FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND
Form DEF 14A
March 22, 2010

As filed with the Securities and Exchange Commission on March 22, 2010.

==

1933 Act File No. 333-134540
1940 Act File No. 811-21905

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the registrant [X]
Filed by a party other than the registrant [ ]

Check the appropriate box:

[ ] Preliminary proxy statement.
[ ] Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).
[X] Definitive proxy statement.
[ ] Definitive additional materials.
[ ] Soliciting material pursuant to Section 240.14a-12

FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):
[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

----

(2) Aggregate number of securities to which transaction applies:

----

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

----

(4) Proposed maximum aggregate value of transaction:

----

(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND
ENERGY INCOME AND GROWTH FUND
FIRST TRUST ENHANCED EQUITY INCOME FUND
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
FIRST TRUST/FIDAC MORTGAGE INCOME FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND II
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND III
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND
FIRST TRUST ACTIVE DIVIDEND INCOME FUND

120 East Liberty Drive, Suite 400
Wheaton, Illinois 60187

March 18, 2010

Dear Shareholder:

The accompanying materials relate to the Joint Annual Meetings of Shareholders (collectively, the "Meeting") of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust/FIDAC Mortgage Income Fund, First Trust Strategic High Income Fund, First Trust Strategic High Income Fund II, First Trust/Aberdeen Emerging Opportunity Fund, First Trust Strategic High Income Fund III, First Trust Specialty Finance and Financial Opportunities Fund and First Trust Active Dividend Income Fund (each a "Fund" and collectively, the "Funds"). The Meeting will be held at the offices of First Trust Advisors L.P., 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, on Wednesday, April 14, 2010, at 4:00 p.m. Central Time.

At the Meeting, you will be asked to vote on a proposal to elect certain of the Trustees of your Fund (the "Proposal") and to transact such other business as may properly come before the Meeting and any adjournments or postponements thereof. The Proposal is described in the accompanying Notice of Joint Annual Meetings of Shareholders and Joint Proxy Statement.

Your participation at the Meeting is very important. If you cannot attend the Meeting, you may participate by proxy. As a Shareholder, you cast one vote for each share of a Fund that you own and a proportionate fractional vote for any fraction of a share that you own. Please take a few moments to read the enclosed materials and then cast your vote on the enclosed proxy card.

Voting takes only a few minutes. Each Shareholder's vote is important. Your prompt response will be much appreciated.

After you have voted on the Proposal, please be sure to sign your proxy card and return it in the enclosed postage-paid envelope.

We appreciate your participation in this important Meeting.

Thank you.

Sincerely,

/s/ James A. Bowen

James A. Bowen
Chairman of the Board

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and will avoid the time and expense to the Fund involved in validating your vote if you fail to sign your proxy card properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card.

2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to the name shown in the registration.

3. All Other Accounts: The capacity of the individual signing the proxy should be indicated unless it is reflected in the form of registration. For example:

	REGISTRATION	VALID SIGNATURE
CORPORATE ACCOUNTS		
(1)	ABC Corp.	ABC Corp.
(2)	ABC Corp.	John Doe, Treasurer
(3)	ABC Corp. c/o John Doe, Treasurer	John Doe
(4)	ABC Corp. Profit Sharing Plan	John Doe, Trustee
TRUST ACCOUNTS		
(1)	ABC Trust	Jane B. Doe, Trustee
(2)	Jane B. Doe, Trustee u/t/d 12/28/78	Jane B. Doe

CUSTODIAL OR ESTATE ACCOUNTS		
(1)	John B. Smith, Cust. f/b/o John B. Smith, Jr., UGMA	John B. Smith
(2)	John B. Smith	John B. Smith, Jr., Executor

MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND
ENERGY INCOME AND GROWTH FUND
FIRST TRUST ENHANCED EQUITY INCOME FUND
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
FIRST TRUST/FIDAC MORTGAGE INCOME FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND II
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND III
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND
FIRST TRUST ACTIVE DIVIDEND INCOME FUND

120 East Liberty Drive, Suite 400
Wheaton, Illinois 60187

NOTICE OF JOINT ANNUAL MEETINGS OF SHAREHOLDERS
To be held on April 14, 2010

March 18, 2010

To the Shareholders of the above Funds:

Notice is hereby given that the Joint Annual Meetings of Shareholders (collectively, the "Meeting") of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust/FIDAC Mortgage Income Fund, First Trust Strategic High Income Fund, First Trust Strategic High Income Fund II, First Trust/Aberdeen Emerging Opportunity Fund, First Trust Strategic High Income Fund III, First Trust Specialty Finance and Financial Opportunities Fund and First Trust Active Dividend Income Fund (each a "Fund" and collectively, the "Funds"), each a Massachusetts business trust, will be held at the offices of First Trust Advisors L.P., 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, on Wednesday, April 14, 2010, at 4:00 p.m. Central Time, for the following purposes:

1. To elect two Trustees (the Class III Trustees) of each Fund.

2. To transact such other business as may properly come before the Meeting or any adjournments or postponements thereof.

The Board of Trustees has fixed the close of business on January 25, 2010 as the record date for the determination of Shareholders entitled to notice of and to vote at the Meeting and any adjournments or postponements thereof.

By order of the Board of Trustees,

/s/ W. Scott Jardine

W. Scott Jardine

Secretary

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING ARE REQUESTED TO PROMPTLY COMPLETE, SIGN, DATE AND RETURN THE PROXY CARD IN THE ENCLOSED ENVELOPE WHICH DOES NOT REQUIRE POSTAGE IF MAILED IN THE CONTINENTAL UNITED STATES. INSTRUCTIONS FOR THE PROPER EXECUTION OF PROXIES ARE SET FORTH ON THE INSIDE COVER OF THIS PROXY STATEMENT.

This page intentionally left blank.

MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND
ENERGY INCOME AND GROWTH FUND
FIRST TRUST ENHANCED EQUITY INCOME FUND
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
FIRST TRUST/FIDAC MORTGAGE INCOME FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND II
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND
FIRST TRUST STRATEGIC HIGH INCOME FUND III
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND
FIRST TRUST ACTIVE DIVIDEND INCOME FUND

JOINT ANNUAL MEETINGS OF SHAREHOLDERS
April 14, 2010

120 East Liberty Drive, Suite 400
Wheaton, Illinois 60187

JOINT PROXY STATEMENT
March 18, 2010

This Joint Proxy Statement and the enclosed proxy card will first be mailed to shareholders on or about March 19, 2010.

This Joint Proxy Statement is furnished in connection with the solicitation of proxies by the Boards of Trustees of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust/FIDAC Mortgage Income Fund, First Trust Strategic High Income Fund, First Trust Strategic High Income Fund II, First Trust/Aberdeen Emerging Opportunity Fund, First Trust Strategic High Income Fund III, First Trust Specialty Finance and Financial Opportunities Fund and First Trust Active Dividend Income Fund (each a "Fund" and collectively, the "Funds"), each a Massachusetts business trust, for use at the Annual Meetings of Shareholders of the Funds to be held on Wednesday, April 14, 2010, at 4:00 p.m. Central Time, at the offices of First Trust Advisors L.P., 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, and at any adjournments or postponements thereof (collectively, the "Meeting"). A Notice of Joint Annual Meetings of Shareholders and a proxy card accompany this Joint Proxy Statement. The Boards of Trustees of the Funds have determined that the use of this Joint

Proxy Statement is in the best interests of each Fund in light of the same matter being considered and voted on by shareholders.

Proxy solicitations will be made, beginning on or about March 19, 2010, primarily by mail. However, proxy solicitations may also be made by telephone or personal interviews conducted by (i) officers of each Fund; (ii) First Trust Advisors L.P. ("First Trust Advisors" or the "Advisor"), the investment advisor of the Funds; (iii) PNC Global Investment Servicing (U.S.) Inc. ("PNC"), the administrator, accounting agent and transfer agent of the Funds and a majority-owned subsidiary of The PNC Financial Services Group, Inc.; or (iv) any agents or affiliates of the foregoing entities.

The costs incurred in connection with the preparation of this Joint Proxy Statement and its enclosures will be paid by the Funds. The Funds will also reimburse brokerage firms and others for their expenses in forwarding solicitation material to the beneficial owners of Fund shares.

The close of business on January 25, 2010 has been fixed as the record date (the "Record Date") for the determination of shareholders entitled to notice of and to vote at the Meeting.

Each Fund has one class of shares of beneficial interest, par value $0.01 per share, known as common shares ("Shares").

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON APRIL 14, 2010. This Joint Proxy Statement is available on the Internet at http://www.ftportfolios.com/common/cef/productinfo/common/ProxyVoting4.14.2010. Each Fund's most recent annual and semi-annual reports are also available on the Internet at http://www.ftportfolios.com. To find a report, select your Fund under the "Closed-End Funds" tab, select the "News & Literature" link, and go to the "Monthly/Quarterly/Semi-Annual or Annual Reports" heading. In addition, the Funds will furnish, without charge, copies of their most recent annual and semi-annual reports to any shareholder upon request. To request a copy, please write to the Advisor at 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, or call (800) 988-5891.

You may call (800) 988-5891 for information on how to obtain directions to be able to attend the Meeting and vote in person.

In order that your Shares may be represented at the Meeting, you are requested to:

- indicate your instructions on the proxy card;
- date and sign the proxy card;
- mail the proxy card promptly in the enclosed envelope which requires no postage if mailed in the continental United States; and
- allow sufficient time for the proxy card to be received by 4:00 p.m. Central Time, on Wednesday, April 14, 2010. (However, proxies received after this date may still be voted in the event the Meeting is adjourned or postponed to a later date.)

VOTING

As described further in the proposal, for each Fund, the affirmative vote of a plurality of the Shares present and entitled to vote at the Meeting will be required to elect the specified nominees as Class III Trustees of that Fund provided a quorum is present. Abstentions and broker non-votes will have no effect on the approval of the proposal.

If the enclosed proxy card is properly executed and returned in time to be voted at the Meeting, the Fund Shares represented thereby will be voted in accordance with the instructions marked thereon, or, if no instructions are marked thereon, will be voted in the discretion of the persons named on the proxy card. Accordingly, unless instructions to the contrary are marked thereon, a properly executed and returned proxy will be voted FOR the election of the nominees as Class III Trustees and at the discretion of the named proxies on any other matters that may properly come before the Meeting, as deemed appropriate. Any shareholder who has given a proxy has the right to revoke it at any time prior to its exercise either by attending the Meeting and voting his or her Shares in person, or by timely submitting a letter of revocation or a later-dated proxy to the applicable Fund at its address above. A list of shareholders entitled to notice of and to be present and to vote at the Meeting will be available at the offices of the Funds, 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, for inspection by any shareholder during regular business hours prior to the Meeting. Shareholders will need to show valid identification and proof of Share ownership to be admitted to the Meeting or to inspect the list of shareholders.

Under the By-Laws of each Fund, a quorum is constituted by the presence in person or by proxy of the holders of thirty-three and one-third percent (33-1/3%) of the voting power of the outstanding Shares entitled to vote on a matter. For the purposes of establishing whether a quorum is present, all Shares present and entitled to vote, including abstentions and broker non-votes (i.e., Shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or the persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter), shall be counted. Any meeting of shareholders may be postponed prior to the meeting with notice to the shareholders entitled to vote at that meeting. Any meeting of shareholders may, by action of the chairman of the meeting, be adjourned to permit further solicitation of proxies without further notice with respect to one or more matters to be considered at such meeting to a designated time and place, whether or not a quorum is present with respect to such matter. In addition, upon motion of the chairman of the meeting, the question of adjournment may be submitted to a vote of the shareholders, and in that case, any adjournment must be approved by the vote of holders of a majority of the Shares present and entitled to vote with respect to the matter or matters adjourned, and without further notice. Unless a proxy is otherwise limited in this regard, any Shares present and entitled to vote at a meeting, including broker non-votes, may, at the discretion of the proxies named therein, be voted in favor of such an adjournment.

