Net Medical Xpress Solutions, Inc.
Form 10-K
April 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

COMMISSION FILE #333-30176

NET MEDICAL XPRESS SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

91-1287406

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

5021 INDIAN SCHOOL RD., SUITE 100

ALBUQUERQUE, NEW MEXICO 87110

(Address of principal executive offices)(Zip code)

(505) 255-1999

(Issuer s telephone number)

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

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

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

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

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

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 MARCH 17, 2017 WAS: 19,850,591.

DOCUMENTS INCORPORATED BY REFERENCE

None

USE OF PRONOUNS AND OTHER WORDS

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

FORWARD-LOOKING STATEMENTS

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

The forward-looking statements are based upon our beliefs and assumptions using information available at the time we make these statements. We caution you not to place undue reliance on our forward-looking statements as (i) these statements are neither predictions nor guaranties of future events or circumstances, and (ii) the assumptions, beliefs, expectations, forecasts and projections about future events may differ materially from actual results. We undertake no obligation to publicly update any forward-looking statement to reflect developments occurring after the date of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Our History and Background

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

In May 2008, we created a wholly-owned subsidiary called Telerad Service, Inc. to provide teleradiological services. Beginning in January 2012, Telerad Service, Inc. has operated under the trade names Net Medical Xpress Services and Net Medical Xpress Specialists.

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

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

Our Business

We provide 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 research and development capabilities.

During the past year the lines between our previously identified business segments have become increasingly blurred and arbitrary as we provide ever more integrated products and services. Discrete financial information for separate segments is not readily available, and we do not market our products separately. As a result, we have determined that we only have one business segment - physician services. All of our product and service offerings discussed in the next section are in support of, and integrated with, physician services.

Our Products and Services

Software

One of our most valuable assets is the investment made over many years in proprietary software. In addition to our core system that we use to build a customized telemedicine management system for clients, we offer the following applications that simplify the administrative aspects of patient care so that our physicians can spend more time on actual patient care:

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Our Telemedicine Building Blocks is now available for existing customers, and as an online service for doctors offices, hospitals and clinics to take advantage of telemedicine services. It includes our WebRTC video conferencing capability, digital paper, prescription services and Quest lab ordering and is integrated into a very simple one login, one button technology.

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Digital Paper can take any paper form and turn it into an easy online fill-out list, then turn it into an actual PDF as required by insurance companies and hospitals

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Single Pane of Glass Software allows a provider to be connected into a video conference with a patient while simultaneously displaying up to five additional applications running on the same screen

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Electronic Prescription System is provided for physicians in private practice who do not have their own prescription software

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Electronic Prior Authorization System connects to health plans and pharmacies to verify prior authorization requirements related to medical tests, procedures, devices and drugs that require pre-approval by insurers

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Electronic Medical Records (EMR) provides the ability to connect with 43 different hospital EMR systems

Hardware

Although we do not simply resell hardware as a wholesaler, we have engineered and developed several exclusive and proprietary hardware products that we offer to our customers:

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Web Real Time Communications (WebRTC) is our advanced televideo conferencing system. A Dell OptiPlex all-in-one touch screen computer is the user interface. It is equipped with a specific integrated circuit that comes with our own operating system, networking interface and Wi-Fi connectivity.

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We have developed a proprietary medical cart that is exclusive to us, that includes the Dell OptiPlex described above, along with our proprietary software and a state-of-the-art camera.

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Several Net Medical USB digital diagnosing tools can be plugged into the OptiPlex, including a USB stethoscope, USB dermascope, USB digital microscope and otoscope.

Physicians

Our group of physicians is also one of our greatest assets. We currently have 32 physicians on staff, plus approximately 200 that have been credentialed and are ready to contract with us to provide services. We provide physicians that can perform a variety of physician services:

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Video clinical services such as neurology and stroke assessment, behavioral assessment, and critical care

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Diagnostic services, including radiology and cardiology

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Video primary care services

Management and administrative services

We provide a variety of additional services that are essential to a complete telemedicine program:

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Credentialing services (verifying the qualifications of healthcare providers) are required for hospitals to grant privileges to the providers so that the providers can deliver the necessary care to patients

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Our call center is operated 24 hours per day, seven days per week and 365 days per year

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Recruiting and staffing services locate telemedicine physicians for our customers who use our services, as well as for customers who wish to contract directly with a physician

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We provide professional liability insurance for all physicians contracted with us

Our Customers and Competition

Our customers range from companies that use our primary care physicians to provide services to individuals, to mobile radiology companies that use our physicians to provide services to nursing homes and jails, to hospitals that use our physicians to provide video consultations for their patients.

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

The entire telemedicine market has become exceptionally competitive over the last five years. We have observed increasingly intense downward pressure on prices for radiological services during that time, even though margins for these services were already low when we entered the market. The market for video consultations by specialists and primary care physicians is projected to grow at approximately 18-19% over the next five years according to various industry analyses. Our current strategy is to take advantage of this growth with the goal of being well-established by the time the market matures.

We have three categories of competitors: equipment vendors only, such as Cisco and Polycom; independent doctors groups, of which there are hundreds across the country; and all-in-one telemedicine services, such as Banner Health and the Mayo Clinic. Our primary method of competing with these companies is to offer a complete package of software, hardware and physician services that none of these companies offers. In addition, we are constantly adding to our services. Recent examples of innovations are our new electronic prior authorization system and electronic prescription system.

