, film clips, audio files, x-rays, other medical images and high-definition media streams.

The value of our core technology is that it provides maximum flexibility in the presentation of digital images to the customer, and integrates general browsing capabilities with specific search capabilities, along with the security of hierarchical access all in one product.

All of our products are accessed via the Internet. This means that the majority of our customers need only a PC with browser capability to be able to use our products. No additional expensive equipment, software or tech support is required, and training is accomplished smoothly and quickly. The customer's data is available 24 hours per day, so that the customer can work according to his or her own schedule with productivity available around the clock. Additionally, documents and images can be viewed from or distributed anywhere in the world at any time.

The only exception is the modest equipment purchase required for our customers using our virtual specialists services. We have designed our high-tech carts that are used in emergency rooms to provide the virtual specialist services at the very modest purchase price of a few thousand dollars, as compared to tens of thousands of dollars for similar products.

Business Strategy

The healthcare situation in the U.S. is currently undergoing a number of shifts. The fastest growing segment of the population is people over 65 years of age. Obesity is still on the rise, and the diagnosis of chronic diseases continues to increase as well. If these facts are coupled with the projected shortage of healthcare personnel over the next couple of decades, it is apparent that our healthcare system will need to become considerably more effective and efficient. One of the resulting trends is the outsourcing of medical services, which is where we provide a valuable alternative.

We believe that telemedicine provides safe, effective services while reducing costs in a wide variety of medical applications, such as avoiding unnecessary patient transports, providing support for hospital overflows, providing increased services in remote or rural areas, providing services in jails and prisons, decreasing the length of some patient stays, providing increased home management of chronic diseases, providing improved post-discharge follow-up care to avoid unnecessary hospital readmissions, providing enhanced care in critical care or intensive care

units and increasing access to specialized services. Digital diagnostics systems in particular have demonstrated significantly improved image quality over the last few years, while costs continue to decrease. By providing enhanced diagnostic capabilities with quick turn-around times, telemedicine can potentially increase patient safety and reduce costs for healthcare providers.

We expect that, given the current situation in healthcare, telemedicine is here to stay.

We are one of the few telemedicine companies that can provide the comprehensive range of services that we offer.

We know of no other company that provides diagnostic reads in radiology and cardiology; virtual specialists - either emergency or scheduled; virtual primary care; location, recruitment and credentialing of telemedicine physicians; or just the use of our PACS system for companies that already have their own doctor groups.

Our current business strategy involves the following factors:

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Continue to emphasize the flexibility and affordability of our hosted applications. Our customers who prefer this service do not need extensive or expensive hardware, software or technology staff to use our products. Upfront fixed costs are minimized. Also, we are usually able to get new customers and doctors operational within days, sometimes within hours, including training.

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Expand our virtual primary care services by marketing to businesses and insurance companies. Virtual primary care services can augment existing high-deductible insurance plans while keeping costs low. They also can increase the efficiency of the doctors and provide access to patients who otherwise would have difficulty getting in to see a primary care physician in person. These services contribute to efficiency in the entire system by reducing demand on urgent care centers and emergency rooms for non-urgent issues.

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Continue to expand the specialists services we offer. We are continuing to expand our neurology and stroke assessment program into facilities across the country. We are marketing our virtual specialist programs for post-discharge follow-up care to help hospitals avoid unnecessary readmissions, behavioral medicine, cardiology, critical care, dermatology, and infectious diseases.

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Continue to expand our group of doctors.

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Market our WebRTC conference switch worldwide, using it as a gateway to the possibilities of telemedicine and our services.

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Continue to offer exceptionally prompt and thorough customer service, with outstanding quality through our Quality Assurance programs.

Our Intellectual Properties

We have several proprietary aspects to our software that we believe make our products unique and desirable in the marketplace. We believe the compiled object code that is accessible to our customers makes it difficult to discover the source code needed to create other similar programs, even though the code we use originates from Open Source. Because we maintain our enterprise source code on dedicated servers in our Albuquerque data center, it provides better protection and security of our products.

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

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

Government Regulation

Our operations, products, and services are all subject to regulations set forth by various federal, state and local regulatory agencies. We take measures to ensure our compliance with all such regulations as promulgated by these agencies from time to time.