OUTSTANDING SHARES

On the Record Date, each Fund had the following number of Shares outstanding:

FUND	SHA OUTST
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND	9,07
ENERGY INCOME AND GROWTH FUND	6,79
FIRST TRUST ENHANCED EQUITY INCOME FUND	19,97
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND	17,36
FIRST TRUST/FIDAC MORTGAGE INCOME FUND	4,04
FIRST TRUST STRATEGIC HIGH INCOME FUND	9,15
FIRST TRUST STRATEGIC HIGH INCOME FUND II	9,53
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND	5,38
FIRST TRUST STRATEGIC HIGH INCOME FUND III	9,15
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND	14,23
FIRST TRUST ACTIVE DIVIDEND INCOME FUND	7,55

Shares of Energy Income and Growth Fund are listed on the NYSE Amex under the ticker symbol FEN. Shares of the other Funds are listed on the New York Stock Exchange under the following ticker symbols: Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund (MFD); First Trust Enhanced Equity Income Fund (FFA); First Trust/Aberdeen Global Opportunity Income Fund (FAM); First Trust/FIDAC Mortgage Income Fund (FMY); First Trust Strategic High Income Fund (FHI); First Trust Strategic High Income Fund II (FHY); First Trust/Aberdeen Emerging Opportunity Fund (FEO); First Trust Strategic High Income Fund III (FHO); First Trust Specialty Finance and Financial Opportunities Fund (FGB); and First Trust Active Dividend Income Fund (FAV).

Shareholders of record on the Record Date are entitled to one vote for each Share the shareholder owns and a proportionate fractional vote for any fraction of a Share the shareholder owns.

To the knowledge of the Board of Trustees, as of the Record Date, no single shareholder or "group" (as that term is used in Section 13(d) of the Securities Exchange Act of 1934 (the "1934 Act")) beneficially owned more than 5% of any Fund's outstanding Shares, except as described in the following table. Information as to beneficial ownership of Shares, including percentage of outstanding Shares beneficially owned, is based on reports filed with the Securities and Exchange Commission ("SEC") by such holders and securities position listing reports from The Depository Trust & Clearing Corporation as of the Record Date. The Funds do not have any knowledge of the identity of the ultimate beneficiaries of the Shares listed below. A control person is one who owns, either directly or indirectly, more than 25% of the voting securities of a Fund or acknowledges the existence of control.

BENEFICIAL OWNERSHIP OF SHARES

NAME AND ADDRESS OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	%
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND:		
Charles Schwab & Co., Inc. 2423 E. Lincoln Drive Phoenix, AZ 85016	554,504 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	600,165 Shares	
Merrill Lynch, Pierce Fenner & Smith Safekeeping 101 Hudson Street, 8th Floor Jersey City, NJ 07302	1,518,247 Shares	
National Financial Services LLC 200 Liberty Street New York, NY 10281	632,547 Shares	
Raymond James & Associates, Inc. 880 Carillon Parkway P.O. Box 12749 St. Petersburg, FL 33716	600,783 Shares	
RBC Capital Markets Corporation 510 Marquette Ave. South Minneapolis, MN 55402	547,058 Shares	
ENERGY INCOME AND GROWTH FUND:		
Charles Schwab & Co., Inc. 2423 E. Lincoln Drive Phoenix, AZ 85016	487,939 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	1,893,026 Shares	
National Financial Services LLC 200 Liberty Street New York, NY 10281	497,307 Shares	
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	543,400 Shares	
FIRST TRUST ENHANCED EQUITY INCOME FUND:		

Wells Fargo and Company * 420 Montgomery Street San Francisco, CA 94104	1,041,351 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	6,377,217 Shares	
Merrill Lynch, Pierce Fenner & Smith Safekeeping 101 Hudson Street, 8th Floor Jersey City, NJ 07302	1,247,094 Shares	
Raymond James & Associates, Inc. P.O. Box 14407 St. Petersburg, FL 33733	1,481,112 Shares	
The Bank of New York Mellon 525 William Penn Place Pittsburgh, PA 15259	1,661,895 Shares	

* According to Schedule 13G dated January 19, 2010, the reporting persons have sole voting power of 1,012,223 Shares, shared voting power of 21,288 Shares, sole dispositive power of 1,027,363 Shares and shared dispositive power of 13,988 Shares.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND:		
Charles Schwab & Co., Inc. 2423 E. Lincoln Drive Phoenix, AZ 85016	1,022,537 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	2,716,200 Shares	
Merrill Lynch, Pierce Fenner & Smith Safekeeping 101 Hudson Street, 8th Floor Jersey City, NJ 07302	2,344,641 Shares	
National Financial Services LLC 200 Liberty Street New York, NY 10281	1,394,796 Shares	
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	1,609,066 Shares	
RBC Capital Markets Corporation 510 Marquette Ave. South Minneapolis, MN 55402	1,265,527 Shares	
FIRST TRUST/FIDAC MORTGAGE INCOME FUND:		

Sit Investment Associates, Inc. ** 3300 IDS Center 80 South Eighth Street Minneapolis, MN 55402	525,300 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	531,160 Shares	
Merrill Lynch, Pierce Fenner & Smith Safekeeping 101 Hudson Street, 8th Floor Jersey City, NJ 07302	426,368 Shares	
National Financial Services LLC 200 Liberty Street New York, NY 10281	491,744 Shares	
The Northern Trust Company 810 S. Canal Street Chicago, IL 60607	281,453 Shares	
FIRST TRUST STRATEGIC HIGH INCOME FUND:		
Charles Schwab & Co., Inc. 2423 E. Lincoln Drive Phoenix, AZ 85016	503,337 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	1,083,026 Shares	
National Financial Services LLC 200 Liberty Street New York, NY 10281	1,314,662 Shares	
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	556,908 Shares	

** This information is based on the most recent Schedule 13G filed with the SEC and does not necessarily reflect ownership as of the Record Date.

FIRST TRUST STRATEGIC HIGH INCOME FUND (CONTINUED):		
RBC Capital Markets Corporation 510 Marquette Ave. South Minneapolis, MN 55402	1,047,656 Shares	
FIRST TRUST STRATEGIC HIGH INCOME FUND II:		
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	1,582,787 Shares	

National Financial Services LLC 200 Liberty Street New York, NY 10281	784,931 Shares	
Oppenheimer & Co. Inc. 125 Broad Street, 15th Floor New York, NY 10004	545,934 Shares	
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	693,554 Shares	
RBC Capital Markets Corporation 510 Marquette Ave. South Minneapolis, MN 55402	954,761 Shares	
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND:		
Lazard Asset Management LLC ** 30 Rockefeller Plaza New York, NY 10112	684,722 Shares	
Advisors Asset Management, Inc. 18925 Base Camp Road Monument, CO 80132	438,695 Shares	
Citigroup Global Markets Inc. 700 Red Brook Blvd, Suite 300 Owings Mills, MD 21117	361,996 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	907,499 Shares	
Merrill Lynch, Pierce Fenner & Smith Safekeeping 101 Hudson Street, 8th Floor Jersey City, NJ 07302	595,094 Shares	
Raymond James & Associates, Inc. 880 Carillon Parkway P.O. Box 12749 St. Petersburg, FL 33716	335,989 Shares	
Wells Fargo Investments, LLC 625 Marquette Avenue, 13th Floor Minneapolis, MN 55402	318,667 Shares	
FIRST TRUST STRATEGIC HIGH INCOME FUND III:		
Charles Schwab & Co., Inc. 2423 E. Lincoln Drive Phoenix, AZ 85016	500,214 Shares	
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	1,309,868 Shares	

** This information is based on the most recent Schedule 13G filed with the SEC and does not necessarily reflect ownership as of the Record Date.

FIRST TRUST STRATEGIC HIGH INCOME FUND III (CONTINUED):		
National Financial Services LLC 200 Liberty Street New York, NY 10281	848,946 Shares	
Oppenheimer & Co. Inc. 125 Broad Street, 15th Floor New York, NY 10004	604,291 Shares	
Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399	731,004 Shares	
RBC Capital Markets Corporation 510 Marquette Ave. South Minneapolis, MN 55402	1,412,574 Shares	
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND:		
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	10,130,278 Shares	
Stifel, Nicolaus & Company, Incorporated 501 N. Broadway, 7th Floor St. Louis, MO 63102	781,420 Shares	
FIRST TRUST ACTIVE DIVIDEND INCOME FUND:		
First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	619,130 Shares	
National Financial Services LLC 200 Liberty Street New York, NY 10281	880,180 Shares	
Raymond James & Associates, Inc. 880 Carillon Parkway P.O. Box 12749 St. Petersburg, FL 33716	3,322,706 Shares	

PROPOSAL: ELECTION OF CLASS III TRUSTEES OF EACH FUND

Two (2) Class III Trustees are to be elected by holders of Shares of each Fund. Current Trustees James A. Bowen and Niel B. Nielson are the nominees for election as Class III Trustees by shareholders of each Fund for a three-year term.

Each Fund has established a staggered Board consisting of five (5) Trustees divided into three (3) classes pursuant to its respective By-Laws (the Boards of each Fund are herein referred to collectively as the "Board" or the "Board of Trustees"). As indicated on the chart set forth below under "Management--Management of the Funds," the term of each Trustee is set in accordance with the structure of the staggered Board of each Fund. At the annual meeting of shareholders of Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, Energy Income and Growth Fund, First Trust Enhanced Equity Income Fund, First Trust/Aberdeen Global Opportunity Income Fund, First Trust/FIDAC Mortgage Income Fund, First Trust Strategic High Income Fund, First Trust Strategic High Income Fund II and First Trust/Aberdeen Emerging Opportunity Fund held in 2007, current Trustees James A. Bowen and Niel B. Nielson were designated and elected as Class III Trustees with a term expiring at this year's Meeting and will stand as the nominees for election as Class III Trustees of each such Fund at this year's Meeting. At the organizational meetings of First Trust Strategic High Income Fund III, First Trust Specialty Finance and Financial Opportunities Fund and First Trust Active Dividend Income Fund, current Trustees James A. Bowen and Niel B. Nielson were designated as Class III Trustees with a term expiring at this year's Meeting and will stand as the nominees for election as Class III Trustees of each such Fund at this year's Meeting. If elected, Messrs. Bowen and Nielson will hold office for a three-year term expiring at the Funds' annual meeting of shareholders in 2013 in each case until their successors are elected and qualified, or until they resign, retire or are otherwise removed. Robert F. Keith, Richard E. Erickson and Thomas R. Kadlec are current and continuing Trustees. Mr. Keith is the Class I Trustee for a term expiring at the Funds' annual meeting of shareholders in 2011 or until his successor is elected and qualified, or until he resigns, retires or is otherwise removed. Messrs. Erickson and Kadlec are Class II Trustees for a term expiring at the Funds' annual meeting of shareholders in 2012 in each case until their successors are elected and qualified, or until they resign, retire or are otherwise removed.

Required Vote: For each Fund, the Class III Trustees must be elected by the affirmative vote of the holders of a plurality of the Shares of the Fund, cast in person or by proxy at the Meeting and entitled to vote thereon, provided a quorum is present. Abstentions and broker non-votes will have no effect on the approval of the proposal. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Unless you give contrary instructions on your proxy card, your Shares will be voted FOR the election of each nominee listed if your proxy card has been properly executed and timely received by the Fund. If a nominee should withdraw or otherwise become unavailable for election, your Shares will be voted FOR, AGAINST or to WITHHOLD with respect to such substitute nominee as management may recommend in accordance with the Fund's procedures.

The Board of Trustees Unanimously Recommends that Shareholders Vote FOR the Proposal.