The integration of our business across multiple telemedicine segments is beneficial as the competition in the industry increases, because it allows us the flexibility to shift priorities and take advantage of any areas of new technological development.

Our Technology

Our technology is the key to our product differentiation. We engineer our products around a central core of unique Internet technology. This proprietary technology makes it possible to rapidly view, distribute and manage a variety of

media files such as documents, graphic images, animation sequences, film clips, audio files, x-rays, other medical images and high-definition media streams.

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

Business Strategy

The healthcare situation in the U.S. faces a growing number of critical issues. The fastest growing segment of the population is people over 65 years of age. Obesity is still on the rise. The diagnosis of chronic diseases continues to increase, and many patients with chronic diseases need regular monitoring. If these facts are coupled with the projected shortage of healthcare personnel over the next couple of decades, we believe that our healthcare system will need to become considerably more effective and efficient in order to expand access to care with reasonable costs.

We believe that telemedicine provides safe, effective services while reducing costs in a wide variety of medical applications, such as avoiding unnecessary patient transports, providing support for hospital overflows, providing increased services in remote or rural areas, providing services in jails and prisons, decreasing the length of some patient stays, providing increased home management of chronic diseases, providing improved post-discharge follow-up care to avoid unnecessary hospital readmissions, providing enhanced care in critical care or intensive care units and increasing access to specialized services. Telemedicine technology can potentially increase patient safety and reduce costs for healthcare providers by providing enhanced diagnostic capabilities with quick turn-around times.

We know of no other telemedicine company that can provide the comprehensive range of services that we offer: the complex array of proprietary software and custom-built hardware that is completely integrated with our physician diagnostic and clinical services.

Our current business strategy involves the following factors:

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Continue to expand our array of software applications.

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Continue to expand the variety of physician services we offer.

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Continue to expand our group of doctors.

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Continue to offer exceptionally prompt and thorough customer service, with outstanding quality.

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Using social media to our advantage to educate potential customers about the benefits of telemedicine.

Our Intellectual Properties

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

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

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

Government Regulation

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

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

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

Employees

At March 17, 2017, we had twenty three employees and independent contractors providing management, administrative, engineering and customer support functions. We consider our relationship with our employees to be good. We also have over two hundred physicians on contract, including radiologists, cardiologists, neurologists, psychiatrists and primary care physicians.

ITEM 1A. RISK FACTORS

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

During the year ended December 31, 2016, three customers accounted for 36% of the Company s total revenue. During the year ended December 31, 2015, two customers accounted for 30% of the Company's total revenue. The loss of such customers would result in a significant decrease in our revenues and our working capital.

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

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

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

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

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

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

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

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

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

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

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

We have incurred cumulative net losses of approximately $15,986,000 since our inception in 1996. At this time, our revenues are adequate to meet our operating needs; however, we may require additional capital for our contemplated operational and marketing activities to take place. The amount of any additional capital required would depend on our current income and our future plans, but could range from $100,000 to $1,000,000. Our ability to raise additional capital through the future issuances of the common stock is unknown. The obtainment of additional financing, the successful development of our contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for us to continue operations. The ability to successfully resolve these factors raise substantial doubt about our ability to continue as a going concern.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We do not have any unresolved staff comments.

ITEM 2. PROPERTIES

We currently lease a 5,000 square foot facility in Albuquerque, New Mexico, at a cost of approximately $7,300 per month. The lease expires on January 31, 2020. The facility houses our administrative, marketing and engineering offices, and provides adequate room for expansion. We house our primary servers in a separate facility downstairs from ours, at a cost of approximately $2,500 per month on a month-to-month basis. The two locations are networked together by fiber optics. In this facility we have access to a large power generator, which enables our servers to continue operating during power outages.

ITEM 3. LEGAL PROCEEDINGS

We have no legal proceedings outside of normal business operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our stock is quoted on the OTC Bulletin Board under the symbol NMXS. The table below sets forth, for the periods indicated below, high and low bids for our common stock. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions. The source of this information is Big Charts: www.bigcharts.com. The quotations have been adjusted to reflect a nine to one reverse stock split that was effective on June 20, 2016.

	Quarter	High	Low
FISCAL YEAR ENDED DECEMBER 31, 2015	First	$0.225	$0.1485
	Second	$0.396	$0.135
	Third	$0.468	$0.252
	Fourth	$0.396	$0.189
FISCAL YEAR ENDED DECEMBER 31, 2016	First	$0.261	$0.2241
	Second	$0.375	$0.234
	Third	$0.375	$0.11
	Fourth	$0.18	$0.06
FISCAL YEAR ENDED DECEMBER 31, 2016 (through March 17, 2017)	First	$0.1749	$0.0552

Recent Sales of Unregistered Securities

No unregistered shares were issued during 2016.

Shareholders

As of March 20, 2017, there were 385 holders of record of our common shares.

