

Net Medical Xpress Solutions, Inc.
Form 10-Q
May 15, 2017

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2017**

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

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(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 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

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

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

The number of shares outstanding of each of the issuer's classes of common stock at May 11, 2017 was 19,885,861.

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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 filed 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* , *plans* , *potential* , *predict* , *project* and *projection* , *seek* , *should* , *will continue* , *will result* and *would* , whether nouns 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 on 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

(Beginning on the following page)

Net Medical Xpress Services, Inc.**Condensed Consolidated Balance Sheets****(Rounded to the nearest thousand)**

	March 31, 2017	December 31, 2016
	(Unaudited)	
Assets		
Current assets:		
Cash and equivalents	\$ 271,000	\$ 307,000
Accounts receivable, net of allowance of \$24,000 and \$24,000, respectively	336,000	256,000
Inventory	20,000	20,000
Prepaid expenses and other assets	49,000	70,000
Total current assets	676,000	653,000
Furniture, equipment and improvements, net of accumulated depreciation of \$710,000 and \$706,000, respectively	-	4,000
Security deposits	4,000	4,000
Goodwill	159,000	159,000
Total Assets	\$ 839,000	\$ 820,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 382,000	\$ 320,000
Accrued expenses	61,000	63,000
Insurance payable	19,000	21,000
Deferred revenue	1,000	3,000
Capital lease	-	1,000
Note payable - related party	60,000	59,000
Total current liabilities	523,000	467,000
Total liabilities	523,000	467,000
Stockholders' equity:		
Preferred stock, \$0.001 par value, 500,000 shares authorized,	-	-

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0 shares issued and outstanding as of 3/31/17 and 12/31/16,

respectively
Common stock, \$0.001 par value, 200,000,000 shares

authorized, 19,885,861 and 19,850,591 shares issued

and outstanding as of 3/31/17 and 12/31/16,

respectively	20,000	19,000
Paid-in capital	16,302,000	16,299,000
Subscriptions payable	21,000	21,000
Accumulated deficit	(16,027,000)	(15,986,000)
Total stockholders' equity	316,000	353,000

Total Liabilities and Stockholders' Equity	\$ 839,000	\$ 820,000
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The accompanying notes are an integral part of these unaudited condensed consolidated 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,	
	2017	2016
Revenues		
Physician services	\$ 731,000	\$ 918,000
Gross revenues	731,000	918,000
Cost of services	542,000	629,000
Gross profit	189,000	289,000
Operating costs and expenses:		
General and administrative	204,000	242,000
Depreciation and amortization	2,000	3,000
Research and development	22,000	22,000
Total operating costs and expenses	228,000	267,000
Net operating (loss) income	(39,000)	22,000
Other expense:		
Interest expense	(2,000)	(2,000)
Total other expense	(2,000)	(2,000)
Net (loss) income	\$ (41,000)	\$ 20,000
(Loss) income per share - basic	\$ (0.00)	\$ 0.00
Weighted average number of common		
shares outstanding - basic	19,439,865	19,413,608
Weighted average number of common	19,439,865	19,413,608

shares outstanding - fully diluted

The accompanying notes are an integral part of these unaudited condensed consolidated 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,	
	2017	2016
Cash flows from operating activities		
Net income	\$ (41,000)	\$ 20,000
Adjustments to reconcile net income (loss) to		
net cash used by operating activities:		
Share-based compensation for services	4,000	-
Share-based compensation for services to board members and officers	-	27,000
Depreciation and amortization	2,000	3,000
Depreciation and amortization allocated to cost of goods sold	2,000	2,000
Changes in operating assets and liabilities:		
Accounts receivable	(80,000)	(168,000)
Inventory	-	2,000
Prepaid expenses and other assets	21,000	26,000
Accounts payable	62,000	32,000
Accrued expenses	(1,000)	(9,000)
Deferred revenue	(2,000)	(8,000)
Net cash provided (used) by operating activities	(33,000)	(73,000)
Cash flows from investing activities		
Acquisition of fixed assets	-	-
Net cash used by investing activities	-	-
Cash flows from financing activities		
Repayment of principal under capital lease	(1,000)	(2,000)
Proceeds from line of credit	-	5,000
Net proceeds from insurance financing	22,000	22,000
Net payments to insurance financing	(24,000)	(36,000)
Net cash provided by financing activities	(3,000)	(11,000)
Net increase in cash equivalents	(36,000)	(84,000)
Cash equivalents - beginning	307,000	410,000

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Cash equivalents - ending	\$ 271,000	\$ 326,000
Supplemental disclosures:		
Interest paid	\$ 1,000	\$ 1,000
Tax paid	\$ -	\$ -
Insurance contracts financed	\$ 22,000	\$ 22,000

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

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE A - BASIS OF PRESENTATION

The interim condensed consolidated 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 condensed consolidated financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2016 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

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts Net Medical Xpress Solutions, Inc. and its wholly-owned subsidiary, Telerad Service, Inc. 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, 2017 and December 31, 2016, 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.