MANAGEMENT

MANAGEMENT OF THE FUNDS

The following is a list of the Trustees and officers of each Fund and a statement of their present positions and principal occupations during the past five years, the number of portfolios each Trustee oversees and the other directorships they hold and have held during the past five years, if applicable. As noted above, each Fund has established a staggered Board consisting of five (5) Trustees divided into three (3) classes: Class I, Class II and Class III. The length of the term of office of each Trustee is generally three years, and when each Trustee's term begins and ends depends on the Trustee's designated class. The officers of the Funds serve indefinite terms. James A. Bowen is deemed an "interested person" (as that term is defined in the Investment Company Act of 1940, as amended ("1940 Act")) ("Interested Trustee") of the Funds due to his position as President of the Advisor. Each Trustee, except for Mr. Bowen, is not an "interested person" (as that term is defined in the 1940 Act) and is therefore referred to as an "Independent Trustee."

The remainder of this page is intentionally left blank.

INTERESTED TRUSTEE

NAME, ADDRESS, AND DATE OF BIRTH	POSITION(S) HELD WITH FUNDS	TERM OF OFFICE(2) AND LENGTH OF TIME SERVED(3)	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER PORTFOLI FIRST TRU COMPLEX O BY TRU
James A. Bowen(1) 120 East Liberty Drive Suite 400 Wheaton, IL 60187 DOB: 9/55	President, Chairman of the Board, Chief Executive Officer and Trustee	Class III Since 2004	President, First Trust Advisors L.P. and First Trust Portfolios L.P.; Chairman of the Board of Directors, BondWave LLC (Software Development Company/Investment Advisor) and Stonebridge Advisors LLC (Investment Advisor)	63 Port

INDEPENDENT TRUSTEES

NAME, ADDRESS, AND DATE OF BIRTH	POSITION(S) HELD WITH FUNDS	TERM OF OFFICE(2) AND LENGTH OF TIME SERVED(3)	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER PORTFOLI FIRST TRU COMPLEX O BY TRU

Richard E. Erickson c/o First Trust Advisors L.P. 120 East Liberty Drive Suite 400 Wheaton, IL 60187 DOB: 4/51	Trustee	Class II Since 2004	Physician; President, Wheaton Orthopedics; Co-owner and Co-Director (January 1996 to May 2007), Sports Med Center for Fitness; Limited Partner, Gundersen Real Estate Limited Partnership; Member, Sportsmed LLC	63 Portf
Thomas R. Kadlec c/o First Trust Advisors L.P. 120 East Liberty Drive Suite 400 Wheaton, IL 60187 DOB: 11/57	Trustee	Class II Since 2004	President (March 2010 to Present), Senior Vice President and Chief Financial Officer (May 2007 to March 2010), Vice President and Chief Financial Officer (1990 to May 2007), ADM Investor Services, Inc. (Futures Commission Merchant)	63 Portf
Robert F. Keith c/o First Trust Advisors L.P. 120 East Liberty Drive Suite 400 Wheaton, IL 60187 DOB: 11/56	Trustee	Class I Since 2006	President (2003 to Present), Hibs Enterprises (Financial and Management Consulting)	63 Portf
Niel B. Nielson c/o First Trust Advisors L.P. 120 East Liberty Drive Suite 400 Wheaton, IL 60187 DOB: 3/54	Trustee	Class III Since 2004	President (June 2002 to Present), Covenant College	63 Portf

OFFICERS

NAME, ADDRESS, AND DATE OF BIRTH	POSITION(S) HELD WITH FUNDS	TERM OF OFFICE(2) AND LENGTH OF TIME SERVED(3)	PRINCIPAL DURING Y
Mark R. Bradley 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 11/57	Treasurer, Controller, Chief Financial Officer and Chief Accounting Officer	Indefinite Since 2004	Chief Financial Offic L.P. and First Trust Financial Officer, Bo Development Company/I Stonebridge Advisors

Erin E. Chapman 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 8/76	Assistant Secretary	Indefinite Since June 2009	Assistant General Cou Present), Associate C October 2007), First First Trust Portfolio Attorney (November 20 & Bolotin, Ltd.
James M. Dykas 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 1/66	Assistant Treasurer	Indefinite Since 2005	Senior Vice President Vice President (Janua First Trust Advisors Portfolios L.P.
Christopher R. Fallow 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 4/79	Assistant Vice President	Indefinite Since 2006	Assistant Vice Presid Present), Associate (2006), First Trust Ad Trust Portfolios L.P.
W. Scott Jardine 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 5/60	Secretary and Chief Compliance Officer	Indefinite Since 2004	General Counsel, Firs First Trust Portfolio (Software Development Advisor); Secretary o LLC (Investment Advis
Daniel J. Lindquist 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 2/70	Vice President	Indefinite Since 2005	Senior Vice President Present), Vice Presid September 2005), Firs First Trust Portfolio
Coleen D. Lynch 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 7/58	Assistant Vice President	Indefinite Since July 2008	Assistant Vice Presid Present), First Trust Trust Portfolios L.P. 1998 to January 2008) Management and Morgan Management
Kristi A. Maher 120 East Liberty Drive, Suite 400 Wheaton, IL 60187 DOB: 12/66	Assistant Secretary and Deputy Chief Compliance Officer	Indefinite Assistant Secretary since 2004 Deputy Chief Compliance Officer since November 2009	Deputy General Counse Assistant General Cou 2007), First Trust Ad Trust Portfolios L.P.

- 12 -

The same five persons serve as Trustees on each Fund's Board and on the boards of all other funds in the First Trust Fund Complex (the "First Trust Funds"). The unitary board structure was adopted for the First Trust Funds because of the efficiencies it achieves with respect to the governance and oversight of the First Trust Funds. Each First Trust Fund is subject to the rules and regulations of the 1940 Act (and other applicable securities laws), which means that many of the First Trust Funds face similar issues with respect to certain of their fundamental activities, including risk management, portfolio liquidity, portfolio valuation and financial reporting. In addition, all of the First Trust closed-end Funds are managed by the Advisor and employ common service providers for custody, fund accounting, administration and transfer agency that provide substantially similar services to these Funds pursuant to substantially similar contractual arrangements. Because of the similar and often overlapping issues facing the First Trust Funds, including among the First Trust closed-end Funds, the Board of the First Trust Funds believes that maintaining a unitary board structure promotes efficiency and consistency in the governance and oversight of all First Trust Funds and reduces the costs, administrative burdens and possible conflicts that may result from having multiple boards. In adopting a unitary board structure, the Trustees seek to provide effective governance through establishing a Board the overall composition of which will, as a body, possess the appropriate skills, diversity, independence and experience to oversee the First Trust Funds' business.

Annually, the Board reviews its governance structure and the committee structures, their performance and functions and reviews any processes that would enhance Board governance over the Funds' business. The Board has determined that its leadership structure, including the unitary board and committee structure, is appropriate based on the characteristics of the Funds it serves and the characteristics of the First Trust Fund Complex as a whole. The Board is composed of four Independent Trustees and one Interested Trustee. The Interested Trustee serves as the Chief Executive Officer, President, and Chairman of the Board of each Fund.

In order to streamline communication between the Advisor and the Independent Trustees and create certain efficiencies, the Board has a Lead Independent Trustee who is responsible for: (i) coordinating activities of the Independent Trustees; (ii) working with the Advisor, Fund counsel and the independent legal counsel to the Independent Trustees to determine the agenda for Board meetings; (iii) serving as the principal contact for and facilitating communication between the Independent Trustees and the Funds' service providers, particularly the Advisor; and (iv) any other duties that the Independent Trustees may delegate to the Lead Independent Trustee. The Lead Independent Trustee is selected by the Independent Trustees and serves a two-year term until his successor is selected. Effective January 1, 2010, Niel B. Nielson serves as the Lead Independent Trustee.

The Board has established four standing committees (as described below) and has delegated certain of its responsibilities to those committees. The Board and its committees meet frequently throughout the year to oversee the Funds' activities, review contractual arrangements with and performance of service providers, oversee compliance with regulatory requirements, and review Fund performance. The Independent Trustees are represented by independent legal counsel at all Board and committee meetings. Generally, the Board acts by majority vote of all the Trustees, including a majority vote of the Independent Trustees, except where a different vote is required by applicable law.

The three committee chairs and the Lead Independent Trustee rotate every two years in serving as chair of the Audit Committee, the Nominating and Governance Committee or the Valuation Committee, or as Lead Independent Trustee.

The Lead Independent Trustee also serves on the Executive Committee with the Interested Trustee.

In addition to the Funds, the First Trust Fund Complex includes: First Defined Portfolio Fund, LLC, an open-end management investment company with 8 portfolios advised by First Trust Advisors; First Trust/Four Corners Senior Floating Rate Income Fund and First Trust/Four Corners Senior Floating Rate Income Fund II, closed-end funds advised by First Trust Advisors; and First Trust Exchange-Traded Fund, First Trust Exchange-Traded Fund II and First Trust Exchange-Traded AlphaDEX(R) Fund, each an exchange-traded fund with 18, 8 and 16 operating portfolios, respectively, advised by First Trust Advisors.

The four standing committees of the Board are: the Executive Committee (and Pricing and Dividend Committee), the Nominating and Governance Committee, the Valuation Committee and the Audit Committee. The Executive Committee, which meets between Board meetings, is authorized to exercise all powers of and to act in the place of the Board of Trustees to the extent permitted by each Fund's Declaration of Trust and By-Laws. The members of the Executive Committee also serve as a special committee of the Board known as the Pricing and Dividend Committee which is authorized to exercise all of the powers and authority of the Board in respect of the issuance and sale, through an underwritten public offering, of the Shares of each Fund and all other such matters relating to such financing, including determining the price at which such Shares are to be sold, approval of the final terms of the underwriting agreement, and approval of the members of the underwriting syndicate. Such Committee is also responsible for the declaration and setting of dividends. Mr. Nielson and Mr. Bowen are members of the Executive Committee. The number of meetings of the Executive Committee held by each Fund during its last fiscal year is shown on Schedule 1 hereto.

The Nominating and Governance Committee is responsible for appointing and nominating non-interested persons to the Board of Trustees. Messrs. Erickson, Kadlec, Keith and Nielson are members of the Nominating and Governance Committee, and each is an Independent Trustee who is also an "independent director" within the meaning of the listing standards of the NYSE Amex or the New York Stock Exchange, as applicable. The Nominating and Governance Committee operates under a written charter adopted and approved by the Board, a copy of which is available on the Funds' website at http://www.ftportfolios.com. If there is no vacancy on the Board of Trustees, the Board will not actively seek recommendations from other parties, including shareholders. The Committee will not consider new trustee candidates who are 72 years of age or older or will turn 72 years old during the initial term. When a vacancy on the Board of Trustees occurs and nominations are sought to fill such vacancy, the Nominating and Governance Committee may seek nominations from those sources it deems appropriate in its discretion, including shareholders of the applicable Fund. The Nominating and Governance Committee may retain a search firm to identify candidates. To submit a recommendation for nomination as a candidate for a position on the Board of Trustees, shareholders of the applicable Fund shall mail such recommendation to W. Scott Jardine, Secretary, at the Fund's address, 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187. Such recommendation shall include the following information: (i) evidence of Fund ownership of the person or entity recommending the candidate (if a Fund shareholder); (ii) a full description of the proposed candidate's background, including their education, experience, current employment and date of birth; (iii) names and addresses of at least three professional references for the candidate; (iv) information as to whether the candidate is an "interested person" in relation to the Fund, as such term is defined in the 1940 Act, and such other information that may be considered to impair the candidate's independence; and (v) any other information that may be helpful to the Committee in evaluating the candidate (see also "Shareholder Proposals" under Additional Information). If a recommendation is received with satisfactorily completed information regarding a candidate during a time when a vacancy exists on the Board or during such other time as the Nominating and Governance Committee is accepting recommendations, the recommendation will be forwarded to the Chair of the Nominating and Governance Committee and the counsel to the Independent Trustees. Recommendations received at any other time will be kept on file until such time as the Nominating and Governance Committee is accepting recommendations, at which point they may be considered for nomination. In connection with the evaluation of candidates, the review process may include, without limitation, personal interviews, background checks, written submissions by the candidates and third party references. Under no circumstances shall the Nominating and Governance Committee evaluate nominees recommended by a shareholder of the Funds on a basis substantially different than that used for other nominees for the same election or appointment of Trustees. The number of meetings of the Nominating and Governance Committee held by each Fund during its last fiscal year is shown on Schedule 1 hereto.

