Net Medical Xpress Solutions, Inc.
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X]

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

For the quarterly period ended March 31, 2014

[ ]

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

For the transition period from _____ to _____

COMMISSION FILE No. 333-30176

NET MEDICAL XPRESS SOLUTIONS, INC.

(Exact name of Registrant as specified in charter)

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

5021 Indian School Road, Suite 100

Albuquerque, New Mexico 87110

(Address of principal executive offices) (Zip Code)

(505) 255-1999

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [ ] NO [X]

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

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

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

The number of shares outstanding of each of the issuer s classes of common stock at May 12, 2014 was 163,622,470.

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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. and consolidated subsidiaries. In the notes to our financial statements, the Company means Net Medical Xpress Solutions, Inc. and consolidated subsidiaries. The pronoun you means the reader of this quarterly report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This quarterly report on Form 10-Q, other reports we have file and will file pursuant to Section 15(d) of the Securities Exchange Act of 1934 and press releases we have issued and will issue will have contained and will contain, as the case may be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are intended to enjoy the benefits of that act. Unless the context is otherwise, We use words such as anticipate , assumption , believe , could , estimate , expect , forecast , intend , may , objective , outlook , pla predict , project and projection , seek , should , will continue , will result and would , or other such words, or pronouns and verbs or adverbs in the future tense and words and phrases that convey similar meaning and uncertainty of and information about future events or outcomes and statements about performance that is not an historical fact to identify these forward-looking statements. Such words and statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results may differ materially from those in such forward-looking statements due to fluctuations in interest rates, inflation, government regulations, economic conditions and competitive product and pricing pressures in the geographic and business areas in which we conduct operations, including our plans, objectives, expectations and intentions and other factors discussed elsewhere in this Report.

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 our beliefs and on various factors and using numerous assumptions using information available at the time we make these statements. Forward-looking statements (i) 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. You have no assurance the factors and assumptions we have used as a basis for forward-looking statements will prove to be materially accurate when the events they anticipate actually occur in the future; and, you should not place undue reliance on any such forward-looking statements. We undertake no obligation to publicly update any forward-looking statement to reflect developments occurring after the date of this annual report or after the date of any previous or subsequent report or any press release after publication.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Net Medical Xpress Services, Inc.

Condensed Consolidated Balance Sheets

(Rounded to the nearest thousand)

(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and equivalents	$ 371,000	$ 421,000
Accounts receivable, net of allowance of $29,000 and $29,000, respectively	741,000	606,000
Inventory	14,000	2,000
Prepaid expenses and other assets	40,000	66,000
Total current assets	1,166,000	1,095,000
Furniture, equipment and improvements, net of accumulated depreciation of $649,000 and $643,000, respectively	54,000	58,000
Security deposits	4,000	4,000
Goodwill	239,000	239,000
Total Assets	$ 1,463,000	$ 1,396,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 709,000	$ 676,000
Accrued expenses	74,000	79,000
Deferred revenue	2,000	2,000
Capital lease	6,000	7,000
Note payable - related party	50,000	48,000
Total current liabilities	841,000	812,000
Long-term liabilities		
Notes payable - related party	-	2,000

Capital lease - long-term portion	10,000	11,000
Total long-term liabilities	10,000	13,000
Total liabilities	851,000	825,000
Stockholders' equity:		
Preferred stock, $0.001 par value, 500,000 shares authorized, 0 shares issued and outstanding as of 3/31/14 and 12/31/13, respectively	-	-
Common stock, $0.001 par value, 200,000,000 shares authorized, 160,622,470 and 160,622,470 shares issued and outstanding as of 3/31/14 and 12/31/13, respectively	160,000	160,000
Paid-in capital	15,466,000	15,466,000
Subscriptions payable	341,000	296,000
Deferred compensation	(35,000)	(40,000)
Accumulated deficit	(15,320,000)	(15,311,000)
Total stockholders' equity	612,000	571,000
Total Liabilities and Stockholders' Equity	$ 1,463,000	$ 1,396,000

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

Net Medical Xpress Services, Inc.