Dividends

We did not declare any cash dividends on our common stock during the year ended December 31, 2016. We have no plans to pay any dividends to the holders of our common stock in 2017.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS

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

RESULTS OF OPERATIONS

REVENUES:

For the Year Ended December 31,

2016	2015	Increase (Decrease)	Percent Inc (Dec)
$3,045,000	$4,222,000	$(1,177,000)	(27.9)%

These changes are a result of the following factors:

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Radiology and cardiology revenues decreased approximately $1,061,000 due to the loss of several large customers during 2016. As noted in Our Customers and Competition above, teleradiology businesses have seen intense price competition as well as industry consolidation during the last few years. Most of our larger customers are shifting to using their own in-house teleradiology facilities. However, some of our customers who chose to use competitors because of lower prices are now returning due to the quality of our services. As a result, we anticipate a slight increase in radiology revenues for 2017.

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Software usage revenues decreased approximately $178,000 due to the loss of several customers for the same reasons as with radiology above. We do not anticipate any significant changes during 2017.

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Clinical consultation revenues increased approximately $73,000 due to the addition of several new customers during 2016. We anticipate that this trend will continue into 2017; therefore, we will see increased clinical revenues during 2017.

DIRECT COSTS:

For the Year Ended December 31,

2016	2015	Increase (Decrease)	Percent Inc (Dec)
$2,274,000	$3,055,000	$(781,000)	(25.6)%

Approximately 90% of the decrease in direct costs relates to reduced physician fees associated with the loss of several radiology customers during 2016.

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

GENERAL AND ADMINISTRATIVE EXPENSES:

For the Year Ended December 31,

2016	2015	Increase (Decrease)	Percent Inc (Dec)
$935,000	$887,000	$48,000	5.4%

The increase in general and administrative expenses is primarily due to several factors: increased communications costs, increased legal fees related to a lawsuit that involved one of our physicians during 2016, and increased accounting fees. We expect no significant changes in general and administrative expenses during 2017.

RESEARCH AND DEVELOPMENT COSTS:

For the Year Ended December 31,

2016	2015	Increase (Decrease)	Percent Inc (Dec)
$87,000	$100,000	$(13,000)	(13.0)%

Approximately 86% of our research and development costs were directly associated with staffing during 2016. The decrease in costs for 2016 as compared to 2015 is due to a reduction in engineering personnel during late 2015. In the software industry it is common for research and development costs to be ongoing, since development of the next version of the software begins as soon as the current version is completed. In addition, we are constantly developing new applications for our existing software that require modification. Management anticipates that research and development costs in the future will focus both on the upgrading of our existing products and the continued development of new products using our core technology; therefore they will remain relatively stable or perhaps increase slightly during the coming year.

DEPRECIATION AND BAD DEBT EXPENSE:

For the Year Ended December 31,

	2016	2015	Increase (Decrease)	Percent Inc (Dec)
Depreciation expense	$3,000	$12,000	$(9,000)	(75.0)%

Bad debt expense	$1,000	$8,000	$(7,000)	(87.5)%

The decrease in depreciation expense during 2016 as compared to 2015 is due to assets reaching full depreciation, coupled with no significant purchases of fixed assets. We charged one account of $8,000 to bad debt during 2015; we had no significant bad debt charge-offs during 2016.

IMPAIRMENT OF GOODWILL

For the Year Ended December 31,

2016	2015	Increase (Decrease)	Percent Inc (Dec)
$80,000	$0	$80,000	Not meaningful

At December 31, 2016 we evaluated the goodwill related to the purchase of MedTel Solutions, LLC during 2013 and determined that it is more likely than not that the fair value of goodwill is less than its carrying value. Therefore, an impairment loss of goodwill is recognized as of December 31, 2016.

OTHER INCOME (EXPENSE):

For the Year Ended December 31,

	2016	2015	Increase (Decrease)	Percent Inc (Dec)
Interest expense	$9,000	$9,000	$0	0%

We expect no significant changes in interest expense during 2017.

We expect the gross profit for 2017 to increase slightly compared to 2016 as we pursue service contracts with higher gross margins.

Our normal general and administrative expenses were approximately $230,000 per quarter during 2016. We anticipate that these expenses will be in the range of $230,000 to $250,000 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 December 31, 2016, we had a working capital surplus of $186,000 as opposed to a working capital surplus of $333,000 at the beginning of the period, a decrease of $147,000. This decrease is due to a combination of factors. The primary factors are: a decrease of $103,000 in available cash, a decrease in accounts receivable of $173,000, coupled with a decrease in accounts payable of $119,000. 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 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 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

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

Currently, software usage consists of XR-EXpress report fees.

Our software 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 from radiological services, 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 8. FINANCIAL STATEMENTS

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Consolidated Balance Sheets
Consolidated Statements of Operations
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Net Medical Xpress Solutions, Inc.

We have audited the consolidated balance sheets of Net Medical Xpress Solutions, Inc. and subsidiary (The Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the two year period ended December 31, 2016. Net Medical Xpress Solutions, Inc. s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Net Medical Xpress Solutions, Inc. and subsidiary as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note C to the condensed consolidated financial statements. The Company has suffered losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note C. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM, LLP

Henderson, Nevada

April 14, 2017

Net Medical Xpress Solutions, Inc.