The Valuation Committee is responsible for the oversight of the pricing procedures of each Fund. Messrs. Erickson, Kadlec, Keith and Nielson are members of the Valuation Committee. The number of meetings of the Valuation Committee held by each Fund during its last fiscal year is shown on Schedule 1 hereto.

The Audit Committee is responsible for overseeing each Fund's accounting and financial reporting process, the system of internal controls, audit process and evaluating and appointing independent auditors (subject also to Board approval). Messrs. Erickson, Kadlec, Keith and Nielson, all of whom are "independent" as defined in the listing standards of the NYSE Amex and the New York Stock Exchange, as applicable, serve on the Audit Committee. Messrs. Kadlec and Keith serve as Audit Committee Financial Experts. The number of meetings of the Audit Committee held by each Fund during its last fiscal year is shown in Schedule 1 hereto.

In carrying out its responsibilities, as described below under "Independent Auditors' Fees/Pre-Approval," the Audit Committee pre-approves all audit services and permitted non-audit services for each Fund (including the fees and terms thereof) and non-audit services to be performed for the Advisor by Deloitte & Touche LLP ("Deloitte & Touche"), the Funds' independent registered public accounting firm ("independent auditors") if the engagement relates directly to the operations and financial reporting of the Funds.

RISK OVERSIGHT

As part of the general oversight of each Fund, the Board is involved in the risk oversight of the Funds. The Board has adopted and periodically reviews policies and procedures designed to address the Funds' risks. Oversight of investment and compliance risk, including oversight of sub-advisors, is performed primarily at the Board level in conjunction with the Advisor's investment oversight group and the Funds' Chief Compliance Officer ("CCO") and Deputy Chief Compliance Officer. Oversight of other risks also occurs at the Committee level. The Advisor's investment oversight group reports to the Board at quarterly meetings regarding, among other things, Fund performance and the various drivers of such performance as well as information related to sub-advisors and their operations and processes. The Board reviews reports on the Funds' and the service providers' compliance policies and procedures at each quarterly Board meeting and receives an annual report from the CCO regarding the operations of the Funds' and the service providers' compliance program. In addition, the Independent Trustees meet privately each quarter with the CCO. The Audit Committee reviews with the Advisor the Funds' major financial risk exposures and the steps the Advisor has taken to monitor and control these exposures, including the Funds' risk assessment and risk management policies and guidelines. The Audit Committee also, as appropriate, reviews in a general manner the processes other Board committees have in place with respect to risk assessment and risk management. The Nominating and Governance Committee monitors all matters related to the corporate governance of the Funds. The Valuation Committee monitors valuation risk and compliance with the Funds' Valuation Procedures and oversees the pricing agents and actions by the Advisor's Pricing Committee with respect to the valuation of portfolio securities.

BOARD DIVERSIFICATION AND TRUSTEE QUALIFICATIONS

As described above, the Nominating and Governance Committee of the Board oversees matters related to the nomination of Trustees. The Nominating and Governance Committee seeks to establish an effective Board with an appropriate range of skills and diversity, including, as appropriate, differences in background, professional experience, education, vocations, and other individual characteristics and traits in the aggregate. Each Trustee must meet certain basic requirements, including relevant skills and experience, time availability, and if qualifying as an Independent Trustee, independence from the Advisor, sub-advisors, underwriters or other service providers, including any affiliates of these entities.

Listed below for each current Trustee and nominee are the experiences, qualifications and attributes that led to the conclusion, as of the date of this Joint Proxy Statement, that each current Trustee and nominee should serve as a trustee.

Independent Trustees

Richard E. Erickson, M.D., is an orthopedic surgeon and President of Wheaton Orthopedics. He also has been a co-owner and director of a fitness center and a limited partner of two real estate companies. Dr. Erickson has served as a Trustee of each Fund since its inception and of the First Trust Funds since 1999. Dr. Erickson has also served as the Lead Independent Trustee (2008 - 2009), Chairman of the Nominating and Governance Committee (2003 - 2007) and Chairman of the Valuation Committee (June 2006 - 2007 and since 2010) of the First Trust Funds.

Thomas R. Kadlec is President of ADM Investor Services Inc. ("ADMIS"), a futures commission merchant and wholly-owned subsidiary of the Archer Daniels Midland Company ("ADM"). Mr. Kadlec has been employed by ADMIS and its affiliates since 1990 in various accounting, financial, operations and risk management capacities. Mr. Kadlec serves on the boards of several international affiliates of ADMIS and is a member of ADM's Integrated Risk Committee, which is tasked with the duty of implementing and communicating enterprise-wide risk management. Mr. Kadlec has served as a Trustee of each Fund since its inception. Mr. Kadlec has also served on the Executive Committee since the organization of the first First Trust closed-end Fund in 2003 until he was elected as the first Lead Independent Trustee in December 2005, serving as such through 2007. He also served as Chairman of the Valuation Committee (2008 - 2009) and currently serves as Chairman of the Audit Committee (since 2010) of the First Trust Funds.

Robert F. Keith is President of Hibs Enterprises, a financial and management consulting firm. Mr. Keith has been with Hibs Enterprises since 2004. Prior thereto, Mr. Keith spent 18 years with ServiceMaster and Aramark, including three years as President and COO of ServiceMaster Consumer Services, where he led the initial expansion of certain products overseas, five years as President and COO of ServiceMaster Management Services Company and two years as President of Aramark ServiceMaster Management Services. Mr. Keith is a certified public accountant and also has held the positions of Treasurer and Chief Financial Officer of ServiceMaster, at which time he oversaw the financial aspects of ServiceMaster's expansion of its Management Services division into Europe, the Middle East and Asia. Mr. Keith has served as a Trustee of the First Trust Funds since June 2006. Mr. Keith has also served as the Chairman of the Audit Committee (2008 - 2009) of the First Trust Funds and currently serves as Chairman of the Nominating and Governance Committee (since 2010) of the First Trust Funds.

Niel B. Nielson, Ph.D., has served as the President of Covenant College since 2002. Mr. Nielson formerly served as a partner and trader (of options and futures contracts for hedging options) for Ritchie Capital Markets Group (1996 - 1997), where he held an administrative management position at this proprietary derivatives trading company. He also held prior positions in new business development for ServiceMaster Management Services Company, and in personnel and human resources for NationsBank of North Carolina, N.A. and Chicago Research and Trading Group, Ltd. ("CRT"). His international experience includes serving as a director of CRT Europe, Inc. for two years, directing out of London all aspects of business conducted by the U.K. and European subsidiary of CRT. Prior to that, Mr. Nielson was a trader and manager at CRT in Chicago. Mr. Nielson has served as a Trustee of each Fund since its inception and of the First Trust Funds since 1999. Mr. Nielson has also served as the Chairman of the Audit Committee (2003 - 2007), Chairman of the Nominating and Governance Committee (2008 - 2009) and currently serves as Lead Independent Trustee (since 2010) of the First Trust Funds.

Interested Trustee

James A. Bowen is President and Chief Executive Officer of the First Trust Funds and President of First Trust Advisors L.P. and First Trust Portfolios L.P. Mr. Bowen is involved in the day-to-day management of the First Trust Funds and serves on the Executive Committee. He has over 26 years of experience in the investment company business in sales, sales management and executive management. Mr. Bowen has served on the Board of Trustees for Wheaton College since October 2005. Mr. Bowen has served as a Trustee of each Fund since its inception and of the First Trust Funds since 1999.

OTHER INFORMATION

During the past five years, none of the Independent Trustees, nor any of their immediate family members, has been a director, trustee, officer, general partner or employee of, or consultant to, First Trust Advisors, First Trust Portfolios L.P. (an affiliate of First Trust Advisors), any sub-advisor to any fund in the First Trust Fund Complex, or any of their affiliates.

The officers of each Fund, including Mr. Bowen, Chief Executive Officer of each Fund, hold the same positions with each fund in the First Trust Fund Complex (representing 63 portfolios) as they hold with the Funds, except for

Christopher R. Fallow. Mr. Fallow is an officer of 13 closed-end funds in the First Trust Fund Complex, but is not an officer of First Defined Portfolio Fund, LLC, First Trust Exchange-Traded Fund, First Trust Exchange-Traded Fund II or First Trust Exchange-Traded AlphaDEX(R) Fund.

BENEFICIAL OWNERSHIP OF SHARES HELD IN THE FUNDS BY TRUSTEES AND OFFICERS

The following table sets forth the dollar range and number of equity securities beneficially owned by the Trustees in each Fund and all funds in the First Trust Fund Complex, including the Funds, as of December 31, 2009:

DOLLAR RANGE OF EQUITY SECURITIES IN THE FUNDS AND FIRST TRUST FUND COMPLEX (NUMBER

	INTERESTED TRUSTEE		INDEPENDENT TRUSTEES	
FUND	James A. Bowen	Richard E. Erickson	Thomas R. Kadlec	Robe
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND	$0 (0 Shares)	$1-$10,000 (653 Shares)	$1-$10,000 (800 Shares)	$10,0 (2,9
ENERGY INCOME AND GROWTH FUND	$0 (0 Shares)	$1-$10,000 (341 Shares)	$10,001-$50,000 (750 Shares)	(0
FIRST TRUST ENHANCED EQUITY INCOME FUND	$0 (0 Shares)	$1-$10,000 (287 Shares)	$1-$10,000 (850 Shares)	(0
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND	$0 (0 Shares)	$10,001-$50,000 (1001 Shares)	$10,001-$50,000 (850 Shares)	$10,0 (2,4
FIRST TRUST/FIDAC MORTGAGE INCOME FUND	$0 (0 Shares)	$0 (0 Shares)	$10,001-$50,000 (650 Shares)	(0
FIRST TRUST STRATEGIC HIGH INCOME FUND	$1-$10,000 (1,000 Shares)	$0 (0 Shares)	$0 (0 Shares)	(0
FIRST TRUST STRATEGIC HIGH INCOME FUND II	$10,001-$50,000 (3,750 Shares)	$0 (0 Shares)	$0 (0 Shares)	(0
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND	$0 (0 Shares)	$0 (0 Shares)	$10,001-$50,000 (1,000 Shares)	(0
FIRST TRUST STRATEGIC HIGH INCOME FUND III	$0 (0 Shares)	$0 (0 Shares)	$0 (0 Shares)	(0
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL	$0	$0	$0	

OPPORTUNITIES FUND	(0 Shares)	(0 Shares)	(0 Shares)	(0
FIRST TRUST ACTIVE DIVIDEND INCOME FUND	$0 (0 Shares)	$0 (0 Shares)	$0 (0 Shares)	(0
AGGREGATE DOLLAR RANGE OF EQUITY SECURITIES IN ALL REGISTERED INVESTMENT COMPANIES IN FIRST TRUST FUND COMPLEX OVERSEEN BY TRUSTEE	$50,001-$100,000 (7,250 Shares)	Over $100,000 (10,276 Shares)	Over $100,000 (10,298 Shares)	Over (7,6

- 18 -

As of December 31, 2009, the Independent Trustees and their immediate family members did not own, beneficially or of record, any class of securities of First Trust Advisors or any sub-advisor or principal underwriter of any Fund or any person, other than a registered investment company, directly or indirectly controlling, controlled by, or under common control with First Trust Advisors or any sub-advisor or principal underwriter of any Fund, nor, since the beginning of the most recently completed fiscal year of any Fund, did any Independent Trustee purchase or sell securities of First Trust Advisors, or any sub-advisor to any fund in the First Trust Fund Complex, their parents or any subsidiaries of any of the foregoing.