Condensed Consolidated Statements of Operations

(Rounded to the nearest thousand)

(Unaudited)

	For the three months ended March 31,	
	2014	2013
Revenues		
Net Medical Xpress Solutions	$ 114,000	$ 129,000
Net Medical Xpress Services	981,000	979,000
Net Medical Xpress Specialists	109,000	113,000
Net Medical Xpress Staffing	67,000	-
Gross revenues	1,271,000	1,221,000
Cost of services	982,000	916,000
Gross profit	289,000	305,000
Operating costs and expenses:		
General and administrative	251,000	226,000
Depreciation and amortization	3,000	8,000
Research and development	40,000	16,000
Total operating costs and expenses	294,000	250,000
Net operating income (loss)	(5,000)	55,000
Other expense:		
Interest expense	(4,000)	(2,000)
Total other expense	(4,000)	(2,000)
Net income (loss)	$ (9,000)	$ 53,000
Income (loss) per share - basic	$ (0.00)	$ 0.00
Weighted average number of common shares outstanding - basic	162,122,470	157,087,310

Weighted average number of common shares outstanding - fully diluted	165,322,356	161,837,682

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

Net Medical Xpress Services, Inc.

Condensed Consolidated Statements of Cash Flows

(Rounded to the nearest thousand)

(Unaudited)

	For the three months ended March 31,	
	2014	2013
Cash flows from operating activities		
Net income (loss)	$ (9,000)	$ 53,000
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Common stock issued for services	5,000	5,000
Common stock issued for services to board members and officers	-	20,000
Depreciation and amortization	3,000	9,000
Depreciation and amortization allocated to cost of goods sold	3,000	1,000
Changes in operating assets and liabilities:		
Accounts receivable	(135,000)	(105,000)
Inventory	(12,000)	(5,000)
Prepaid expenses and other assets	26,000	8,000
Accounts payable	33,000	91,000
Accrued expenses	(5,000)	7,000
Net cash provided (used) by operating activities	(91,000)	84,000
Cash flows from investing activities		
Acquisition of fixed assets	(2,000)	-
Net cash used by investing activities	(2,000)	-
Cash flows from financing activities		
Repayment of principal under capital lease	(2,000)	(1,000)
Net proceeds from the exercise of options	45,000	-
Net cash provided by financing activities	43,000	(1,000)
Net increase in cash equivalents	(50,000)	83,000
Cash equivalents - beginning	421,000	109,000
Cash equivalents - ending	$ 371,000	$ 192,000
Supplemental disclosures:		
Interest paid	$ 4,000	$ -

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

Net Medical Xpress Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE A - BASIS OF PRESENTATION

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

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2013 and notes thereto included in the Company's Form 10-K. The Company follows the same accounting policies in the preparation of interim reports.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassification:

Certain reclassifications have been made to conform the 2013 amounts to the 2014 classifications for comparative purposes.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts Net Medical Xpress Solutions, Inc. (Formerly New Mexico Software, Inc.) and its wholly-owned subsidiaries, Telerad Service, Inc. and MedTel

Solutions, LLC. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates:

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

Cash and Cash Equivalents:

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. At March 31, 2014, the Company did not have cash and equivalents that exceeded federally insured limits.

Trade Accounts Receivable:

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

The Company also estimates an allowance for doubtful accounts, which amounted to $29,000 and $29,000 at March 31, 2014 and December 31, 2013, respectively. The estimate is based upon management s review of all accounts and an assessment of the Company s historical evidence of collections. Specific accounts are charged directly to the reserve when management obtains evidence of a customer s insolvency. Charge-offs, net of recoveries, for the three months ended March 31, 2014 and 2013 totaled $0 and $1,000, respectively.

Net Medical Xpress Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment:

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

Depreciation is computed on the straight-line and accelerated methods for financial reporting and income tax reporting purposes based upon the following estimated useful lives:

Software development	3 years
Equipment	5 years
Computer hardware	5 years
Office furniture	7 years

Long-Lived Assets:

The Company accounts for its long-lived assets in accordance with Accounting Standards Codification (ASC) Topic 360-10-05, Accounting for the Impairment or Disposal of Long-Lived Assets. ASC Topic 360-10-05 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset s carrying value and fair value or disposable value. The Company determined that none of its long-term assets at March 31, 2014 or December 31, 2013 were impaired.