Consolidated Balance Sheets

(Rounded to the nearest thousand)

	December 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and equivalents	$ 307,000	$ 410,000
Accounts receivable, net of allowance of $24,000 and $28,000, respectively	256,000	429,000
Inventory	20,000	27,000
Prepaid expenses and other assets	70,000	76,000
Total current assets	653,000	942,000
Furniture, equipment and improvements, net of accumulated depreciation of $706,000 and $694,000, respectively	4,000	16,000
Security deposits	4,000	4,000
Goodwill	159,000	239,000
Total Assets	$ 820,000	$ 1,201,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 320,000	$ 439,000
Accrued expenses	63,000	58,000
Insurance payable	21,000	40,000
Deferred revenue	3,000	9,000
Capital lease	1,000	8,000
Note payable - related party	59,000	55,000
Total current liabilities	467,000	609,000
Long-term liabilities		
Capital lease - long-term portion	-	1,000
Total long-term liabilities	-	1,000
Total liabilities	467,000	610,000
Stockholders' equity:		
	-	-

Preferred stock, $0.001 par value, 500,000 shares authorized, 0 shares issued and outstanding as of 12/31/16 and 12/31/15, respectively		
Common stock, $0.001 par value, 200,000,000 shares authorized, 19,850,591 and 19,402,814 shares issued and outstanding as of 12/31/16 and 12/31/15, respectively	19,000	19,000
Paid-in capital	16,299,000	16,193,000
Subscriptions payable	21,000	21,000
Accumulated deficit	(15,986,000)	(15,642,000)
Total stockholders' equity	353,000	591,000
Total Liabilities and Stockholders' Equity	$ 820,000	$ 1,201,000

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

Net Medical Xpress Solutions, Inc.

Consolidated Statements of Operations

(Rounded to the nearest thousand)

	For the year ended December 31,	
	2016	**2015**
Revenues		
Physician services	$ 3,045,000	$ 4,222,000
Gross revenues	3,045,000	4,222,000
Direct Costs	2,274,000	3,055,000
Gross profit	771,000	1,167,000
Operating costs and expenses:		
General and administrative	935,000	887,000
Depreciation and amortization	3,000	12,000
Research and development	87,000	100,000
Bad debt	1,000	8,000
Impairment of goodwill	80,000	-
Total operating costs and expenses	1,106,000	1,007,000
Net operating income (loss)	(335,000)	160,000
Other expense:		
Interest expense	(9,000)	(9,000)
Total other expense	(9,000)	(9,000)
Net income (loss)	$ (344,000)	$ 151,000
Income (loss) per share - basic	$ (0.02)	$ 0.01
Income (loss) per share - diluted	$ (0.02)	$ 0.01
Basic weighted average common shares outstanding	19,413,608	19,413,608
Diluted weighted average common shares outstanding	19,413,608	20,442,793

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

Net Medical Xpress Solutions, Inc.

Consolidated Statement of Stockholders' Equity

(Rounded to the nearest thousand)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Subscriptions Payable	Accumulated (Deficit)	Total Stockholders' Equity
Balance, December 31, 2014	19,402,814	19,000	16,193,000	21,000	(15,793,000)	312,000
Compensation earned by officers	-	-	-	-	-	54,000
Compensation earned by outside board members	-	-	-	-	-	54,000
Compensation earned by contractors	-	-	-	-	-	20,000
Net income For the year ended December 31, 2015	-	-	-	-	151,000	151,000
Balance, December 31, 2015	19,402,814	$ 19,000	$ 16,193,000	$ 21,000	$ (15,642,000)	$ 591,000

Compensation earned by officers	200,000	-	48,000	-	-	48,000
Compensation earned by outside board members	200,000	-	48,000	-	-	48,000
Compensation earned by contractors	50,000	-	10,000	-	-	10,000
Shares repurchased	(2,223)	-	-	-	-	-
Net income For the year ended December 31, 2016	-	-	-	-	(344,000)	(344,000)
Balance, December 31, 2016	19,850,591	$ 19,000	$ 16,299,000	$ 21,000	$ (15,986,000)	$ 353,000

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

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Net Medical Xpress Solutions, Inc.

Consolidated Statements of Cash Flows

(Rounded to the nearest thousand)

	For the year ended December 31,	
	2016	**2015**
Cash flows from operating activities		
Net income (loss)	$ (344,000)	$ 151,000
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Share-based compensation for services	10,000	20,000
Share-based compensation for services to board members and officers	96,000	108,000
Depreciation and amortization	3,000	12,000
Depreciation and amortization allocated to direct costs	9,000	12,000
Impairment of goodwill	80,000	-
Changes in operating assets and liabilities:		
Accounts receivable	173,000	152,000
Inventory	7,000	6,000
Prepaid expenses and other assets	6,000	(11,000)
Accounts payable	(119,000)	(339,000)
Line of credit		
Accrued expenses	5,000	12,000
Deferred revenue	(6,000)	6,000
Net cash provided (used) by operating activities	(80,000)	129,000
Cash flows from investing activities		
Acquisition of fixed assets	-	-
Net cash used by investing activities	-	-
Cash flows from financing activities		
Net repayment of principal under capital lease	(8,000)	(8,000)
Proceeds from notes payable - related party	4,000	2,000
Net proceeds from insurance financing	103,000	164,000
Net payments to insurance financing	(122,000)	(154,000)
Net cash provided by financing activities	(23,000)	4,000
Net increase in cash equivalents	(103,000)	133,000
Cash equivalents - beginning	410,000	277,000
Cash equivalents - ending	$ 307,000	$ 410,000

	-	
Supplemental disclosures:		
Interest paid	$ 7,000	$ 6,000
Tax paid	$ -	$ -
Insurance contracts financed	$ 103,000	$ 164,000

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

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE A - ORGANIZATION AND OPERATIONS

Description of Business:

The parent company, Net Medical Xpress Solutions, Inc., derives revenues from the development and marketing of proprietary internet technology-based software. This division encompasses all revenues and costs from the software aspect of the business, including software usage, software hosting and maintenance, and custom programming (customization or modification to the Company s core software products). The Company also occasionally derives revenue from scanning services and other services such as consulting, training and installation, which would be included in this division.