The Health Insurance Portability and Accountability Act (HIPAA) imposes standards for the use, dissemination and disclosure of protected health information. Protected health information is any information about health status, provision of health care, or payment for health care that can be linked with an individual. The act applies to any company that transmits health care data. The act encourages the use of electronic transmission of data within the U.S. healthcare system, and provides three types of security safeguards that are required for compliance: administrative, physical and technical. For each of these types, HIPAA identifies various security standards which must be adopted and administered by any entity covered by the act. Our software strictly adheres to the privacy and security standards dictated by HIPAA.

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

Employees

At March 16, 2016, we had twenty two employees and independent contractors. We consider our relationship with our employees to be good. We also have over two hundred physicians on contract, including radiologists, cardiologists, neurologists, psychiatrists and primary care physicians.

ITEM 1A. RISK FACTORS

A small number of customers represent a large amount of our revenues and the loss of such customers will result in a significant decrease in revenues and threaten our ongoing operations.

During the year ended December 31, 2015, two customers accounted for 30% of the Company's total revenue. During the year ended December 31, 2014, one customer accounted for 25% of the Company's total revenue. The loss of such customers would result in a significant decrease in our revenues and our working capital.

Our business depends on a limited number of key personnel, the loss of whom could negatively affect us.

Richard F. Govatski and Teresa B. Dickey, our senior executives and major stockholders, are important to our success. If they become unable or unwilling to continue in their present positions, our business and financial results could be materially negatively affected.

If we fail to adequately manage our growth, we may not be successful in growing our business and becoming profitable.

We expect our business and number of employees to continue to grow over the next twelve months, particularly as Net Medical Xpress Specialists continues to add new customers. Our growth may place significant stress on our operations, management, employee base, and particularly on our ability to meet capital requirements necessary to support our growth. Any failure to address the needs of our growing business successfully could have a negative impact on our chance of success.

Our occasional reliance on issuances of shares of our common stock for services performed for us in lieu of paying for such services will result in dilution of your ownership percentage and could depress the market.

Occasionally, we have paid for services by issuing shares of our common stock, in lieu of paying cash, to our employees and other service providers. We may find it necessary to continue this practice from time to time. In the event we issue stock for services in the future, the issuance of such shares will result in the dilution of your investment in us.

Our ability to grow our medical services in order to continue to be profitable depends on our ability to contract with qualified medical specialists. Inability to locate and attract licensed and qualified providers, or the loss of those under contract, could have a material negative impact on our future growth and profitability.

The current market for highly qualified medical specialists is competitive, with potential decreases in the coming years. If we are unable to locate and attract licensed and qualified medical specialists, we could have difficulty growing, or maintaining our medical services business, which would negatively impact our revenues and operations, as well as reducing our opportunities for becoming profitable.

The current telemedicine and teleradiology markets are competitive, and they are projected to become significantly more competitive in the next few years, which may make it difficult to attract and retain customers.

The markets for telemedicine in general and teleradiology in particular are exceptionally competitive and volatile at this time, and potential government intervention in the form of health care reform may increase these factors. In addition, the technology used in these industries is rapidly changing. If we are not able to continually adapt to the changing market conditions, we may experience difficulties attracting and retaining customers, which could have a materially adverse effect on our revenues and operations.

Continued net losses may negatively impact our ability to continue operations at our current level.

We have incurred cumulative net losses of approximately \$15,642,000 since our inception in 1996. At this time, our revenues are adequate to meet our operating needs; however, we may require additional capital for our contemplated operational and marketing activities to take place. The amount of any additional capital required would depend on our current income and our future plans, but could range from \$100,000 to \$1,000,000. Our ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of our contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for us to continue operations. The ability to successfully resolve these factors raise substantial doubt about our ability to continue as a going concern.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We do not have any unresolved staff comments.