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade Accounts Receivable, cont d:

The Company also estimates an allowance for doubtful accounts, which amounted to \$24,000 and \$24,000 at March 31, 2017 and December 31, 2016, 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, 2017 and 2016 totaled \$0 and \$0, respectively.

Inventory:

Inventory, which is composed of component parts and finished goods, is valued at cost on a specific identity basis for those items with serial numbers. The remainder of the inventory is valued at the lower of first-in-first-out (FIFO) cost or market. On a quarterly basis, management compares the inventory on hand with the Company's records to determine whether write-downs for excess or obsolete inventory are required. Write-downs of \$0 and \$0 for obsolete inventory are included in expenses for March 31, 2017 and December 31, 2016, respectively.

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, 2017 or December 31, 2016 were impaired.

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill:

The Company accounts for its goodwill in accordance with Accounting Standards Codification (ASC) Topic 350-20. Goodwill is the excess of the purchase price paid over the fair value of the net assets of an acquired business. Goodwill is tested annually at December 31 for impairment. The annual qualitative or quantitative assessments involve determining an estimate of the fair value of reporting units in order to evaluate whether an impairment of the current carrying amount of goodwill exists. A qualitative assessment evaluates whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step quantitative goodwill impairment test. The first step of a quantitative goodwill impairment test compares the fair value of the reporting unit to its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss may be recognized. The amount of impairment loss is determined by comparing the implied fair value of reporting unit goodwill with the carrying amount. If the carrying amount exceeds the implied fair value then an impairment loss is recognized equal to that excess.

The Company tests its goodwill and other indefinite-lived intangible assets for impairment annually, or, under certain circumstances, more frequently, such as when events or circumstances indicate there may be impairment. The Company is required to write down the value of goodwill only when its testing determines the recorded amount of goodwill exceeds the fair value. At December 31, 2016, the Company determined that its goodwill was impaired and an impairment loss of \$80,000 was recorded as of December 31, 2016. As of March 31, 2017, there was no additional impairment of goodwill.

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 Black Scholes 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.

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation, cont d:

During the three months ended March 31, 2017 and 2016, the Company recognized stock-based compensation expense totaling \$0 and \$27,000, from the issuance of a total of 0 and 0 shares of its common stock to officers, directors, and consultants (See Note G).

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.

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 Condensed Consolidated Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition, cont d:

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, 2017 and March 31, 2016, 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 diagnostic services, clinical consulting services, telemedicine recruiting services, software installation, and any training or miscellaneous consulting services is recognized when the services are rendered. These revenues include services that are separate from the functionality of the software. 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, 2017 and 2016, respectively.

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

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

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

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, 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.

Reclassifications:

Certain reclassifications have been made in the prior period's financial statements to conform to classifications used in the current period.

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 condensed consolidated financial statements.

Net Medical Xpress Solutions, Inc.**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****NOTE C - GOING CONCERN**

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of approximately \$16,027,000 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company's ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued. The financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of March 31, 2017 and December 31, 2016 consisted of the following:

	March 31, 2017	December 31, 2016
Computers	\$ 499,000	\$ 499,000
Furniture, fixtures and equipment	150,000	150,000
Automobiles	41,000	41,000
Leasehold improvements	20,000	20,000
	710,000	710,000
Accumulated depreciation	(710,000)	(706,000)
	\$ 0	\$ 4,000

Depreciation expense for the three months ended March 31, 2017 and 2016 was \$2,000 and \$3,000, respectively. In addition, the Company had \$2,000 and \$2,000 of depreciation expense that was allocated to direct costs for the years ended March 31, 2017 and 2016, respectively.

NOTE E - LINE OF CREDIT

In September 2015, the Company entered into an agreement with a bank for a line of credit of \$100,000. The agreement was renewed in December 2016. There were no borrowings against the line at December 31, 2016. The line bears interest at 6.0%. This line of credit line has a maturity date of December 27, 2017. This line of credit is secured by 1,451,114 shares of the Company's stock owned by a director of the Company.

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE F - GOODWILL

On July 1, 2013, the Company completed its merger with MedTel Solutions, LLC (MedTel), an Alabama limited liability company, in accordance with its Merger Agreement dated June 28, 2013. MedTel was organized on June 13, 2012 for the purpose of engaging in and is now engaged in the business of providing licensed medical practitioners to perform services via telemedicine. Pursuant to the agreement, the Company authorized the issuance of 3,000,000 shares of its common stock in exchange for 100% of the outstanding membership interests of MedTel. The fair value of the consideration given up totaled \$275,000 of which \$36,000 has been allocated to the fair value of net identifiable assets and the remaining \$239,000 to goodwill.