The Company s wholly-owned subsidiary, Telerad Service, Inc., operates under the trade names Net Medical Xpress Services, Net Medical Xpress Specialists, and Net Medical Xpress Staffing. Net Medical Xpress Services provides medical diagnostic reading services. All revenues and costs from radiological and cardiological services are included in this division.

Net Medical Xpress Specialists is the clinical division that provides telemedicine services to hospitals and other medical services providers. The Company currently employs credentialed specialists in the field of neurology, cardiology and critical care, as well as primary care physicians in this division. The Company facilitates real-time assessment of patients through an examination of the patient via video conferencing, combined with its medical software. Currently, all revenues and costs for neurology/stroke assessment, behavioral medicine assessments, home health care and critical care are included in this division, as well as revenues and costs for equipment necessary for the customer to initiate the specialist program.

Net Medical Xpress Staffing is the division that locates and recruits physicians to provide telemedicine services. Revenues and costs for the recruitment of telemedicine physicians are included in this division.

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 December 31, 2016, the Company did not have cash and equivalents that exceeded federally insured limits.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $24,000 and $28,000 at December 31, 2016 and 2015, respectively. The estimate is based upon management s review of all accounts and an assessment of the Company s historical evidence of collections. Specific accounts are charged directly to the reserve when management obtains evidence of a customer s insolvency. Charge-offs, net of recoveries, for the years ended December 31, 2016 and 2015 totaled $1,000 and $8,000, 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 2016 and 2015, 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.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

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. As of December 31, 2016, the Company determined that its goodwill is impaired and an impairment loss of $80,000 was recorded as of December 31, 2016.

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 Consolidated Financial Statements

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation, continued:

During the years ended December 31, 2016 and 2015, the Company recognized stock-based compensation expense totaling $106,000 and $128,000, from the issuance of a total of 450,000 and 0 shares of its common stock to officers, directors, and consultants (See Note H).

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 on 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 Consolidated Financial Statements

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 December 31, 2016 and December 31, 2015, 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 years ended December 31, 2016 and 2015, respectively.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

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:

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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 consolidated financial statements.

NOTE C - GOING CONCERN

The accompanying 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 $15,986,000 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.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE D - FURNITURE, EQUIPMENT, AND IMPROVEMENTS

Furniture, equipment, and improvements as of December 31, 2016 and 2015 consisted of the following:

	2016	2015
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	(706,000)	(694,000)
	$ 4,000	$ 16,000

Depreciation expense for the years ended December 31, 2016 and 2015 was $3,000 and $12,000, respectively. In addition, the Company had $9,000 and $12,000 of depreciation expense that was allocated to direct costs for the years ended December 31, 2016 and 2015, 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.

NOTE F - NOTES PAYABLE

Notes Payable - Related Party:

On March 1, 2011, the Company received a $2,000 loan from a director of the Company. This loan is non-interest bearing and is due on demand. On May 1, 2012, the Company received a $25,000 loan from a director of the Company. The loan bears interest at 7% per annum with principal and interest payable on or before April 30, 2015. On September 1, 2012, the Company received an $18,000 loan from a director of the Company. The loan bears

interest at 7% per annum with principal and interest payable on or before August 31, 2016. During 2016, all loans were extended for one year. At December 31, 2016 and December 31, 2015, there is approximately $14,000 and $10,000, respectively, in accrued interest included in notes payable - related party related to these notes.

Notes Payable:

During the year ended December 31, 2016, the Company financed an insurance premium in the amount of $103,000. The note bears an interest rate of 4.92%, is payable in monthly principal and interest payments of $11,000 with a maturity date in May 2017. As of December 31, 2016, this notes totaled $21,000. Total interest expense for the year ended December 31, 2016 related to note payable for this insurance premium was approximately $2,000.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE G - 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 has been impairment of goodwill. As of December 31, 2016 and December 31, 2015, the Company recognized $80,000 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 December 31, 2016, no additional compensation has been earned.

NOTE H - STOCKHOLDERS EQUITY

Common Stock:

The holders of our common stock are entitled to equal dividends and distributions when, as, and if declared by the Board of Directors from available funds. No holder of any shares of common stock has a preemptive right to subscribe for any of our securities, nor are any common shares subject to redemption or convertible into other of our securities, except for outstanding options described below. Upon liquidation, dissolution or winding up, and after payment of creditors and preferred stockholders, if any, the assets will be divided pro-rata on a share-for-share basis among the

holders of the shares of common stock. All shares of common stock now outstanding are fully paid, validly issued and non-assessable. Each share of common stock is entitled to one vote with respect to the election of any director or any other matter upon which shareholders are required or permitted to vote. Holders of our common stock do not have cumulative voting rights, so the holders of more than 50% of the combined shares voting for the election of directors may elect all of the directors if they choose to do so, and, in that event, the holders of the remaining shares will not be able to elect any members to the Board of Directors.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE H - STOCKHOLDERS EQUITY (CONTINUED)

During the year ended December 31, 2016, the Company effected the following common stock transactions:

The Company effected a 9:1 reverse stock split that became effective June 20, 2016. All share amounts and prices have been retroactively restated.