ITEM 2. DESCRIPTION OF PROPERTY

We currently lease a 5,000 square foot facility in Albuquerque, New Mexico, at a cost of approximately \$6,800 per month. The lease expires on January 31, 2017. The facility houses our administrative, marketing and engineering offices, and provides adequate room for expansion. We house our primary servers in a separate facility downstairs from ours, at a cost of approximately \$2,500 per month on a month-to-month basis. The two locations are networked together by fiber optics. In this facility we have access to a large power generator, which enables our servers to continue operating during power outages.

ITEM 3. LEGAL PROCEEDINGS

We have no legal proceedings outside of normal business operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

Our stock is quoted on the OTC Bulletin Board under the symbol NMXS. The table below sets forth, for the periods indicated below, high and low bids for our common stock. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. The source of this information is Big Charts: www.bigcharts.com.

<u>Fiscal Year Ended December 31, 2014</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
	First	\$0.09	\$0.066
	Second	\$0.07	\$0.048
	Third	\$0.06	\$0.036
	Fourth	\$0.05	\$0.0158

<u>Fiscal Year Ended December 31, 2015</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
	First	\$0.025	\$0.0165
	Second	\$0.044	\$0.015
	Third	\$0.052	\$0.028
	Fourth	\$0.044	\$0.021

<u>Fiscal Year Ended December 31, 2016</u> (Through March 18, 2016)	<u>Quarter</u>	<u>High</u>	<u>Low</u>
	First	\$0.029	\$0.0249

Recent Sales of Unregistered Securities

No unregistered shares were issued during 2015.

Shareholders

As of March 19, 2016, there were 385 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, 2015. We have no plans to pay any dividends to the holders of our common stock in 2016.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

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

RESULTS OF OPERATIONS**REVENUES:**

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$4,222,000	\$4,583,000	\$(361,000)	(7.9)%

These changes are a result of the following factors:

Net Medical Xpress Solutions

1. Software usage fees:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$201,000	\$340,000	\$(139,000)	(40.9)%

The decrease in software usage fees during 2015 as compared to 2014 is primarily due to the loss of several radiological customers that use our PACS system. We believe these losses are due to the increased competition, especially as it relates to price competitiveness, in the current teleradiology market. We do not anticipate that the revenues in this category will change significantly during 2016.

2. Software hosting and maintenance:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$74,000	\$56,000	\$18,000	32.1%

This increase is due to additional post-contract data access fees for a customer that terminated during 2015. At this point, nearly all of our customers are using our medically related services, which are priced via usage fees per transaction rather than via monthly hosting or maintenance fees. Software maintenance consists mainly of hosting and managing our customers' data on our systems and to a lesser extent includes technical support programs associated with XR-Express usage. We expect revenues in this category to be stable during the coming year, as we continue to focus our efforts on building our medical division.

3. Custom programming:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$24,000	\$0	\$24,000	Not meaningful

We had several small programming projects during 2015 and none during 2014. We anticipate undertaking a few small and medium-sized projects that will continue to generate modest revenues in this category during 2016. We continue to offer programming services for customer database integration and for other projects for our existing and new customers.

4. Other revenues:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$2,000	\$1,000	\$1,000	100.0%

This category consists of miscellaneous small hardware sales and bandwidth charges during the year ended December 31, 2014, as compared to miscellaneous small hardware sales and finance charges on customer accounts during the year ended December 31, 2015. Since these are ancillary services, we expect these revenues to remain minimal during 2016.

Net Medical Xpress Services

1. Radiological services:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$2,354,000	\$3,350,000	\$(996,000)	(29.7)%

The decrease in radiological services revenues during 2015 as compared to 2014 is due to three factors: approximately 41% is due to the loss of two customers during the second half of 2014; approximately 49% is due to the loss of one large customer during 2015; the remainder is due to decreased volume of reads from other existing customers. We anticipate that revenues will remain stable or decrease slightly during 2016, due in part to the loss of the two customers, and in part because we are focusing our efforts on growing the specialists program.

2. Cardiological services:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$73,000	\$128,000	\$(55,000)	(43.0)%

The decrease in cardiological services during 2015 as compared to 2014 is due to two factors: approximately 29% is due to the loss of two customers during the second half of 2014; the remainder is due to the loss of one large customer during 2015. We anticipate that the revenues in this category will be stable or will increase modestly during 2016.