As of December 31, 2009, the Trustees and officers of the Funds as a group beneficially owned approximately 42,105 shares of the funds in the First Trust Fund Complex (less than 1% of the shares outstanding). As of December 31, 2009, the Trustees and officers of the Funds as a group beneficially owned the following number of Shares of each Fund, which is less than 1% of each Fund's Shares outstanding:

FUND	SHARES
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND	4,7
ENERGY INCOME AND GROWTH FUND	1,4
FIRST TRUST ENHANCED EQUITY INCOME FUND	1,4
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND	4,6
FIRST TRUST/FIDAC MORTGAGE INCOME FUND	1,0
FIRST TRUST STRATEGIC HIGH INCOME FUND	1,5
FIRST TRUST STRATEGIC HIGH INCOME FUND II	4,2
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND	1,2
FIRST TRUST STRATEGIC HIGH INCOME FUND III	0

FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND	0
FIRST TRUST ACTIVE DIVIDEND INCOME FUND	0

COMPENSATION

Under the Trustees' compensation plan, each Independent Trustee is paid an annual retainer of $10,000 per trust for the first 14 trusts in the First Trust Fund Complex and an annual retainer of $7,500 per trust for each subsequent trust added to the First Trust Fund Complex. The annual retainer is allocated equally among each of the trusts. No additional meeting fees are paid in connection with Board or committee meetings. Additionally, effective January 1, 2010, Mr. Nielson is paid annual compensation of $10,000 to serve as the Lead Independent Trustee, Mr. Kadlec is paid annual compensation of $5,000 to serve as the Chairman of the Audit Committee, Dr. Erickson is paid annual compensation of $2,500 to serve as the Chairman of the Valuation Committee and Mr. Keith is paid annual compensation of $2,500 to serve as the Chairman of the Nominating and Governance Committee. Each Committee Chairman and the Lead Independent Trustee will serve a two-year term expiring December 31, 2011 before rotating to serve as a chairman of another committee or as Lead Independent Trustee. The additional compensation is allocated equally among each of the trusts in the First Trust Fund Complex. Trustees are also reimbursed by the trusts in the First Trust Fund Complex for travel and out-of-pocket expenses in connection with all meetings.

- 19 -

The number of Board meetings held by each Fund during its last fiscal year is shown in Schedule 1 hereto.

The aggregate fees and expenses paid to all Trustees by each Fund for its fiscal year (including reimbursement for travel and out-of-pocket expenses) amounted to the following:

FUND	AGGREGATE
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND	
ENERGY INCOME AND GROWTH FUND	
FIRST TRUST ENHANCED EQUITY INCOME FUND	
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND	
FIRST TRUST/FIDAC MORTGAGE INCOME FUND	
FIRST TRUST STRATEGIC HIGH INCOME FUND	
FIRST TRUST STRATEGIC HIGH INCOME FUND II	

FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND	
FIRST TRUST STRATEGIC HIGH INCOME FUND III	
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND	
FIRST TRUST ACTIVE DIVIDEND INCOME FUND	

The following table sets forth certain information regarding the compensation of each Fund's Trustees (including reimbursement for travel and out-of-pocket expenses) for each Fund's most recently completed fiscal year. The Funds have no retirement or pension plans. The officers and the Interested Trustee of each Fund receive no compensation from the Funds for serving in such capacities.

AGGREGATE COMPENSATION FOR EACH FUND'S FISCAL YEAR

	INTERESTED TRUSTEE	IND TR	
FUND	James A. Bowen	Richard E. Erickson	Thomas R. Kadlec
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND (1)	$0	$10,064	$9,614
ENERGY INCOME AND GROWTH FUND (1)	$0	$10,064	$9,614
FIRST TRUST ENHANCED EQUITY INCOME FUND (2)	$0	$10,100	$9,645
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND (2)	$0	$10,100	$9,645
FIRST TRUST/FIDAC MORTGAGE INCOME FUND (3)	$0	$10,064	$9,614
FIRST TRUST STRATEGIC HIGH INCOME FUND (3)	$0	$10,064	$9,614
FIRST TRUST STRATEGIC HIGH INCOME FUND II (3)	$0	$10,064	$9,614
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND (2)	$0	$10,100	$9,645
FIRST TRUST STRATEGIC HIGH INCOME FUND III (3)	$0	$10,064	$9,614
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL			

OPPORTUNITIES FUND (1)	$0	$10,064	$9,614
FIRST TRUST ACTIVE DIVIDEND INCOME FUND (1)	$0	$10,064	$9,614
TOTAL COMPENSATION FROM THE FIRST TRUST FUND COMPLEX (4)	$0	$176,733	$168,750

ATTENDANCE AT ANNUAL MEETINGS OF SHAREHOLDERS

The policy of the Board is to have as many Trustees as possible in attendance at annual meetings of shareholders. The policy of the Nominating and Governance Committee relating to attendance by Trustees at annual meetings of shareholders is contained in the Funds' Nominating and Governance Committee Charter, which is available on each Fund's website located at http://www.ftportfolios.com. In addition, the Board's attendance at last year's annual shareholder meeting is available on each Fund's website located at http://www.ftportfolios.com. To find the Board's attendance, select your Fund under the "Closed-End Funds" tab, select the "News & Literature" link, and go to the "Shareholder Updates and Information" heading.

AUDIT COMMITTEE REPORT

The role of the Audit Committee is to assist the Board of Trustees in its oversight of each Fund's accounting and financial reporting process. The Audit Committee operates pursuant to a charter (the "Charter") that was most recently reviewed and approved by the Board of Trustees on December 14, 2009, a copy of which is attached as Exhibit A hereto, and is available on each Fund's website located at http://www.ftportfolios.com. As set forth in the Charter, management of each Fund is responsible for maintaining appropriate systems for accounting and internal controls and the audit process. The Funds' independent auditors are responsible for planning and carrying out proper audits of each Fund's financial statements and expressing an opinion as to their conformity with accounting principles generally accepted in the United States of America.

In performing its oversight function, the Audit Committee reviewed and discussed with management and the independent auditors, Deloitte & Touche, the audited financial statements of the First Trust/FIDAC Mortgage Income Fund, the First Trust Strategic High Income Fund, the First Trust Strategic High Income Fund II and the First Trust Strategic High Income Fund III for the fiscal year ended October 31, 2009 at a meeting held on December 14, 2009; the Macquarie/First Trust Global Infrastructure/Utilities Dividend & Income Fund, the Energy Income and Growth Fund, the First Trust Specialty Finance and Financial Opportunities Fund and the First Trust Active Dividend Income Fund for the fiscal year ended November 30, 2009 at a meeting held on January 21, 2010; and the First Trust Enhanced Equity Income Fund, the First Trust/Aberdeen Global Opportunity Income Fund and the First Trust/Aberdeen Emerging Opportunity Fund for the fiscal year ended December 31, 2009 at a meeting held on February 18, 2010, and discussed the audits of such financial statements with the independent auditors and management.

In addition, the Audit Committee discussed with the independent auditors the accounting principles applied by each Fund and such other matters brought to the attention of the Audit Committee by the independent auditors as required by the Public Company Accounting Oversight Board ("PCAOB") AU 380, Communication with Audit Committees. The Audit Committee also received from the independent auditors the written disclosures and letter required by PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, delineating relationships between the independent auditors and each Fund and discussed the impact that any such relationships may have on the objectivity and independence of the independent auditors.

The members of the Funds' Audit Committee are not full-time employees of the Funds and are not performing the functions of auditors or accountants. As such, it is not the duty or responsibility of the Audit Committee or its members

to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Members of the Funds' Audit Committee necessarily rely on the information provided to them by Fund management and the independent auditors. Accordingly, the Audit Committee's considerations and discussions referred to above do not assure that the audit of each Fund's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that the independent auditors are in fact "independent."

Based on its consideration of each Fund's audited financial statements and the discussions referred to above with Fund management and Deloitte & Touche, and subject to the limitations on the responsibilities and role of the Audit Committee as set forth in the Charter and discussed above, the Audit Committee recommended to the Board the inclusion of each Fund's audited financial statements for the years ended October 31, November 30 and December 31, 2009, respectively.

Submitted by the Audit Committee of the Funds:
Richard E. Erickson
Thomas R. Kadlec
Robert F. Keith
Niel B. Nielson

INDEPENDENT AUDITORS' FEES

Deloitte & Touche has been selected to serve as the independent auditors for each Fund for its current fiscal year, and acted as the independent auditors for each Fund for its most recently completed fiscal year. Deloitte & Touche has advised the Funds that, to the best of its knowledge and belief, Deloitte & Touche professionals did not have any direct or material indirect ownership interest in the Funds inconsistent with independent professional standards pertaining to independent registered public accounting firms. It is expected that representatives of Deloitte & Touche will be present at the Meeting to answer any questions that may arise and will have the opportunity to make a statement if they desire to do so. In reliance on Rule 32a-4 under the 1940 Act, each Fund is not seeking shareholder ratification of the selection of Deloitte & Touche as independent auditors.

Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees

During each of the last two fiscal years of the Funds, Deloitte & Touche has billed each Fund and the Advisor for the following fees:

	AUDIT FEES		AUDIT-RELATED Fees(1)		TAX FEES(2)	
FEES BILLED TO:	2008	2009	2008	2009	2008	2
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/ UTILITIES DIVIDEND & INCOME FUND(3)						
Fund	$0	$48,000	$0	$0	$4,250	$5
Advisor	N/A	N/A	$0	$0	$0	
ENERGY INCOME AND GROWTH FUND(3)						
Fund	$2,000	$72,000	$0	$0	$47,000	$4
Advisor	N/A	N/A	$0	$0	$0	
FIRST TRUST ENHANCED EQUITY INCOME FUND(4)						
Fund	$37,000	$39,000	$0	$0	$5,000	$7
Advisor	N/A	N/A	$0	$0	$0	
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND(4)						
Fund	$44,000	$46,800	$0	$0	$5,000	$5
Advisor	N/A	N/A	$0	$0	$0	
FIRST TRUST/FIDAC MORTGAGE INCOME FUND(5)						
Fund	$41,000	$45,000	$0	$0	$5,000	$5
Advisor	N/A	N/A	$0	$0	$0	
FIRST TRUST STRATEGIC HIGH INCOME FUND(5)						
Fund	$53,500	$45,800	$6,868	$0	$5,000	$5
Advisor	N/A	N/A	$6,868	$0	$0	
FIRST TRUST STRATEGIC HIGH INCOME FUND II(5)						
Fund	$53,500	$45,800	$6,868	$0	$5,000	$5
Advisor	N/A	N/A	$6,868	$0	$0	
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND(4)						
Fund	$44,000	$46,800	$0	$0	$8,590	$8
Advisor	N/A	N/A	$0	$0	$0	
FIRST TRUST STRATEGIC HIGH INCOME FUND III(6)						

Fund	$15,500	$45,800	$9,157	$0	$5,000	
Advisor	N/A	N/A	$24,657	$0	$0	
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND(3)						
Fund	$0	$44,000	$0	$0	$5,000	$5
Advisor	N/A	N/A	$0	$0	$0	
FIRST TRUST ACTIVE DIVIDEND INCOME FUND(3)						
Fund	$0	$49,800	$0	$0	$4,250	$4
Advisor	N/A	N/A	$0	$0	$0	

Non-Audit Fees

During each of the last two fiscal years of the Funds, Deloitte & Touche has billed the non-audit fees listed below for services provided to the entities indicated.