Stock-Based Compensation:

The Company accounts for stock-based payments to employees in accordance with ASC 718, Stock Compensation (ASC 718). Stock-based payments to employees include grants of stock, grants of stock options and issuance of warrants that are recognized in the consolidated statement of operations based on their fair values at the date of grant.

The Company accounts for stock-based payments to non-employees in accordance with ASC 505-50, Equity-Based Payments to Non-Employees. Stock-based payments to non-employees include grants of stock, grants of stock options and issuances of warrants that are recognized in the consolidated statement of operations based on the value of the vested portion of the award over the requisite service period as measured at its then-current fair value as of each financial reporting date.

The Company calculates the fair value of option grants and warrant issuances utilizing the Binomial pricing model. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time stock options are granted and warrants are issued to employees and non-employees, and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered stock option or warrant. The Company estimates forfeiture rates for all unvested awards when calculating the expense for the period. In estimating the forfeiture rate, the Company monitors both stock option and warrant exercises as well as employee termination patterns. The resulting stock-based compensation expense for both employee and non-employee awards is generally recognized on a straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period.

During the three months ended March 31, 2014 and 2013, the Company recognized stock-based compensation expense totaling $0 and $20,000, from the issuance of a total of 0 and 0 shares of its common stock to officers, directors, and consultants (See Note E).

Net Medical Xpress Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes:

The Company accounts for its income taxes under the provisions of ASC Topic 740, Income Taxes. The method of accounting for income taxes under ASC 740 is an asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of other assets and liabilities.

Gain (Loss) per Share:

The Company reports earnings (loss) per share in accordance with ASC Topic 260-10, "Earnings per Share." Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Revenue Recognition:

The Company recognizes revenue in accordance with Statement of Position ASC Topic 985 *Software Revenue Recognition* as amended.

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

The Company offers with certain sales of its software products, software maintenance, upgrade and support arrangements. These contracts may be elements in a multiple-element arrangement or may be sold in a stand-alone basis. Revenues from maintenance and support services are recognized ratably on a straight-line basis over the term that the maintenance service is provided.

The Company typically charges 17% to 21% of the software purchase price for a 12-month maintenance contract with discounts available for longer-term agreements. The complexity of the software determines the percentage that is charged to any individual customer, and that percentage remains consistent upon renewal unless there is a change in the software or the terms of the agreement.

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

Should the sale of software involve an arrangement with multiple elements (for example, the sale of a software license along with the sale of maintenance and support to be delivered over the contract period), the Company allocates revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. The Company defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met. Fair values for the ongoing maintenance and support obligations are based upon separate sales of renewals of maintenance contracts. Fair value of services, such as training or consulting, is based upon separate sales of these services to other customers.

Net Medical Xpress Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued):

The Company follows the guidance in FASB ASC Topic 605, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for custom software development arrangements that require significant production, customization or modification to its core software. Revenue is generally recognized for such arrangements under the percentage-of-completion method. Under percentage-of-completion accounting, both the product license and custom software development revenue are recognized as work progresses based on specific milestones in accordance with FASB ASC Topic 450. The Company believes that project milestones based on completion of specific tasks provide the best approximation of progress toward the completion of the contract. At March 31, 2014 and March 31, 2013, there were no custom software development arrangements in progress.

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

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

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

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

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

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

Research and Development Expenses:

Costs of research and development activities are expensed as incurred.

Advertising Expenses:

The Company expenses advertising costs which consist primarily of direct mailings, promotional items and print media, as incurred. Advertising expenses amounted to $0 and $0 for the three months ended March 31, 2014 and 2013, respectively.