Net Medical Xpress Specialists

1. Specialist program neurology services:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$1,013,000	\$579,000	\$434,000	75.0%

The increase in neurological services revenues is due to two factors: approximately 70% is due to the CMS grant with the University of New Mexico. In 2014, the Center for Medicare and Medicaid Services (CMS) approved a \$15.1 million grant for the University of New Mexico, in conjunction with Net Medical Xpress, to establish a 30-hospital telehealth system in New Mexico over a three-year period. This project will help CMS study the impact of providing telemedicine for critical care services in rural areas. It will also help the participating hospitals to provide appropriate patient care in the local facility without needing patient transport to tertiary care hospitals by delivering critical cerebral emergency support services. Net Medical Xpress will continue to supply the hardware and the software to facilitate the virtual neurological consultations. Most of the remaining 30% of the increase is due to increased volume of consults by existing customers.

2. Specialist program primary care services:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$175,000	\$31,000	\$144,000	464.5%

Primary care consultations is a service that we began offering in July 2014. The increase in revenues is due to the addition of new customers, as well as the increase in volume of consults as new customers from 2014 continue to ramp up their services and add new end users. We expect revenues in the category to continue to increase during 2016.

3. Specialist program hardware sales:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$174,000	\$14,000	\$160,000	1142.9%

The increase in revenues in this category is a direct result of the grant described in neurological services above.

The specialist program hardware sales are sales of equipment required for a customer to begin using any of the specialists services except primary care services. (Primary care services require only a device with internet access and basic video capabilities.) In addition to continuing revenues related to the grant, we anticipate increasing our customer base by a moderate amount during 2015; therefore, we will likely see hardware sales remain steady during the coming

year.

4. Behavioral medicine services:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$25,000	\$0	\$25,000	100.0%

We began offering behavioral medicine services in April 2015. We expect revenues in this category to increase moderately during 2015.

Net Medical Xpress Staffing

1. Recruiting and staffing services:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$107,000	\$84,000	\$23,000	27.4%

The increase in staffing service revenues is due to the addition of new customers. We began offering this service in July 2013, and have been steadily increasing our customer base since that time. We expect this category to continue increasing slowly and steadily during 2016.

DIRECT COSTS:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$3,055,000	\$3,765,000	\$(710,000)	(18.9)%

Approximately 90% of the decrease in direct costs relates to reduced physician fees associated with the loss of several radiology customers during 2014 and 2015. The remaining decrease is due to the growth of the specialists division, which has higher gross profit margins than the services division.

In general, direct costs consist of doctor fees; recruiting, customer service and management fees; professional credentialing and professional liability insurance costs. The majority of these costs are doctor fees, which are directly related to revenues; however, the percentage of direct costs to revenues varies by division.

GENERAL AND ADMINISTRATIVE EXPENSES:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$887,000	\$1,068,000	\$(181,000)	(16.9)%

The decrease in general and administrative expenses is primarily due to the reduction of administrative and sales staff during 2015. We expect these expenses to increase slightly during 2016 as we increase marketing expenditures and replace a portion of the administrative staff.

RESEARCH AND DEVELOPMENT COSTS:

For the Year Ended December 31,

<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$100,000	\$121,000	\$(21,000)	(17.4)%

Approximately 86% of our research and development costs were directly associated with staffing during 2015. The decrease in costs for 2015 as compared to 2014 is due to a reduction in engineering personnel during 2015. 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 stable or perhaps increase slightly during the coming year.

DEPRECIATION AND BAD DEBT EXPENSE:

For the Year Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
Depreciation expense	\$12,000	\$15,000	\$(3,000)	(20.0)%
Bad debt expense	\$8,000	\$80,000	\$72,000	(90.0)%

The decrease in depreciation expense during 2015 as compared to 2014 is due to assets reaching full depreciation, coupled with no significant purchases of fixed assets. We wrote off the remaining balances of the two accounts associated with the lawsuit discussed in Section II below to bad debt during 2014. Although we fully anticipate a judgment in our favor, there is no guarantee that we will be able to collect the balances owed.