In accordance with FASB ASC 350, Intangibles - Goodwill and Other, the Company performs goodwill impairment testing at least annually, unless indicators of impairment exist in interim periods. The impairment test for goodwill uses a two-step approach. Step one compares the estimated fair value of a reporting unit with goodwill to its carrying value. If the carrying value exceeds the estimated fair value, step two must be performed. Step two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess. Based on the estimated fair value of its goodwill at December 31, 2016, the Company determined that there was impairment of goodwill and recognized \$80,000 in goodwill impairment. As of March 31, 2017 and December 31, 2016, the company recognized \$0 and \$0 in goodwill impairment, respectively.

In connection with the merger, the Company also entered into two employment agreements with the former holders of MedTel membership interests. Each agreement provides for bonus compensation of 2,000,000 shares of common stock to be earned equally upon attainment of quarterly sales and profitability goals. At March 31, 2017 and December 31, 2016, no additional compensation has been earned.

NOTE G - CAPITAL TRANSACTIONS

Common stock:

During the three-month period ended March 31, 2017, the Company effected the following stock transactions:

The Company issued a total of 35,270 shares of the Company's \$0.001 par value common stock to an attorney in settlement of a suit during 2016 valued at \$4,000.

There are no stock options outstanding as of March 31, 2017.

Net Medical Xpress Solutions, Inc.**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****NOTE G - CAPITAL TRANSACTIONS (CONTINUED)**

Summary of Options Granted and Outstanding:

	For the Three Months		For the Year	
	Ended March 31, 2017		Ended December 31, 2016	
		Weighted		Weighted
		Average		Average
		Exercise		Exercise
	Shares	Price	Shares	Price
Options:				
Outstanding at beginning of period	55,556	\$0.396	722,222	\$0.27
Granted	0	\$0.00	0	\$0.00
Expired	(55,556)	\$0.396	(666,666)	\$0.27
Exercised	0	\$0.00	0	\$0.00
Outstanding at end of period	0	\$0.00	55,556	\$0.396

NOTE H - MAJOR CUSTOMERS

During the three-month period ended March 31, 2017, two customers accounted for 32% or approximately \$236,000 of the Company's revenue.

As of March 31, 2017, balances due from one customer comprised 12% or approximately \$45,000 of total accounts receivable. As of March 31, 2016, balances due from one customer comprised 25% or approximately \$158,000 of total accounts receivable.

NOTE I - COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico expiring on January 31, 2020. The Company also leases office equipment valued at \$7,000 expiring in May 2017. Future minimum lease payments as of March 31, 2017, are as follows:

Year	Amount
2017	\$66,000
2018	\$90,000
2019	\$92,000

Rent expense for the three months ended March 31, 2017 and 2016 amounted to \$30,000 and \$22,000, respectively.

Net Medical Xpress Solutions, Inc.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Employment Agreement (Related Party):

During the first quarter of 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.

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

OVERVIEW

We provide wide-ranging and unique solutions for the rapidly expanding multi-billion-dollar telemedicine industry. We recruit and maintain an extensive cadre of telemedicine physicians that we provide to the industry, together with highly proprietary software that links electronic medical records while facilitating state-of-the-art conferencing and communications. We also offer a call center, unique hardware implementations, staffing and recruiting operations, diagnostic and clinical services, and advanced software research and development capabilities. All of these product and service offerings are in support of, and integrated with, our physician services revenues.

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 the Company during a three-year period. The program will provide remote emergency neurological consultations using our 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.

RESULTS OF OPERATIONS

TOTAL REVENUES:

For the Three Months Ended March 31,

<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$731,000	\$918,000	\$(187,000)	(20.4)%

These changes are primarily a result of the following factors:

Radiology and cardiology services decreased by approximately \$50,000 during the first quarter of 2017 as compared to the first quarter of 2016. Approximately 70% of the decrease is due to the loss of several customers. The remaining decrease is due to volume decreases with existing customers. The loss of customers is mainly due to price competition.

Neurological and behavioral services decreased by approximately \$90,000 during the first quarter of 2017 as compared to the first quarter of 2016. All of this decrease is due to a progress billing of \$100,000 for the grant described above during the first quarter of 2016 as compared to none during the first quarter of 2017.

Recruiting and staffing services decreased by approximately \$19,000 during the first quarter of 2017 as compared to the first quarter of 2016. This decrease is due to decreased volume of consults from one customer.