Fair Value of Financial Instruments:

The Company adopted the Financial Accounting Standards Board (FASB) standard related to fair value measurement at inception. The standard defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements. The standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The recorded values of long-term debt approximate their fair values, as interest approximates market rates. As a basis for considering such assumptions, the standard established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Net Medical Xpress Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments (continued):

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Level 1: Observable inputs such as quoted prices in active markets;

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Level 2: Inputs other than quoted prices in active markets that are observable either directly or indirectly; and

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Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company s financial instruments consist of cash, accounts receivable, inventory, prepaid expenses, leasehold improvements, property and equipment, deposits, other assets, accounts payable, accrued expenses, deferred revenue, capital leases and notes payable. The recorded values of cash, accounts receivable, inventory, prepaid expenses, and accounts payable approximate fair values due to the short maturities of such instruments. Recorded values for notes payable and related liabilities approximate fair values, since their stated or imputed interest rates are commensurate with prevailing market rates for similar obligations.

Recent Pronouncements:

The Company s management has reviewed recent accounting pronouncements issued through the date of the issuance of these financial statements. In management s opinion, no pronouncements apply or will have a material effect on the Company s financial statements.

NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of March 31, 2014 consisted of the following:

Computers	499,000
Furniture, fixtures and equipment	143,000
Automobiles	41,000
Leasehold improvements	20,000
	703,000
Accumulated depreciation	(649,000)
	$ 54,000

Depreciation expense for the three months ended March 31, 2014 and 2013 was $6,000 and $8,000, respectively.

NOTE E - CAPITAL TRANSACTIONS

Common stock:

During the three month period ended March 31, 2014, the Company effected the following stock transactions:

The Company issued a total of 1,500,000 shares of the Company s $0.001 par value common stock to a director for the exercise of options valued at $45,000.

Warrants:

During the three month period ended March 31, 2014, there were no warrants issued and none were exercised.

There are no warrants outstanding as of March 31, 2014.

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Net Medical Xpress Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE E - CAPITAL TRANSACTIONS (CONTINUED)

Stock options:

Stock options employees and directors - During the quarters ended March 31, 2014 and 2013, the Company made no grants of stock options to employees or directors.

Stock options non-employees and directors - During the quarters ended March 31, 2014 and 2013, the Company made no grants of stock options for services.

Exercise prices and weighted-average contractual lives of stock options outstanding as of March 31, 2014, are as follows:

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$0.03-$0.044	6,500,000	3.13	$0.03	6,500,000	$0.03

Summary of Options Granted and Outstanding:

For the three months ended

March 31,

	2014	
	Shares	Weighted Average Exercise Price
Options:		
Outstanding at beginning of year	8,000,000	$0.03
Granted	-	-
Cancelled	-	-
Exercised	1,500,000	-
Outstanding at end of period	6,500,000	$0.03

NOTE F - MAJOR CUSTOMERS

During the three month period ended March 31, 2014, two customers accounted for 34% or approximately $429,000 of the Company's revenue.

As of March 31, 2014, balances due from two customers comprised 25% or approximately $190,000 of total accounts receivable.

NOTE G - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate lines of business. The parent company, Net Medical Xpress Solutions, derives revenues from the development and marketing of proprietary internet technology-based software. Net Medical Xpress Staffing, the Company s new division formed by the purchase of MedTel Solutions, LLC on July 1, 2013, specializes in the recruitment and staffing of telemedicine physicians. The Company s wholly-owned subsidiary, Telerad Service, Inc., operates under the trade names Net Medical Xpress Services and Net Medical Xpress Specialists. 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 Solutions, Inc.