The Company issued a total of 50,000 shares of the Company s $0.001 par value common stock to contractors in exchange for services during 2016 valued at $10,000.

The Company issued a total of 200,000 shares of the Company s $0.001 par value common stock to two officers and directors in exchange for services performed during 2016 valued at $48,000. The Company expensed $48,000 during the year ended December 31, 2016.

The Company issued a total of 200,000 shares of the Company s $0.001 par value common stock to two outside directors in exchange for services performed during 2016 valued at $48,000. The Company expensed $48,000 during the year ended December 31, 2016.

Preferred Stock:

Under the Company s Certificate of Incorporation, the Board of Directors has the power, without further action by the holders of the common stock, to designate the relative rights and preferences of the preferred stock, and to issue the preferred stock in one or more series as designated by the Board of Directors. The designation of rights and preferences could include preferences as to liquidation, redemption and conversion rights, voting rights, dividends or other preferences, any of which may be dilutive of the interest of the holders of the common stock or the preferred stock of any other series. The issuance of preferred stock may have the effect of delaying or preventing a change in control of the Company without further shareholder action and may adversely affect the rights and powers, including voting rights, of the holders of common stock. In certain circumstances, the issuance of preferred stock could depress the market price of the common stock.

During the year ended December 31, 2016, the Company effected no preferred stock transactions.

Stock Options:

Exercise prices and weighted-average contractual lives of stock options outstanding as of December 31, 2016 and 2015 are as follows:

Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Prices	Number Exercisable
$0.396	55,556	0.16	$0.396	55,556

These shares have no intrinsic value at December 31, 2016.

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE H - STOCKHOLDERS EQUITY (CONTINUED)

Summary of Options Granted and Outstanding:

	For the Years Ended December 31,			
	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:				
Outstanding at beginning of year	722,222	$0.27	722,222	$0.27
Granted	0	$0.00	0	$0.00
Expired	(666,666)	$0.27	0	$0.00
Exercised	0	$0.00	0	$0.27
Outstanding at end of year	55,556	$0.396	722,222	$0.27

During the years ended December 31, 2016 and December 31, 2015, no options were granted. There are 666,666 options expired during 2016.

NOTE I - INCOME TAXES

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

As of December 31, 2016, the Company had federal net operating loss carry forwards of approximately $12,995,000, which expire in varying amounts between 2021 and 2032. Realization of this potential future tax benefit is dependent on generating sufficient taxable income prior to expiration of the loss carry forward.

At December 31, 2016 and 2015, the Company had a federal operating loss carry forward of $12,995,000 and $12,742,000. Components of net deferred tax assets, including a valuation allowance, are as follows at December 31:

	2016	2015
Deferred tax assets:		
Net operating loss carry forward	$ 3,806,000	$ 3,796,000
Stock based compensation	88,000	128,000
Total deferred tax assets	3,894,000	3,924,000
Less: Valuation Allowance	(3,894,000)	(3,924,000)
Net Deferred Tax Assets	$ --	$ --

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE I - INCOME TAXES (CONTINUED)

The valuation allowance for deferred tax assets as of December 31, 2016 and 2015 was $3,894,000 and $3,924,000, respectively. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not the deferred tax assets would be realized as of December 31, 2016 and 2015.

Reconciliation between the statutory rate and the effective tax rate is as follows at December 31:

	2016	2015
Federal statutory tax rate	(35.0)%	(35.0)%
State taxes, net of federal tax benefit	(5.0)%	(5.0)%
Permanent difference and other	40.0%	40.0%
Effective tax rate	0%	0%

NOTE J - MAJOR CUSTOMERS

During the year ended December 31, 2016, three customers accounted for 36% of the Company s total revenue. During the year ended December 31, 2015, two customers accounted for 30% of the Company's total revenue.

As of December 31, 2016, balances due from one customer comprised 33% or $93,000 of total accounts receivable.

NOTE K - REPORTABLE SEGMENTS

During 2017, the Company has determined that it only has one business segment - physician services. All of its product and service offerings are in support of, and integrated with, physician services. During the past year the lines between previously identified business segments have become increasingly blurred and arbitrary as the Company provides ever more integrated products and services. As a result, discrete financial information for specific segments is not readily available.

The reasons contributing to this determination are:

.

The Company does not market its various physician services separately

.

In all segments, the Company s physicians provide telemedicine services to its customers

.

The hiring and credentialing process is similar across all segments of telemedicine

.

The type of customer is similar across all segments of telemedicine

.

All of the Company s physician services are performed over the internet, using its browser-based PACS system

.

The Company now has customers crossing over into multiple telemedicine services

.

There is no separate regulation of specific telemedicine services

Net Medical Xpress Solutions, Inc.