AGGREGATE NON-AUDIT FEES

FUND	2008
MACQUARIE/FIRST TRUST GLOBAL INFRASTRUCTURE/UTILITIES DIVIDEND & INCOME FUND(1)	
Fund	$4,250
Advisor	$12,143
ENERGY INCOME AND GROWTH FUND(1)	
Fund	$47,000
Advisor	$12,143
FIRST TRUST ENHANCED EQUITY INCOME FUND(2)	
Fund	$5,000
Advisor	12,143
FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND(2)	
Fund	$5,000
Advisor	$12,143
FIRST TRUST/FIDAC MORTGAGE INCOME FUND(3)	
Fund	$5,000
Advisor	$12,143
FIRST TRUST STRATEGIC HIGH INCOME FUND(3)	
Fund	$5,000
Advisor	$12,143
FIRST TRUST STRATEGIC HIGH INCOME FUND II(3)	

Fund	$5,000
Advisor	$12,143
FIRST TRUST/ABERDEEN EMERGING OPPORTUNITY FUND(2)	
Fund	$8,590
Advisor	$12,143
FIRST TRUST STRATEGIC HIGH INCOME FUND III(4)	
Fund	$5,000
Advisor	$12,143
FIRST TRUST SPECIALTY FINANCE AND FINANCIAL OPPORTUNITIES FUND(1)	
Fund	$5,000
Advisor	$12,143
FIRST TRUST ACTIVE DIVIDEND INCOME FUND(1)	
Fund	$4,250
Advisor	$12,143

Pre-Approval

Pursuant to its Charter and its Audit and Non-Audit Services Pre-Approval Policy, the Audit Committee of each Fund is responsible for the pre-approval of all audit services and permitted non-audit services (including the fees and terms thereof) to be performed for each Fund by its independent

auditors. The chairman of the Audit Committee is authorized to give such pre-approvals on behalf of the Audit Committee up to $25,000 and report any such pre-approval to the full Audit Committee.

The Audit Committee is also responsible for the pre-approval of the independent auditors' engagements for non-audit services with the Advisor and any entity controlling, controlled by or under common control with the Advisor that provides ongoing services to the respective Fund, if the engagement relates directly to the operations and financial reporting of the Funds, subject to the de minimis exceptions for non-audit services described in Rule 2-01 of Regulation S-X. If the independent auditors have provided non-audit services to the Advisor or any entity controlling, controlled by or under common control with the Advisor that provides ongoing services to the respective Fund that were not pre-approved pursuant to its policies, the Audit Committee will consider whether the provision of such non-audit services is compatible with the auditors' independence.

None of the Audit Fees, Audit-Related Fees, Tax Fees, and All Other Fees and Aggregate Non-Audit Fees disclosed above that were required to be pre-approved by the Audit Committee pursuant to its pre-approval policies were pre-approved by the Audit Committee pursuant to the pre-approval exceptions included in Regulation S-X.

The Audit Committee of each Fund has considered whether the provision of non-audit services that were rendered to the Advisor and any entity controlling, controlled by, or under common control with the Advisor that provides ongoing services to the respective Fund that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

ADDITIONAL INFORMATION

SHAREHOLDER PROPOSALS

To be considered for presentation at the Joint Annual Meetings of Shareholders of the Funds to be held in 2011, a shareholder proposal submitted pursuant to Rule 14a-8 of the 1934 Act must be received at the offices of the applicable Fund at 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, not later than November 22, 2010.

Under the Funds' By-Laws, any proposal to elect any person nominated by shareholders for election as Trustee and any other proposals by shareholders may only be brought before an annual meeting of a Fund if timely written notice (the "Shareholder Notice") is provided to the Secretary of the Fund. In accordance with the advance notice provisions included in the Funds' By-Laws, unless a greater or lesser period is required under applicable law, to be timely, the Shareholder Notice must be delivered to or mailed and received at the Fund's address, 120 East Liberty Drive, Suite 400, Wheaton, Illinois 60187, Attn: W. Scott Jardine, Secretary, not less than forty-five (45) days nor more than sixty (60) days prior to the first anniversary date of the date of the proxy statement released to shareholders for the preceding year's annual meeting. However, if and only if the annual meeting is not scheduled to be held within a period that commences thirty (30) days before the first anniversary date of the annual meeting for the preceding year and ends thirty (30) days after such anniversary date (an annual meeting date outside such period being referred to herein as an "Other Annual Meeting Date"), such Shareholder Notice must be given as described above by the later of the close of business on (i) the date forty-five (45) days prior to such Other Annual Meeting Date or (ii) the tenth (10th) business day following the date such Other Annual Meeting Date is first publicly announced or disclosed.

Any shareholder submitting a nomination of any person or persons (as the case may be) for election as a Trustee or Trustees of a Fund is required to deliver, as part of such Shareholder Notice: (i) a statement in writing setting forth: (A) the name, age, date of birth, business address, residence address and nationality of the person or persons to be nominated; (B) the class or series and number of all Shares of the Fund owned of record or beneficially by each such person or persons, as reported to such shareholder by such nominee(s); (C) any other information regarding each such person required by paragraphs (a), (d), (e) and (f) of Item 401 of Regulation S-K or paragraph (b) of Item 22 of Rule 14a-101 (Schedule 14A) under the 1934 Act (or any successor provision thereto); (D) any other information regarding the person or persons to be nominated that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of trustees or directors pursuant to Section 14 of the 1934 Act and the rules and regulations promulgated thereunder; and (E) whether such shareholder believes any nominee is or will be an "interested person" of the Fund (as defined in the 1940 Act) and, if not an "interested person," information regarding each nominee that will be sufficient for the Fund to make such determination; and (ii) the written and signed consent of any person nominated to be named as a nominee and to serve as a Trustee if elected. In addition, the Trustees may require any proposed nominee to furnish such other information as they may reasonably require or deem necessary to determine the eligibility of such proposed nominee to serve as a Trustee.

Without limiting the foregoing, any shareholder who gives a Shareholder Notice of any matter proposed to be brought before a shareholder meeting (whether or not involving nominees for Trustees) is required to deliver, as part of such Shareholder Notice: (i) the description of and text of the proposal to be presented; (ii) a brief written statement of the reasons why such shareholder favors the proposal; (iii) such shareholder's name and address as they appear on the Fund's books; (iv) any other information relating to the shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies with respect to the matter(s) proposed pursuant to Section 14 of the 1934 Act and the rules and regulations promulgated thereunder; (v) the class or series and number of all Shares of the Fund owned beneficially and of record by such shareholder; (vi) any material interest of such shareholder in the matter proposed (other than as a shareholder); (vii) a representation that the shareholder intends to appear in person or by proxy at the shareholder meeting to act on the matter(s) proposed; (viii) if the proposal involves nominee(s) for Trustees, a description of all arrangements or understandings between the shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by the shareholder; and (ix) in the case of a shareholder (a "Beneficial Owner") that holds Shares entitled to vote at the meeting through a nominee or "street name" holder of record, evidence establishing such Beneficial Owner's indirect ownership of, and entitlement to vote, Shares at the meeting of shareholders. Shares "beneficially owned" means all Shares which such person is deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the 1934 Act.

Timely submission of a proposal does not mean that such proposal will be included in a proxy statement.

SHAREHOLDER COMMUNICATIONS

Shareholders of a Fund who want to communicate with the Board of Trustees or any individual Trustee should write the Fund to the attention of the Fund Secretary, W. Scott Jardine. The letter should indicate that you are a Fund shareholder. If the communication is intended for a specific Trustee and so

indicates, it will be sent only to that Trustee. If a communication does not innt-family:Arial" align=justify>Consulting agreement:

The Company entered into a consulting agreement with Mr. Brian McGowan, a stockholder, to advise the CEO on business strategy, formulate marketing ideas and plans, and introduce the Company to companies and individuals in various markets with regard to the Company s business, products, and services. The term of the employment agreement is for approximately five years commencing on July 1, 2003 and terminating on December 31, 2008. Mr. McGowan will receive a total of 5,500,000 shares of the Company s $0.001 par value common stock valued at $330,000. As of September 30, 2004, he was paid a total of 3,900,000 shares of common stock, but he has earned only 1,250,000 shares and the difference of 2,650,000 shares is considered prepaid compensation. During the nine month period ended September 30, 2004, the Company has expensed $45,000 in consulting fees.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE F- MAJOR CUSTOMERS

During the nine month period ended September 30, 2004, three customers accounted for 38% of the Company's revenue (Stampede Entertainment 15%, Universal Studios 13%, and MPG Systems 10%). The Company recognized $0 as revenue and $0 as expense from barter agreements for the nine month period ended September 30, 2004.

As of September 30, 2004, balances due from five customers comprised 82% of total accounts receivable (Forbes.com 24%, Stampede Entertainment 19%, MPG Systems 18%, CompUSA 11%, and Sun Healthcare 10%).

NOTE G - REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on separate legal entities. NMS derives revenues from the development and marketing proprietary internet technology-based software and WKI provides data maintenance services related to NMS digital asset management system. Information related to the Company's reportable segments for the nine months ended September 30, 2004 is as follows:

	NMS	WKI	Total
Revenue	$ 964,000	$ 21,000	$ 985,000
Cost of services	258,000	28,000	286,000
Cost of hardware	25,000	-	25,000
General and administrative	581,000	119,000	700,000
Research and development	91,000	-	91,000

Operating income (loss)	9,000	(126,000)	(117,000)
Total assets	$823,000	$ 29,000	$ 852,000

WKI revenue consists primarily of software maintenance and scanning services.

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

Segment s operating income	($ 117,000)
Other income	(19,000)
Consolidated net loss/comprehensive loss	($ 136,000)

Prior to acquisition of Working Knowledge, Inc., in April 2000, the Company operated within one business segment.

For the nine months ended September 30, 2004, amortization and depreciation expense amounted to $41,000 and $17,000 for NMS and WKI, respectively. Also, total fixed asset additions amounted to $17,000 and $0 for NMS and WKI, respectively, while fixed asset disposals amounted to $0 and $0 for NMS and WKI, respectively.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE H COMMITMENTS AND CONTINGENCIES

Leases:

The Company leases office space in New Mexico and California. Future minimum lease payments as of September 30, 2004 are as follows:

Year	Amount
2004	$ 62,000
2005	$ 82,000
2006	$ 82,000
2007	$ 82,000
2008	$ 82,000

Rent expense for office space in New Mexico and California for the nine months ended September 30, 2004 amounted to $27,000 and $27,000, respectively.

Employment agreement:

The Company entered into an employment and non-competition agreement with a stockholder to act in the capacity of President and Chief Executive Officer (CEO). The term of the employment agreement is for three years commencing on January 1, 2003. The agreement allows for a one year renewal option unless terminated by either party. Base salary is $44,000 per annum with available additional cash compensation as defined in the agreement. Compensation under this agreement of $33,000 is included in general and administrative expenses for the nine month period ended September 30, 2004. The non-competition agreement commences upon the termination of the employment agreement for a period of one year. As of September 30, 2004, there was a total of $107,000 in accrued payroll.

Outstanding Payroll Taxes:

The Company has unpaid Federal and State payroll taxes totaling $277,000 as of September 30, 2004, including estimated penalties and interest. The penalties and interest associated with this liability is estimated to be in excess of 10% of the total payroll taxes due, and the Company has accrued $30,000 in penalties and interest.

On June 1, 2003, the Company settled with the State of New Mexico and agreed to pay $1,000 per month of past due payroll taxes plus the current amount due. During the nine months ended September 30, 2004, the Company paid a total of $9,000 of past due payroll taxes.

On October 17, 2003, the Company settled with the IRS and agreed to pay $5,000 per month of past due payroll taxes plus the current amount due. During the nine months ended September 30, 2004, the Company paid a total of $50,000 of past due payroll taxes.

NMXS.com, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE I LEGAL PROCEEDINGS

Kurt Paul Grossman and Ann Grossman filed a complaint for Breach of Contract on a Promissory Note against the Company on November 25, 2003, in the Superior Court of California, Orange County Division, case # 03CC14074. There was a question of whether the complaint was properly served and whether the California courts have jurisdiction over the Company. The Grossmans filed an Application for Writ of Attachment which was denied on January 30. The Grossmans asked for $55,000 ($50,000 on the promissory note plus $5,000 interest); $304.40 in costs; and $24,000 in attorney s fees. The Grossmans, through a separate entity, Doctors Telehealth Network, purchased software from the Company, and it has not been paid for. The Company filed a motion to quash the service of summons for lack of personal jurisdiction and to vacate a default judgment against us. The court tentatively ruled in favor of the Grossmans. However, after the Company s oral argument on April 23, 2004, the court withdrew its tentative ruling and ruled in favor of the Company. Specifically, the court ruled that the Company does not have sufficient contact with California to warrant the exercise of personal jurisdiction. Based on this ruling, there is no action pending against the Company at this time.