Notes to the Financial Statements

(Unaudited)

NOTE G - REPORTABLE SEGMENTS (CONTINUED)

Information related to the Company's reportable segments for the quarter ended March 31, 2014 is as follows:

	Solutions	Services	Specialists	Staffing	TOTAL
Revenue	$114,000	$981,000	$109,000	$67,000	$1,271,000
Cost of service	66,000	756,000	109,000	51,000	982,000
General and administrative	29,000	94,000	69,000	59,000	251,000
Depreciation	2,000	1,000	0	0	3,000
Research and development	2,000	0	4,000	34,000	40,000
Operating income (loss)	$15,000	$130,000	$(73,000)	$(77,000)	$(5,000)
Total assets	$254,000	$839,000	$52,000	$318,000	$1,463,000

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

Segment s operating income	$ (5,000)
Other income (expense)	(4,000)
Consolidated net income	$ (9,000)

NOTE H - COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico expiring on January 31, 2017. The Company also leases office and computer equipment. Future minimum lease payments as of March 31, 2014, are as follows:

Year	Amount
2014	$64,000
2015	$87,000
2016	$90,000
2017	$7,000

Rent expense for the three months ended March 31, 2014 and 2013 amounted to $20,000 and $18,000, respectively.

Employment Agreement (Related Party):

During the three months ended March 31, 2013, the Company entered into a new employment agreement with Mr. Govatski whereby agreeing to annual compensation of $30,000 for a term of one year commencing on January 1, 2013. The agreement will automatically renew for one additional term unless terminated by either party. The non-compete agreement has remained intact and becomes effective only in the event of termination by either party and will remain in effect for a period of one year.

NOTE I - SUBSEQUENT EVENTS

On April 14, 2014, the Company issued a total of 3,000,000 shares of the Company s $0.001 par value common stock related to the purchase of MedTel Solutions, LLC on July 1, 2013.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

OVERVIEW

We operate our business in four divisions.

Our Net Medical Xpress Solutions division derives revenues from the development and marketing of proprietary internet-based software. This division encompasses all revenues and costs from the software aspect of our business, including software usage, software hosting and maintenance, and custom programming (customization or modification to our core software products). Software usage and hosting include our customers who use our proprietary XR-EXpress software to provide their own radiological services. This division also occasionally derives revenue from scanning services and other services such as consulting, training and installation.

Our Net Medical Xpress Staffing division was formed as a result of the purchase of MedTel Solutions, LLC. This division specializes in the recruitment and staffing of telemedicine physicians.

Our Net Medical Xpress Services division provides medical diagnostic reading services for radiology and cardiology. We currently employ seventy licensed radiologists and twenty licensed cardiologists in this division. We use the same proprietary XR-EXpress software to provide these services that we offer to our customers of our Net Medical Xpress Solutions division.

Our Net Medical Xpress Specialists division provides telemedicine services to hospitals and other medical facilities. We currently employ fifteen credentialed specialists in the field of neurology in this division, which includes stroke and behavioral assessment. We facilitate real-time assessment of patients through examination via video conferencing, combined with our proprietary medical software. Revenues and costs in this division also include sales of our proprietary package of equipment necessary for our medical facility customers to initiate their participation in our specialists program.

RESULTS OF OPERATIONS

TOTAL REVENUES:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$1,271,000	$1,221,000	$50,000	4.1%

These changes are a result of the following factors:

Net Medical Xpress Solutions Revenues

1. Software usage fees:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$100,000	$115,000	$(15,000)	(13.0)%

The decrease in software usage fees for the three months ended March 31, 2014 as compared to the same period in 2013 is primarily due to variances in the volume of radiology reports generated for our existing customers. These customers are using our XR-EXpress software to conduct their own businesses.

2. Software hosting and maintenance:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$13,000	$14,000	$(1,000)	(7.1)%

This decrease is due to the loss of one small customer during the fourth quarter of 2013. Although we still have a few customers using our digital filing cabinet (DFC) product, the majority of our customers and all of our new customers are using our XR-EXpress software. We generally charge usage fees based on radiological reports generated using XR-EXpress, which includes storage of the reports for later access by the customers, rather than monthly hosting fees. We may occasionally charge a monthly maintenance fee for new customers for the use of our XR-Express software. Software maintenance consists mainly of technical support for our medical software. We expect revenues in this category to stay relatively constant during 2014, as we continue to focus our efforts on growing our telemedicine business, particularly our specialists program.