Notes to Consolidated Financial Statements

NOTE L - 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 December 31, 2016 are as follows:

Year	Amount
2017	89,000
2018	90,000
2019	92,000

Rent expense for the years ended December 31, 2016 and 2015 amounted to $88,000 and $86,000, respectively.

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 annually unless terminated by either party. The non-compete agreement has remained intact and becomes effective only in the event of termination by either party. It will remain in effect for duration of the contract.

NOTE M - SUBSEQUENT EVENTS

In January 2017, 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 lawsuit related to the purchase of MedTel Solutions, LLC in July 2013.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the two most recent fiscal years, there have been no disagreements with RBSM, LLP, our independent auditor for the years ended December 31, 2016 and 2015, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

ITEM 9A. CONTROLS AND PROCEDURES

307 - Disclosure controls and procedures: As of December 31, 2016, 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 December 31, 2016, such disclosure controls and procedures were not effective.

308(a)(1) - Management s responsibility: Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Exchange Act Rule 15d-15(f) as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements. Because of inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

308(a)(2) - Framework used for evaluation: In its evaluation of our internal control over financial reporting, our management has used the *Internal Control - Integrated Framework* (1992) and *Internal Control Over Financial Reporting Guidance for Smaller Public Companies* (2006), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

308(a)(3) - Evaluation of our internal control over financial reporting: Pursuant to Rule 15d-15 of the Exchange Act, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2016. Based on this evaluation, our management, with the participation of our principal executive and principal financial officers, concluded that our internal control over financial reporting was not effective as of December 31, 2016. Management has identified the following material weakness in our internal control over financial reporting:

.

We do not have adequate personnel and other resources to assure that significant and complex transactions are timely analyzed and reviewed.

.

We have limited personnel and financial resources available to plan, develop, and implement disclosure and procedure controls and other procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

.

Our limited financial resources restrict our employment of adequate personnel needed and desirable to separate the various receiving, recording, reviewing and oversight functions for the exercise of effective control over financial reporting.

.

Our limited resources restrict our ability to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is accumulated and communicated to management to allow timely decisions regarding required disclosure.

308(c) - 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 year ended December 31, 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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.

ITEM 9B. OTHER INFORMATION

We do not have any information required to be disclosed on Form 8-K during the fourth fiscal quarter of 2016 which has not been discloses on Form 8-K. We filed a report on Form 8-K for an event date of November 15, 2016.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Our directors and officers are set forth below. The directors hold office for a one-year term and until their successors are duly elected and qualified. The officers serve at the will of the board of directors, subject to the terms of their employment agreements.

Name	Age	Position	Director Since
Richard F. Govatski	72	Chairman, President and Chief Executive Officer	1999
Teresa B. Dickey	73	Director, Secretary & Treasurer	2002
John E. Handley	55	Director	2003
Frank A. Reidy	75	Director	2005

We do not have a separately designated audit committee, compensation committee or nominating committee. However, Mr. Handley and Mr. Reidy, both qualify as audit committee financial experts because of their education and experience in business and accounting. Using the definition of independence contained in the NASDAQ listing rules, Mr. Handley and Mr. Reidy are independent directors but neither of them is a lead independent director. Mr. Govatski and Ms. Dickey are not independent directors. We have not made determination whether or not leadership structure our board of directors is appropriate given our specific characteristics or circumstances. Our entire board of directors is expected to participate in our risk oversight. We have the authority under Nevada law and our bylaws to indemnify our directors and officers against certain liabilities. We have been informed by the U.S. Securities and Exchange Commission that indemnification against violations of federal securities law is against public policy and therefore unenforceable.

Set forth below is certain biographical information regarding our executive officers and directors. There are no family relationships between any director, executive officer, or person nominated or chosen by us to become a director or executive officer.

RICHARD GOVATSKI has been our chairman, CEO, and President since 1996. Mr. Govatski founded Net Medical Xpress Solutions in 1996 after he identified market inefficiencies in how intellectual property owners managed their image assets. Prior to Net Medical Xpress Solutions, Mr. Govatski spent 18 years in systems integration and publishing, both in sales management and software development. Mr. Govatski led the sales teams for Popular Electronics, Computer Shopper, Shutterbug, and MacWeek. Later he sold numerous solutions for vendors, including Kodak, Apple Computer, and Sun Microsystems. Mr. Govatski also spent several years in systems development as President of Media Publishing Group and built graphic applications for companies including Ferrari Color, Time

Magazine, New York Daily News, and Getty Images. He earned a Bachelor of Science degree in Communications from Butler University, located in Indianapolis, Indiana in 1968.

TERESA B. DICKEY has been our Secretary/Treasurer since August 1999 and a director beginning 2002. From 1988 until 1999 she was employed by Sandia National Laboratory as art director. Sandia National Laboratory is a U.S. Department of Energy national security laboratory. In 1964, Ms. Dickey earned her Bachelor of Professional Arts degree from the Art Center College of Design in Pasadena, California.

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

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

Code of Ethics.

We have not adopted a code of ethics governing the conduct of our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Nomination of Candidates for Directors by Stockholders.

We have not adopted any procedures for nomination of candidates for directors by our stockholders.

Board Meeting Attendance.

Our board held three meetings during 2016. Each of the directors attended all three meetings.

Shareholder Communications.