In October 2003, the Company entered into an interim agreement with the Internal Revenue Service concerning the repayment of federal tax deposits which the Company failed to pay for the six operating quarters ended September 30, 2003. The Company has agreed to pay $5,000 per month beginning November 1, 2003. During this interim period the IRS has agreed to withhold the filing of a federal tax lien. Consideration of filing a lien in the future will be based upon a determination of how long it may take to pay the taxes. Also, the Company s failure to make timely federal tax deposits will default this interim agreement and necessitate the filing of the lien. The Company s unpaid tax returns for these quarters are being assessed by the IRS, and the Company expects to receive an assessment notice for each period upon completion of this assessment. The Company estimates that these assessments will total approximately $300,000, plus interest and penalties. Since the end of the third quarter 2003, the Company has made on-time payments of current payroll taxes for both the state and federal agencies.

On March 9, 2004, the Company s legal counsel received a letter from an attorney representing Manhattan Scientifics. The letter threatened litigation against the Company for alleged breach of contract and against Richard Govatski, president of the Company, for alleged tortious interference with contract. This is based on the fact that the Company was alleged to have declined to honor Manhattan Scientifics' alleged request for a cashless exercise of 150,000 of the Company s Common Stock Purchase Warrants (the "Warrants") allegedly issued to Manhattan Scientifics. It is the Company s position that the Warrants, among other things, were issued in a transaction that was not an arms-length transaction and therefore, the Warrants should be cancelled, and that in any event, the alleged cashless exercise was not properly done and itself is a nullity. In May 2004, Manhattan Scientifics filed a suit in Federal Court in New York against the Company and Mr. Govatski for damages in this matter. The case was dismissed by the Federal Court due to a lack of diversity jurisdiction. On June 25, 2004, the Company was served with a complaint filed in the Supreme Court of the State New York, County of New York, Index No. 601793/04, asserting the same claims. Manhattan Scientifics seeks damages against the Company for an alleged breach of contract for failure to allow the alleged cashless exercise, in an amount of $1.5 million, and alleges a tortious interference claim against Mr. Govatski. The Company served their Answer to the Complaint on August 16, 2004. Mr. Govatski is seeking dismissal of the claim against him for lack of personal jurisdiction and for failure to state a claim. Along with the Company s Answer, they are asserting Counterclaims against Manhattan Scientifics for monies owed by Manhattan Scientifics and for a declaratory judgment, and against a former Company Director, Marvin Maslow for fraud and breach of fiduciary duty due to his persuading the Company to enter into the Warrant transaction with Manhattan Scientifics, which they contend was done for the benefit of Maslow and Manhattan Scientifics, and not for the benefit of the Company as Mr. Maslow then knowingly falsely claimed. The Company believes that due to the fact that Mr. Maslow and a second former Company director (Scott Bach), were also Directors of Manhattan Scientifics at the time of the transactions in dispute, and constituted two of the Company's three Directors at the time, Mr. Maslow and Mr. Bach should have excused themselves from participating in negotiating and voting on the issue of whether to approve the Warrants. Messrs. Maslow and Bach resigned as the Company s Directors in December 2002. The Company believes that Mr. Maslow had other financial conflicts in connection with the transaction in dispute, which further underscored that the transaction was not arms-length. It is the Company s position that such financial conflicts include Mr. Maslow's causing the Company to pay for third-party consulting services provided to Manhattan Scientifics, while falsely contending that such services would be provided to, and were needed by, the Company purportedly as part of the transaction. It is the Company s position that Mr. Maslow also misrepresented the fairness of the transaction in dispute at the time to the Company, which they contend was being done for the benefit of Mr. Maslow and Manhattan Scientifics, to the detriment of the Company, despite Mr. Maslow's knowingly false advise to the Company that the transaction would benefit the Company. In the Company s counterclaims, they are seeking, among other relief, a determination that the Warrants should be declared null and void from inception, plus damages against Mr. Maslow. It is further the Company s position that even if the Warrants were properly issued (the Company contends they were not), the Warrants were never properly exercised by Manhattan Scientifics.

ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATIONS

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read in conjunction with our financial statements and notes thereto appearing in this prospectus. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward- looking statements.

OVERVIEW

New Mexico Software develops digital lifecycle management systems. The digital lifecycle is the strategy that associates database information with both paper and digital files including text, email, images, audio, graphics, video and animation files, and coordinates access to a common repository of these processes and files. The digital lifecycle encompasses creation, approval, sharing, storage, retrieval, usage, capture and archiving of the database information. It is appropriate for a wide variety of industries, including government, medical, entertainment, and IT markets, providing a significant opportunity for market penetration. Our core product, Roswell, is an enterprise-level platform that manages digital files. It manages assets by creating folders, or groups of files, catalog hierarchies, users, user groups, and user permissions. The files are managed by our database that maintains both the membership of the file in a folder(s) and information about the file. Roswell's main user interface is a web browser, which makes it accessible and more intuitive to a greater number of users. It can be run on Windows or Linux operating systems.

In addition to our core product, Roswell, we have launched three new products this fall. The three products, Santa Fe, White Sands, and Taos, further extend our document and image management capabilities, as well as the potential for market penetration. The three new products are prepackaged software ranging in price from $39.95 to $249.95. When combined with our Roswell enterprise system and our mid-level Digital Filing Cabinet (DFC) package, they give us a broader range of revenue sources with a balanced combination of sales from high volume retail business and more specialized enterprise systems.

Some challenges we face in the next year are developing a sales force and distribution channels in order to market our products, and educating potential customers about the benefits of digital management systems. We have hired several independent sales agents to help sell our products. We have also designated a manager to focus on providing education about our products to potential customers, and we provide demo software on the Internet for this purpose, so that customers can better understand how the digital lifecycle works. One possible opportunity for our business was discussed in a May 10, 2004 article in Business Week Online entitled Software Shift . According to this article, software products using open source programming are now expanding beyond the Linux operating system to include databases, search engines, programming tools and desktop PC software. Since our products have all been developed with open source code, we may be in a position to take advantage of this expansion by identifying opportunities to integrate our software with some of the newly emerging open source products.

Another new marketing area that we are developing is the need for customers to hire our engineers to connect our software to existing software owned by the customer. We now have several contracts in which we are welding different databases to our database with good success. This could be a very important growth area for us in the future.

We presently realize revenues from four primary sources: (i) software sales, maintenance and hosting; (ii) custom programming services; (iii) license fees; and (iv) scanning and other services. We also occasionally realize revenues from hardware sales when the hardware is sold together with the software, and occasionally from other services. To date, license fees and software sales have been directly related. With each sale of our 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. This structure will continue with our Roswell product; therefore, we anticipate a positive impact on license fees, software maintenance, and custom programming revenues from Roswell sales. However, according to an article in Forbes magazine on March 29, 2004 entitled A Hard Landing for Software , software companies are gradually relying less on the software license for revenues and more on professional services such as programming and consulting. Management believes this trend applies to our revenues as well, since Roswell is our only product that will use this licensing structure. Therefore, although we expect a positive impact on license fees from Roswell, we believe software sales, custom programming, and professional services will provide a greater portion of our revenues in the coming years.

With the marketing of the new prepackaged products, management anticipates that revenues for direct software sales and technical support will increase as those products are sold and the associated technical support programs are purchased. The change in focus to include our newer products reflects management s belief that a broader range of products and customers will provide greater stability in revenues.

Scanning services are performed principally by Working Knowledge at its site in Santa Monica, California. To date, management has anticipated that these services will be reserved in the future primarily for existing customers and customers of our core products, although revenue could be generated from unsolicited customers. Accordingly, in 2004 management has not focused on developing this segment of our business, but we are currently assessing the importance of scanning services as part of an overall focus on client services during the coming year.

Cost of services consists primarily of engineering salaries, engineering supplies, compensation-related expenses, hardware purchases and equipment rental. General and administrative expenses consist primarily of salaries and benefits of personnel responsible for business development and operating activities, and include corporate overhead expenses. Corporate overhead expenses relate to salaries and benefits of personnel responsible for corporate activities, including acquisitions, administrative, and reporting responsibilities. We record these expenses when incurred.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America 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

The Company derives revenues from five general activities; the sale of software licenses to end users, software maintenance contracts, third party hardware and software sales, consulting services and software licenses that require us to provide significant production, customization or modification to our core software product.

Our software recognition policies are in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, *Software Revenue Recognition* as amended.

The Company sells software licenses directly to its end user customers. These sales do not require further commitment from the Company and are 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 reasonably assured.

In connection with the sales of software licenses, we sell maintenance contracts that vary in terms. Maintenance contract revenue is recognized on a straight-line basis over the life of the respective contracts.

We follow the guidance in SOP 81-1, *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. Revenue is generally recognized for such arrangements under the percentage of completion method. Under percentage of completion accounting, both the product license and consulting services revenue are recognized as work progresses based on labor hours incurred. At December 31, 2003 and June 30, 2004, there were no custom software development arrangements in progress.

The sale of third party hardware and software generally is billed as a separate deliverable under consulting or custom development contracts.

Consulting revenue is recognized as the services are rendered.

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

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.

The application of SOP 97-2, as amended, requires judgment, including a determination that collectibility is reasonably assured and the fee is fixed and determinable.

Income Taxes

Management evaluates the probability of the utilization of the deferred income tax assets. The Company has estimated a $8,917,000 deferred income tax asset at December 31, 2003, related primarily to net operating loss carryforwards at December 31, 2003. Management determined that because the Company has not yet generated taxable income it was not appropriate to recognize a deferred income tax asset related to the net operating loss carryforward. Therefore, the full deferred income tax asset is offset by an equal valuation allowance. If the Company begins to generate taxable income, Management may determine that some, if not all of the deferred income tax asset may be recognized. Recognition of the asset could increase after tax income in the future. Management is required to make judgments and estimates related to the timing and utilization of net operating loss carryforwards, utilization of other deferred income tax assets, applicable tax rates and feasible tax planning strategies.

Goodwill

Goodwill was recognized in the Company s acquisition of Working Knowledge, Inc. Management believes that there is no impairment of the carrying value of $75,000 at December 31, 2003 and June 30, 2004. Management believes that there is sufficient evidence that the Company will eventually generate operating income and positive operating cash flows related to the Working Knowledge products. Also, management believes that there is substantial value in its proprietary software.

Stock Based Compensation

The Company grants stock awards and stock options to employees and non-employees as consideration for services. Management believes that the best indicator of value for stock awards is the trading value of the shares of stock on the date the Company enters into the agreements. For non-employees, that date is generally the date on which the company is committed to such an agreement. At times the Company may grant stock as payment for accrued but unpaid payroll. In these cases, the Company values the shares at the trading price on the date they are granted and reduces the payroll accrual by the same amount. We have elected to apply the intrinsic value method prescribed in APB No. 25 for stock options granted to employees. For options granted to non-employees, we estimate the value of those awards using the Black-Scholes option pricing model.

Contingencies

We are subject to the possibility of various law contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an assets or the incurrence of a liability, as well as our ability to reasonably estimate the amount of the loss contingencies.

At September 30, 2004, the Company is involved in litigation related to a dispute over the validity of the issuance of 150,000 of the Company s common stock warrants. The plaintiff has made a claim of damages of $1,500,000 against the Company. We believe that we have adequate defenses and counter claims and therefore we have not accrued for any potential loss on this case nor are the 150,000 warrants included in the number of our potentially dilutive securities at December 31, 2003.

The Company is paying past due payroll taxes of approximately $300,000 at a rate of $5,000 per month. The Company has accrued its estimate of interest and penalties of $30,000 on this past due amount. However, the Company has received notices from the IRS reflecting interest and penalty amounts greater than $30,000. We believe that the Company will negotiate a final settlement with the IRS of approximately $30,000 for those penalties and interest. However, the final settlement may vary from our estimate.