3. Other revenues:

For the Three Months Ended March 31,

	2014	2013	Increase (Decrease)	Percent Inc (Dec)
Bandwidth	$1,000	$1,000	$0	0.0%

The bandwidth service is a charge for internet access for one customer. We do not anticipate that this service will be a major revenue generator for us in the future.

Net Medical Xpress Services Revenues

1. Radiological services:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$948,000	$952,000	$(4,000)	(0.4)%

The decrease in radiological services is due to a net decreased volume of reads by existing customers.

2. Cardiological services:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$33,000	$27,000	$6,000	22.2%

The increase in cardiological services is due to a net increase in the volume of reads for existing customers.

Net Medical Xpress Specialists Revenues

1. Neurological services:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$109,000	$63,000	$46,000	73.0%

The increase in neurological services revenue is due to the addition of new customers throughout the year 2013 and in the beginning of 2014. We expect this revenue to continue increasing during the remainder of 2014 as we continue to add new customers.

2. Specialists program hardware sales:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$0	$49,000	$(49,000)	(100.0)%

The decrease in the specialists program hardware sales is due to the fact that we did not add new customers during the first quarter of 2014, as compared to the addition of several new customers during the first quarter of 2013. The specialist program hardware sales are sales of our proprietary package of third-party equipment required for a customer to begin using our specialist services. This sale is typically a one-time event with each new customer. We expect hardware sales to continue during the remainder of 2014 as we add new customers. We also expect to expand the specialist program to include other medical services during the remainder of 2014.

Net Medical Xpress Staffing Revenues

1. Recruiting and staffing services:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$67,000	$0	$67,000	Not meaningful

This increase is due to the fact that we purchased MedTel Solutions, LLC on July 1, 2013. We do not expect the revenue for this customer to continue during the remainder of 2014, although we are currently developing new customers that we expect to produce revenues beginning in the second or third quarter of 2014.

COST OF SERVICES:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$982,000	$916,000	$66,000	7.2%

Approximately eighty percent of the costs of services for the first three months of 2014 are direct costs related to the services and specialists divisions. These costs consist of radiologist fees, cardiologist fees, neurologist fees, behavioral medicine doctor fees, professional credentialing, professional licenses, professional liability insurance costs, and costs of hardware associated with the specialists program. The majority of these costs are directly related to revenues. In addition, we added an additional employee to our customer support staff for the specialists program during 2013, accounting for approximately half of this increase.

GENERAL AND ADMINISTRATIVE EXPENSES:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$251,000	$226,000	$25,000	11.1%

The increase in general and administrative expenses is primarily due to increased staffing requirements as we expand our services and increased costs from the compliance audit associated with the FDA clearance of our XR-Express PACS system.

RESEARCH AND DEVELOPMENT COSTS:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$40,000	$16,000	$24,000	150.0%

The increase in research and development costs for the first three months of 2014 compared to the same periods in 2013 is due to increased programming costs to continue the development and expansion of the specialists program.

During the first three months of 2014, approximately 90% of our research and development costs were a direct result of 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. We anticipate research and development costs during 2014 will continue to focus on the development and expansion of software and services for our specialists program. As a result, these costs may remain somewhat higher than usual during the coming year.

DEPRECIATION:

For the Three Months Ended March 31,

2014	2013	Increase (Decrease)	Percent Inc (Dec)
$3,000	$8,000	$(5,000)	(62.5)%

The decrease in depreciation expense is due to assets being fully depreciated but not replaced.

OTHER EXPENSE:

For the Three Months Ended March 31,

	2014	2013	Increase (Decrease)	Percent Inc (Dec)
Interest expense	$4,000	$2,000	$2,000	100.0%

The increase in interest expense is a result of circumstances related to the purchase of MedTel Solutions, LLC during 2013.

REPORTABLE SEGMENTS

We believe gross profit is our key indicator of operating progress. Our four operating divisions generated the following gross profit, rounded to the nearest 1,000, during the first three months of 2014:

	Solutions	Services	Specialists	Staffing	TOTAL
Revenue	$ 114,000	$ 981,000	$ 109,000	$ 67,000	$ 1,271,000
Direct costs	66,000	756,000	109,000	51,000	982,000
Gross profit	$ 160,000	$ 225,000	$ 0	16,000	$289,000
Gross Profit Percent	42%	23%	0%	24%	23%

The majority of the direct costs in the Solutions division are staffing expenses. We expect the gross profit percentage of this division to remain in the range of 40% to 50% during 2014.