We have not established any process for security holders to communicate with our board of directors. Our stockholders are welcome to contact our directors and executive officers individually at any time, subject to the

limitations of material non-public information pursuant to Regulation FD.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

Summary Compensation Table. The following table sets forth information concerning the annual and long-term compensation awarded to, earned by, or paid to the named executive officer for all services rendered in all capacities to us, or any of our subsidiaries, for the years ended December 31, 2016, 2015 and 2014. We did not pay any executive officer more than $100,000 in the last two fiscal years.

Name and Principal Position	Year	Salary	Stock Awards	Total ($)
Richard F. Govatski	2016	$36,000	$24,000	$60,000
President and Chief Executive Officer	2015	$22,000	$27,000	$49,000
Teresa B. Dickey	2016	$35,000	$24,000	$60,000
Chief Financial Officer	2015	$22,000	$27,000	$49,000

Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option/Par Values

The following table sets forth certain information regarding stock options granted during fiscal 2012 and held as of December 31, 2016, by Mr. Govatski.

Name	Shares acquired on exercise	Value realized	Number of securities underlying unexercised options at fiscal year-end Exercisable/Unexercisable	Value of unexercised in-the-money options at fiscal year-end (1) Exercisable/Unexercisable
Richard F. Govatski	-0-	N/A	55,556/0	$0/$0 (2)

(1) Value is based on the closing sale price of the Common Stock on December 31, 2016, the last trading day of fiscal 2016 ($0.115), less the applicable option exercise price.

(2) All of these were exercisable at $0.396 per share.

Employment Contracts

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. An increase to $35,000 was approved for 2016. The agreement will automatically renew annually unless terminated by either party. The non-compete agreement has remained intact and becomes effective only in the event of termination by either party. It will remain in effect for duration of the contract.

We do not have an employment agreement with Ms. Dickey.

Compensation of Directors

Name	Shares Awards	2016 Total

John Handley	$24,000	$24,000
Frank Reidy	$24,000	$24,000

Directors are permitted to receive fixed fees and other compensation for their services. The Board of Directors has the authority to fix the compensation of directors. During the year ended December 31, 2016, the Board awarded 100,000 shares of our common stock to each Director for services performed during the year ended December 31, 2016. No additional compensation was granted for services as Directors. During 2016, Mr. Govatski and Ms. Dickey agreed to forego compensation as directors and apply the shares originally received as director compensation toward their executive salaries for 2016.

Stock Option and Stock Issuance Plans

		Options Outstanding	
Plan	**Year**	**and Exercisable (#)**	**Option Expiration Date**
Replacement options	2007	55,556	March 2, 2017

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information about the common stock ownership by (i) each director and executive officer; and (ii) directors and executive officers as a group. We do not know of any other person who owns more than five percent of our common stock. The address of our Directors and Officers is our address.

Name and Address of Beneficial Owner	**Amount and Nature of Beneficial Owner (1)**	**Percent of Class (1)**
Richard F. Govatski	2,840,449 (2)	14.31%
Teresa B. Dickey	1,230,612	6.20%
John Handley	1,486,538	7.49%
Frank Reidy	2,604,456	13.12%
Directors and Executive Officers as a Group	8,162,055	41.12%
(4 Persons)		

(1) All of the persons are believed to have sole voting and investment power over the shares of common stock listed or share voting and investment power with his or her spouse, except as otherwise provided. Percentage is based on 19,850,591 shares outstanding as of March 17, 2017. Percentage includes amounts which the listed beneficial owner has the right to acquire within sixty days.

(2) This number of shares includes options to purchase 55,556 shares. These options have vested and are currently exercisable. The shares underlying these options are included in the table and are considered to be outstanding for purposes of computing the percentage interest held by Mr. Govatski.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We did not enter into any transactions with our directors and executive officers in 2016, other than service and employment-based transactions, and none are proposed.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit fees

The aggregate fees billed for fiscal years ended December 31, 2016 and 2015 by RBSM, LLP for professional services rendered for the audit of our annual financial statements and review of financial statements included in our quarterly reports on Form 10-Q were $45,000 and $36,000, respectively.

Audit-related fees

Not applicable

Tax fees

The aggregate fees billed for tax services rendered by Reese Gateley, CPA for tax compliance and tax advice for the fiscal years ended December 31, 2016 and 2015 were $1,000 and $2,000, respectively.

All other fees

None

Audit committee pre-approval policy

Under provisions of the Sarbanes-Oxley Act of 2002, our principal accountant may not be engaged to provide non-audit services that are prohibited by law or regulation to be provided by it, and the Board of Directors (which serves as our audit committee) must pre-approve the engagement of our principal accountant to provide audit and permissible non-audit services. Our Board has not established policies or procedures other than those required by applicable laws and regulations.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial statements; see index to financial statement and schedules in Item 8 herein.

2. Financial statement schedules; see index to financial statements and schedules in Item 8 herein.

3. Exhibits: None

SIGNATURES

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

Net Medical Xpress Solutions, Inc.

Date: April 14, 2017 */s/ Richard F. Govatski*
Richard F. Govatski
President, Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 14, 2017 */s/ Teresa B. Dickey*
Teresa B. Dickey, Director, Secretary, Treasurer and Principal Financial Officer

Date: April 14, 2017 */s/ John Handley*
John E. Handley, Director

Date: April 14, 2017 */s/ Frank A. Reidy*
Frank A. Reidy, Director