



Dick Govatski says profits are in sight | STAFF PHOTO

NM Software has lost money, but not investor confidence

BY KEVIN ROBINSON-AVILA | NMBW STAFF

Seven money-losing years have yet to deter **New Mexico Software Inc.** President and CEO Dick Govatski from his dogged pursuit of profitability.

The company - one of only 10 publicly traded thus in New Mexico - reported a \$900,000 loss in the first half of 2006, nearly equaling in just six months the \$ 1.05 million in losses reported in all of 2005.

But an ever optimistic Govatski says black ink is just around the corner.

"We've made it through some very difficult times...but we've managed to stay afloat," Govatski says. "I believe we are only one large contract away from turning the whole company around."

That's a big claim from a company that has yet to report an annual profit. But even some of his long-time investors now say Govatski might just be right, despite gloomy financial reports that seem to indicate the opposite.

"I'm confident we'll see profitability," says George Richmond, a veteran technology investor and one of Govatski's patient shareholders. "The market doesn't believe it. That's why stock prices are so low, but the company will demonstrate it's viability in the next couple of quarters." Richmond says.

The Albuquerque company provides comprehensive, Internet-based software and services that allow businesses to organize, archive and instantly access images and data. Govatski created the firm working out of his apartment in 1995 and in 1999, went public by merging with a bankrupt Utah company kept alive as a placeholder on the **OTC Bulletin Board**.

Listed as NMXC on the board, investors have lost 2 or 3 cents per share every year, including a 10-cent-per-share loss in 2001.

Revenues have been erratic and peaked in 2002 at nearly \$1.7 million, then plummeted to just \$1.02 million in 2004. And, despite a sales rebound in 2005, net losses continue to climb. Last year's \$1.05 million loss was 50 percent higher than the \$703,000 loss the company reported in 2004. All told, since 2001, NM Software has racked up an accumulated \$6.3 million in losses.

The company's stock price has been even more volatile. After dropping to a low of 5 cents per share in the first quarter of 2003. Prices climbed to a peak of \$1.07 in first quarter 2004. Since then they've trended steadily downward, reaching a range of less than 1 cent to a high of 13 cents in the last quarter of 2005. Currently, the stock trades at about 7 cents per share.

Nevertheless, investors continue to buy stock, with more than 65 million common shares currently outstanding---including 12 million shares purchased just since last year. Since taking the company public seven years ago, Govatski has raised roughly \$5 million from the sale of stock.

Govatski says continued investor confidence reflects management's ability to navigate the hard times by implementing bold changes.

"People continue to invest because they see us reinventing ourselves," Govatski says.

Indeed, as bad as the numbers look at first glance, they reflect a turnaround in company strategy. The company has trashed its strategy of going after high-end accounts that bring in big revenues in one quarter, but not the next. That's been a formula for huge swings in revenue that Govatski says he's abandoning. Instead, management is now pursuing smaller revenue-recurring accounts that keep cash flowing and that can help pull quarterly financial reports out the red, Govatski says.

The company is focusing on sales to medical companies, particularly radiology firms that need to archive X-rays for immediate, real-time retrieval. NM Software stores and manages the data at its center in Albuquerque and charges for each report accessed by a client company.

Billing for reports means a monthly revenue flow from clients, Govatski says. The company earned nearly \$60,000 from 40,000 report fees billed just during the first half of 2006.

"We pay for each mouse click to access a report," says Tom Potter, chief operating officer at **Premier Medical Enterprise Solutions Inc.** in St. Petersburg, Fla. Premier signed up with

NM Software in 2005 and, until recently was paying about \$3,000 to \$4,000 per month for services. "It's now costing us about \$10,000 per month," Potter says. "But it's good for us because the servers are in New Mexico. We don't have to invest in our own system."

The company hired six new salespeople this year, invested in a major advertising campaign and contracted a consultant for marketing strategy. The company now employs a total of 25 people, including seven sales people and five consultants.

Taken together, these investments have driven up expenses since January, by \$512,000 or 94 percent, largely accounting for the high income losses this year, Govatski says.

Finally the company has paid down a \$359,000 debt to the IRS for back taxes and now has only \$75,000 left to pay off. It also reduced its **Bank of Los Alamos** debt from \$316,000 to \$63,000.

Govatski says the company could be debt-free by the end of 2006. In fact, it had \$96,000 in working capital as of June 30, compared with a deficit of \$384,000 in June 2005.

And, with two new medical contracts signed in August with Arizona- and California-based firms, plus another half dozen medical contracts under negotiation, Govatski believes profitability is only one or two quarters away. Perhaps most important, investors agree.

"It almost looks like a new company," says Charles Trapp of New Jersey-based **Somerset Kensington Capital**, which invested in the company in 2005. "They're starting to land some real contracts."

Brian McGowan, a NM Software consultant paid with company stock, says similar start ups spend and lose a lot more than NM Software to become profitable.

"I wouldn't have accepted company shares if I didn't think they were worth anything," McGowan says. "I think it's a great opportunity."

NM SOFT: Investors, clients laud firm's product

NM Software Inc. revenue and net income

(in Millions)

	2001	2002	2003	2004	2005	First Half 2005	First Half 2006
Revenue	1,279	1,658	1.3	1,018	1,399	.634	.445
Net income loss	(2,240)	(522)	(884)	(703)	(1,048)	(290)	(908)
Loss per share	(0.10)	(0.02)	(0.03)	(0.02)	(0.03)		

SOURCE: ANNUAL REPORTS TO THE SEC FOR 2004 AND 2005 AND FOR SECOND QUARTER 2006.

krobinson-avila@bizjournals.com | 348-8302

©2006 NEW MEXICO BUSINESS WEEKLY
 ALL RIGHTS RESERVED.