Approximately 81% of the direct costs in the Services division are doctor fees, which are directly related to revenues. The gross profit percentage may change slightly as the mix of services changes. We expect this percentage to remain relatively stable during 2014.

Approximately 50% of the direct cost in the Specialists division for the first quarter consists of doctor fees, which are directly related to revenues. The remaining 50% consists of staffing costs for customer service, which are relatively fixed. The percentage of fixed costs should decrease as revenues increase over the next few years. In general, we believe the gross profit percentage of this division will continue to increase during 2014 as the revenues grow, while the fixed costs remain stable.

The majority of the direct costs in the Staffing division are staffing expenses. We purchased the staffing company on July 1, 2013. Since this is a relatively new operation, we anticipate the gross profit for this division to increase in the coming years as new customers are added. However, we are currently developing new projects in this division that may involve additional direct costs such as doctor fees. Such changes in the type of direct costs could cause inconsistencies in the future gross profit percentages.

Our normal general and administrative expenses continue to be approximately $200,000 to $250,000 per quarter. However, as we develop a sales and marketing program during 2014 to facilitate growth and expansion of our services and customer base, these general and administrative expenses are expecte to increase.

Information about our reportable segments for the quarter ended March 31, 2014 is as follows:

	Solutions	Services	Specialists	Staffing	TOTAL
Revenue	$114,000	$981,000	$109,000	$67,000	$1,271,000
Cost of service	66,000	756,000	109,000	51,000	982,000
General and administrative	29,000	94,000	69,000	59,000	251,000
Depreciation	2,000	1,000	0	0	3,000
Research and development	2,000	0	4,000	34,000	40,000
Operating income (loss)	$15,000	$130,000	$(73,000)	$(77,000)	$(5,000)
Total assets	$254,000	$839,000	$52,000	$318,000	$1,463,000

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

Segment s operating income	$ (5,000)
Other income (expense)	(4,000)
Consolidated net income	$ (9,000)

LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to our ability to generate adequate amounts of cash to meet our needs for cash. We believe we will have adequate liquidity to maintain current operations during 2014, but we may choose to locate additional sources of cash to facilitate growth and expansion. As of March 31, 2014, cash and cash equivalents totaled $371,000, representing a $50,000 decrease from December 31, 2013. This decrease in available cash was due to the following factors during the period:

Operating activities:

For the Three Months Ended March 31,

2014	2013	Inc (Dec) in available cash
used $91,000	provided $84,000	$(175,000)

The decrease in available cash from operations is mainly due to a combination of the following factors:

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a $70,000 decrease in available cash due to the net increase in accounts payable and accrued expenses of $28,000 during the first three months of 2014 as compared to a net increase of $81,000 during the first three months of 2013. The changes in accounts payable are mainly due to changes in doctors fees that vary with revenues throughout the year. The changes in accrued expenses are mainly due to variances in insurance contracts throughout the year.

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a $62,000 decrease in available cash due to net loss of $9,000 during the first three months of 2014 as compared to net income of $53,000 during the first three months of 2013.

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a $30,000 decrease in available cash due to the net increase in accounts receivable of $135,000 during the first three months of 2014 as compared to a net increase in accounts receivable of $105,000 during the first three months of 2013. The changes in accounts receivable are mainly due to changes in revenues throughout the year.

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several minor factors in addition to the above major factors.

Investing activities:

For the Three Months Ended March 31,

2014	2013	Inc (Dec) in available cash
used $2,000	used $0	$(2,000)

The use of cash during 2014 was for the purchase of additional computer equipment.

Financing activities:

For the Three Months Ended March 31,

2014	2013	Inc (Dec) in available cash
provided $43,000	used $1,000	$44,000

The changes in financing activities are primarily due to the exercise of options during the first quarter of 2014.