COST OF SERVICES:

For the Three Months Ended March 31,

<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$542,000	\$629,000	\$(87,000)	(13.8)%

Approximately eighty percent of the cost of services for the first three months of 2017 and 2016 are directly related to revenues. Therefore, the majority of the decrease in cost of services for the first quarter of 2017 as compared to the first quarter of 2016 is due to the same factors discussed in revenues above. These costs consist of radiologist fees, cardiologist fees, neurologist fees, professional credentialing, professional licenses, professional liability insurance costs, and costs of hardware associated with the specialists program.

GENERAL AND ADMINISTRATIVE EXPENSES:

For the Three Months Ended March 31,

<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$204,000	\$242,000	\$(38,000)	(15.7)%

The decrease in general and administrative expenses for the first quarter of 2017 as compared to the first quarter of 2016 is primarily due to two factors:

Approximately \$25,000 is the result of no fees for the Board of Directors for the first quarter of 2017

Approximately \$19,000 is the result of no marketing expenses for the first quarter of 2017

RESEARCH AND DEVELOPMENT COSTS:

For the Three Months Ended March 31,

<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$22,000	\$22,000	\$0	0.0%

During the first three months of 2017 and 2016, approximately 90% of our research and development costs were related to 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 2017 will continue to focus on the development and expansion of our software and our physician services. As a result, these costs will likely remain steady during 2017.

DEPRECIATION:

For the Three Months Ended March 31,

<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
\$2,000	\$3,000	\$(1,000)	(33.3)%

We expect depreciation to decrease slightly during 2017 as assets are fully depreciated. We have no plans for any significant fixed asset purchases at this time.

OTHER EXPENSE:

For the Three Months Ended March 31,

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>	<u>Percent Inc (Dec)</u>
Interest expense	\$2,000	\$2,000	\$0	0%

We don't anticipate significant changes in this category during 2017.

We believe gross profit is our key indicator of operating progress. Our operations generated the following gross profit, rounded to the nearest 1,000, during the first three months of 2017 and 2016:

	2017	2016
Revenue	\$ 731,000	\$ 918,000
Direct costs	542,000	629,000
Gross profit	\$ 189,000	\$ 289,000
Gross Profit Percent	26%	31%

Our gross profit percentage was higher than normal in 2016 due to approximately \$100,000 in revenue that had no associated direct costs. Although our gross profit percentage during the first quarter of 2017 was adequate, the volume of sales was not sufficient to cover the remaining expenses after the direct costs were deducted. In order to reach our goal of ongoing profitability, our main priority is to increase revenues while maintaining the current gross profit percentage.

We estimate that our general and administrative expenses will be approximately \$200,000 to \$225,000 per quarter during 2017.

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 2017, but we may choose to locate additional sources of cash to facilitate growth and expansion.

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, 2017, we had a working capital surplus of \$153,000 as opposed to a working capital surplus of \$186,000 at the beginning of the period, a decrease of \$33,000. This decrease is due to a combination of factors. The primary factors are: A decrease of \$36,000 in available cash, an increase in accounts receivable of \$80,000, and an increase in accounts payable of \$62,000. We may continue to sell equity securities and incur debt if our liquidity proves insufficient to meet our operating needs and facilitate growth and expansion of our services during 2017.

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 of our services. We anticipate our operating cash requirements for the next twelve months to be approximately \$4,000,000 to \$5,000,000. Profitability remains our primary goal.

OFF-BALANCE SHEET ARRANGEMENTS

We currently have no off-balance sheet arrangements.

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

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, 2017, 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, 2017, 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, 2017 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 - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

We do not believe we have experienced any material changes in our risk factors subsequent to our last annual report on Form 10-K.

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

The following table sets forth information about our unregistered sales of common stock during the three months ended March 31, 2017:

<u>Class of Purchaser</u>	<u>Aggregate Number of Shares</u>
Attorney	35,270

(1) We issued these shares as settlement of a lawsuit valued at \$5,000.

We did not pay and to our knowledge no one acting on our behalf paid any commissions or other compensation with respect to the sales identified in the foregoing table. We made the sale directly to each purchaser for the consideration stated in the table. We did not receive cash proceeds directly from these sales, which reduced our cash expenses and increased our working capital as a result of using the stock to pay current obligations. Each purchaser acknowledged the investment nature of the transaction and a legend was placed on each certificate, prohibiting public resale of the shares, except in compliance with Rule 144. We believe each purchaser has either (a) such relationship with us or (b) such knowledge and experience in business and financial transactions that he or she is able to understand and evaluate the risks and merits of investment in our common stock. We relied upon the exemption from the registration requirement of the Securities Act of 1933, as amended (the Act) provided in Section 4(2) of the Act and the rules and regulations thereunder, on grounds that these sales did not involve a public offering within the meaning of the Act.

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

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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, 2017

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

Date: May 15, 2017

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