OTHER INCOME (EXPENSE):

For the Year Ended December 31,

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
Interest expense	\$9,000	\$16,000	\$(7,000)	(43.8)%

The decrease in interest expense is due to the late payment of payroll taxes related to the purchase of MedTel Solutions, LLC during 2013, which resulted in increased interest payments during 2014.

REPORTABLE SEGMENTS

We have identified our reportable segments based on separate lines of business. Our parent company, Net Medical Xpress Solutions, derives revenues from the development and marketing of proprietary internet technology-based software. Our wholly-owned subsidiary Telerad Service, Inc., operates under the trade names Net Medical Xpress Services, Net Medical Xpress Specialists and Net Medical Xpress Staffing. Net Medical Xpress Services provides medical diagnostic reading services. Net Medical Xpress Specialists provides telemedicine services to hospitals and

other medical entities. Net Medical Xpress Staffing locates and recruits physicians to provide telemedicine services.

Gross profit is our key indicator of operating progress. Our operating divisions generated the following gross profit percentages during 2015:

	Services	Specialists	Solutions	Staffing	TOTAL
Revenue	\$ 2,427,000	\$ 1,387,000	\$ 301,000	\$ 107,000	\$ 4,222,000
Direct costs	2,010,000	881,000	151,000	13,000	3,055,000
Gross profit	\$ 417,000	\$ 506,000	\$ 150,000	\$ 94,000	\$ 1,167,000
Percent	17.2%	36.5%	49.8%	87.9%	27.6%

Net Medical Xpress Services generated a gross profit percentage of 17.2% during 2015 as compared to 21.3% during 2014. Approximately 80% of the cost of services for Net Medical Xpress Services is doctor fees, which vary directly with revenues. Teleradiology is becoming increasingly competitive, with many vendors in the market. We have seen downward pressure on prices for the last few years as a result. Because of this trend, coupled with already low profit margins, we are primarily focusing our efforts on continuing to expand the specialists division.

Net Medical Xpress Specialists generated a gross profit percentage of 36.5% during 2015, as compared to 15.9% during 2014. This program began operations during the first quarter of 2012, with revenues increasing year over year since that time. As a result, the ratio of direct variable costs to direct fixed costs has increased, with the gross profit percentage increasing every year accordingly. We believe that the gross profit percentage of this division will continue to increase slightly during 2016 as the revenues increase while the fixed costs remain stable at approximately \$60,000 per quarter.

Net Medical Xpress Solutions generated a gross profit percentage of 49.8% during 2015 as compared to 22.7% during 2014, and 48.6% during 2013. This increase in gross profit percentage during 2015 was actually a return to our normal gross profit after incurring significant costs associated with engineering time spent on FDA audit compliance during 2014. The audit was concluded during 2014, therefore the gross profit percentage for 2015 has returned to levels comparable to prior years.

Net Medical Xpress Staffing generated a gross profit percentage of 87.9% during 2015, as compared to (86.9)% during 2014. We hired additional personnel to provide enhanced recruiting functions during the second half of 2013 and 2014. These additional staffing costs were the primary reason for the decrease in gross profit percentage during 2014. During the fourth quarter of 2014, we merged MedTel Solutions, LLC into Telerad Service, Inc. and reduced the number of personnel in the division. Consequently, fixed costs decreased at the same time that revenues increased during 2015, producing improved gross profit percentages. We expect the gross profit for 2016 to decrease slightly compared to 2015.

Our normal general and administrative expenses were approximately \$225,000 per quarter during 2015. We anticipate that these expenses will be in the range of \$240,000 to \$275,000 per quarter during 2016.

Operating information related to our reportable segments for the year ended December 31, 2015 is as follows:

	Services	Specialists	Solutions	Staffing	TOTAL
Revenue	\$2,427,000	\$1,387,000	\$301,000	\$107,000	\$4,222,000
Cost of Service	2,010,000	881,000	151,000	13,000	3,055,000
General & administrative	367,000	203,000	212,000	105,000	887,000

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Depreciation	2,000	0	10,000	0	12,000
Research & development	1,000	49,000	50,000	0	100,000
Bad debt	7,000	0	1,000	0	8,000
Operating Income (loss)					