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

At March 31, 2014, we had a working capital surplus of $325,000 as opposed to a working capital surplus of $283,000 at the beginning of the period, an increase of $42,000. Although we generated a net profit at the end of 2013, and we expect continue profitable operations in general during 2014, we may continue to sell equity securities and incur debt if needed to meet our operating needs and facilitate growth and expansion of our services during 2014.

We anticipate that our primary uses of cash in the next year will continue to be for general operating purposes and to facilitate growth and expansion by establishing a sales and marketing program. We anticipate our operating cash requirements for the next twelve months to be in the range of $5,000,000 to $7,000,000. Profitability remains our primary goal.

OFF-BALANCE SHEET ARRANGEMENTS

We currently have no off-balance sheet arrangements.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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. In accordance with GAAP, our actual realized results may differ from management s initial estimates as reported. A summary of our significant accounting policies is detailed in the notes to the financial statements, which are an integral component of this filing.

Revenue Recognition

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

Currently, software usage in our Net Medical Xpress Solutions division consists of fees for the use of our XR-EXpress medical software by our customers who use it to provide their own radiological reading services, billed as a fee for each report generated by our software for the customer.

Our software revenue recognition policies are in accordance with the ASC Topic 985, *Software Revenue Recognition* as amended. Revenue is recognized when (a) persuasive evidence of an arrangement exists, (b) delivery has occurred, (c) the fee is fixed or determinable, and (d) collectability is probable. We follow the guidance in ASC Topic 605, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for custom software development arrangements that require us to provide significant production, customization or modification to our core software. Revenue is generally recognized for such arrangements under the percentage of completion method. Amounts collected prior to satisfying the above revenue recognition criteria are included in deferred revenue.

We follow the guidance provided by SEC Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements* and SAB No. 104 *Revenue Recognition* which provide guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. Revenue in our services and specialists divisions, software installation, training and consulting services is recognized when the services are rendered.

Software Development Costs

We account for software development costs in accordance with ASC Topic 985, *Accounting for Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*. Product research and development expenses consist primarily of personnel, outside consulting and related expenses for development, and systems personnel and consultants and are charged to operations as incurred until technological feasibility is established. We consider 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 our Consolidated Financial Statements for a full discussion of our critical accounting policies and estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

307 - Disclosure controls and procedures: As of March 31, 2014, we carried out an evaluation of the effectiveness of our disclosure controls and procedures, with the participation of our principal executive and principal financial officers. Disclosure controls and procedures are defined in Exchange Act Rule 15d-15(e) as controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms [and] include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on our evaluation, our President/Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, such disclosure controls and procedures were not effective. The primary reasons for management s conclusions are that we did not have a plan in place for implementing controls and procedures and insufficient personnel to implement checks and balances. We believe that we will not have sufficient funds available to develop a plan in the foreseeable future. We do not anticipate that our business will need sufficient personnel in the foreseeable future that are needed to implement checks and balances.

308(b) - Changes in internal control over financial reporting: Based upon an evaluation by our management of our internal control over financial reporting, with the participation of our principal executive and principal financial officers, there were no changes made in our internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected or are reasonably likely to materially affect this control.

Limitations on the Effectiveness of Internal Control: Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material errors. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations on all internal control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, and/or by management override of the control. The design of any system of internal control is also based in part upon certain assumptions about risks and the likelihood of future events, and there is no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in circumstances and the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective internal control system, financial reporting misstatements due to error or fraud may occur and not be detected on a timely basis.

PART II

ITEM 1. LEGAL PROCEEDINGS

We are not engaged in any litigation, nor do we have or anticipate any claims at the date of this report. We may experience litigation in the normal course of business.

ITEM 1A. RISK FACTORS

Not required.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The following exhibits are attached to this report:

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

SIGNATURES

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

NET MEDICAL XPRESS SOLUTIONS, INC.

Date: May 15, 2014

By /s/ Richard F. Govatski
Richard F. Govatski, President (Principal Executive Officer)

Date: May 15, 2014

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