Software Development Costs

We account for software development costs in accordance with SFAS No. 86 *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. The Company considers 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.

RESULTS OF OPERATIONS

A summary of operating results for the three months ended September 30, 2004 and 2003 is as follows:

	2004		2003	
		% of		% of
	Amount	Revenue	Amount	Revenue
Revenues	$ 208,000	100.0%	$ 377,000	100.0%
Cost of service	136,000	56.3%	80,000	21.2%

Gross profit

72,000

43.7%

297,000

78.8%

General & administrative

260,000

118.8%

158,000

41.9%

Research & development

32,000

15.4%

28,000

7.5%

Bad Debt Expense

0

0.0%

0

0.0%

Net operating (loss)

(220,000)

(90.4)%

111,000

29.4%

Other income (expense)

(12,000)

(5.8)%

(5,000)

(1.3)%

Net income (loss)

(232,000)

(96.2)%

106,000

28.1%

Earnings (loss) per share

$ (0.01)

$ 0.00

A summary of operating results for the nine months ended September 30, 2004 and 2003 is as follows:

2004

2003

% of

% of

Amount

Revenue

Amount

Revenue

Revenues

$ 985,000

100.0%

$ 1,004,000

100.0%

Cost of service

311,000

29.6%

245,000

24.4%

Gross profit

674,000

70.4%

759,000

75.6%

General & administrative

700,000

69.8%

716,000

71.3%

Research & development

91,000

9.2%

90,000

9.0%

Bad Debt Expense

0

0.0%

501,000

49.9%

Net operating (loss)

(117,000)

(8.6)%

(548,000)

(54.6)%

Other income (expense)

(19,000)

(2.0)%

(19,000)

(1.9)%

Net income (loss)

96,000

(10.6)%

(567,000)

(56.5)%

Earnings (loss) per share

$ (0.00)

$ (0.02)

Revenues: Total revenues decreased 44.8%, or $169,000, for the quarter ended September 30, 2004, as compared to the same period in the prior year (the comparable prior year period). These revenues were primarily generated from the following four revenue streams:

1. Revenues generated by software sales and maintenance decreased 10.1%, or $16,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. This decrease is attributable to a combination of factors. Sales of DFC and Roswell products decreased 87.7% or $58,000 as compared to the comparable prior year period, but sales of Santa Fe, Taos, and White Sands increased by 100% or $61,000 for the same period. We completed the development phase of DFC approximately one year ago; we completed Roswell approximately six months ago; and we completed our three prepackaged products in September 2004. As a result, sales of these products have only recently begun to impact our revenues and their sales growth is still inconsistent. We anticipate that sales of Roswell will increase gradually over the next two years; however, since it is a high-level enterprise system, its sales are characterized by a small number of contracts with much higher revenues than our other products. As a result, growth of Roswell s sales will most likely be inconsistent from one quarter to the next. Sales of this enterprise product, however, will be balanced by sales of our new prepackaged products. Development was completed on the prepackaged products in the third quarter 2004, and we made our first shipment in September. These prepackaged products range in price from $39.95 to $249.95, so they will have a much lower margin than DFC and Roswell. Revenues from these products will be driven more by volume, providing balance for the more expensive enterprise products which provide only a few contracts per year. We are not current emphasizing sales of our DFC product, although we will continue to sell it as customers request it. We also occasionally sell upgrades to current DFC customers.

Revenues from software maintenance decreased 23.1% or $21,000 for the third quarter 2004 as compared to the comparable prior year period. This decrease is due to the termination of the hosting agreement for one customer. Software maintenance consists mainly of hosting and managing our customers data on our systems. We will continue hosting for various existing clients and for our Roswell product, in addition to focusing new marketing efforts on the sale of our standard products. We have four projects currently in negotiations that will involve on-going software maintenance. Based on these projects in addition to our current contracts, management anticipates that revenues from software maintenance will increase in the coming year.

2. Custom programming revenue decreased 96.7%, or $146,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. This decrease was due to the fact that we recognized revenue on two custom programming contracts of $72,000 and $75,000 respectively during the third quarter of 2003, and we had no major custom programming contracts during the third quarter of 2004. Approximately 10% of the customers that purchase our standard products will require customization, and we continue to offer this service. In addition, our Roswell product is offered chiefly as a customizable package, so we anticipate that custom programming projects associated with new product purchases will continue to provide revenues in this category. We also continue to offer programming services for customer database integration. Therefore, we anticipate that this revenue source will continue to increase in the coming year, with about 50% of the revenue coming from Roswell customers and 50% from database integration projects.

3. Revenues generated by license fees remained steady for the quarter ended September 30, 2004, as compared to the comparable prior year period. Although our products have been developed using open source code, we have added additional code that is considered proprietary technology, particularly in our Roswell and Santa Fe products. This additional technology can be licensed, however we anticipate generating license fees only from these two products in the future. As a result, management believes that this category may be a less significant portion of future revenues. We anticipate that most revenues will be generated from sales of our software products.

---

4. Revenue generated by scanning services decreased 16.0%, or $8,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. Approximately half of the decrease is due to a slight decrease in the volume of work performed during the current quarter on a long-term scanning project with a major movie studio. This studio has committed to scan over 5,000 titles for this project. At the current rate of progress, we expect the project to continue for approximately three to five years. The other half of the decrease is due to additional scanning projects for other customers during the third quarter 2003. We had no additional scanning projects during the third quarter of 2004. In general, management is currently assessing the importance of scanning services as part of an overall focus on client services during the coming year. Although we are not emphasizing scanning services at this time, we anticipate that this revenue source will continue to increase slightly this year due to the long-term project mentioned above.

We also generated other revenue from hardware sales and the sale of other miscellaneous items and services. Revenue generated by these other services increased 50.0% or $1,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. Sales of hardware associated with our Digital Filing Cabinet system accounted for 100% of this revenue. The Digital Filing Cabinet system may be sold as software only, or as a complete system of software and hardware. We provide the option including hardware for customers who need the complete system, but we do not emphasize hardware sales, therefore we do not consider it a significant part of our business on an on-going basis.

Cost of Services. Cost of services increased 70.0%, or $56,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. Approximately $33,000 (59%) of this increase is attributable to the cost of inventory and test fees related to manufacturing and preparing our prepackaged software products for shipment. The remaining $23,000 (41%) of the increase is due to increased compensation-related expenses due to the hiring of a technical writer and graphics designer. Cost of services as a percentage of revenues increased to 65.4% for the quarter ended September 30, 2004, up from 21.2% for the comparable prior year period. During the current quarter, approximately 68% of our cost of sales consists of engineering salaries and compensation-related expenses. We consider these salaries to be directly associated with our ability to generate revenues, however, they do not vary with revenues in that much of those costs are fixed. As a result, the gross margin percent will vary as sales vary. During the current quarter, revenues decreased 44.8% as compared to the same quarter last year, while engineering salaries increased slightly, resulting in a higher ratio of cost of sales to revenues.

For the nine months ended September 30, 2004, cost of services as a percentage of revenues was 31.6%, as compared with 24.4% for the comparable prior year period. Management anticipates that as revenues increase in the coming year, the cost of goods and services required to support those revenues will continue to increase, and engineering salaries will also increase as we hire additional staff to support a greater number of products and customers. However, we expect that revenues will increase at a greater rate than cost of services, since most of our costs are relatively fixed. We believe this range of percentages over the last two years is more indicative of the percentage of costs associated with future revenues, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

General and Administrative. General and administrative expenses increased 64.6%, or $102,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. We have made a dedicated effort in the last year to reduce our general and administrative expenses. Several one-time adjustments during the third quarter of 2003 are primarily responsible for the apparent increase in general and administrative expenses during the current quarter. During the third quarter of 2003, we incurred a ($90,000) adjustment in salaries pursuant to a new employment agreement, a ($79,000) adjustment in accounting fees to our previous accounting firm, and a $84,000 adjustment for advertising used in the barter transaction with Forbes.com. The net result of these adjustments was an $85,000 decrease in general and administrative expenses for the third quarter of 2003. Without these adjustments, general and administrative expenses increased $17,000 (10.7%) for the current quarter as compared to the comparable prior year period. This increase relates to marketing expenses incurred in preparation for sales of our new prepackaged products. General and administrative expenses as a percentage of revenues were 125.0% for the quarter ended September 30, 2004, as compared to 41.9% for the comparable prior year period. General and administrative expenses for the third quarter 2003 without the adjustments were 64.5%.

For the nine months ended September 30, 2004, general and administrative expenses as a percentage of revenues was 71.1%, as compared with 71.3% for the comparable prior year period. Management believes the ratio of general and administrative costs to revenues will decrease in the future because revenues will increase at a greater rate than general and administrative costs, but until we have been in the active marketing phase for a longer period, management is unable to yet determine to what extent this percentage may change in the future.

Research and Development. Research and development expenses increased 14.3%, or $4,000, for the quarter ended September 30, 2004, as compared to the comparable prior year period. This increase is primarily attributable to management s focus on completing the development phase of the first version of our three new prepackaged products. However, 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. Management anticipates that research and development costs in the future will focus on the upgrading of our existing products; therefore they will remain relatively steady for the remainder of the year.

Other Income. Interest expense increased 140.0%, or $7,000 for the quarter ended September 30, 2004, as compared to the comparable prior year period. The increase in interest expense was associated with interest on new notes payable incurred during the last year. There was no loss on disposal of fixed assets in the third quarter of 2004.

In general, our key indicator of operating progress is gross revenue. For the nine-month periods ending September 30, 2004 and 2003, personnel-related expenses have accounted for approximately 59% of our operating expenses, with fixed costs such as building and equipment rent, utilities, insurance, communications and depreciation accounting for an additional 24%. The only personnel-related costs that are directly variable with sales are those associated with custom programming, because they are directly billable. This means that over 80% of our expenses are relatively fixed. All of the remaining expenses vary, but less than 5% varies directly with sales. We will incur more definite variable costs associated with our new pre-packaged products beginning in the fourth quarter of 2004, so in 2005 we may be able to use some other indicators such as gross margins to help analyze performance, but for 2003 and 2004 gross revenue is our primary indicator of when we will achieve profitability and break-even cash flow.

REPORTABLE SEGMENTS

Management has identified the Company's reportable segments based on the two distinct product lines and the two separate legal entities. New Mexico Software (NMS) derives revenues from the development and marketing proprietary internet technology-based software and Working Knowledge, Inc. (WKI) provides data maintenance services related to the NMS digital asset management system. Information related to the Company's reportable segments for the nine months ended September 30, 2004 is as follows:

Nine months Ended

2004

2003

	NMS	WKI	NMS	WKI
Revenue	$ 964,000	$ 21,000	$ 979,000	$ 25,000
Cost of services	283,000	28,000	199,000	46,000
General and administrative	581,000	119,000	597,000	91,000
Research and development	91,000	-	90,000	-
Bad debt expense	-	-	500,000	1,000
Impairment of goodwill	-	-	-	-
Operating income (loss)	9,000	(126,000)	(407,000)	(113,000)

Total assets	$823,000	$ 29,000	$ 753,000	$ 106,000

Generally, New Mexico Software develops and markets the software, and therefore, software sales and maintenance, licensing and custom programming are considered revenue streams for that entity. Working Knowledge, Inc. provides services that are necessary to prepare, enter, and maintain the customer s data on our image management system. These include web design, database development, image scanning, asset uploading, and database support. In addition, Working Knowledge is able to serve the customer by utilizing the stored images to produce compact discs, digital prints, and large poster formats. These revenue streams, usually classified as scanning and other revenue, are considered revenue streams for that entity. These complementary services allow us to complete our cycle of comprehensive image management.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2004, cash and cash equivalents totaled $89,000, representing a $78,000 increase from the beginning of the period. The increase in available cash was due to a combination of several factors during the year, but the primary factors were the issuance of common stock for cash and three new notes payable. These are discussed in financing activities below.

Operating activities used $170,000 of cash for the nine months ended September 30, 2004, as compared to $139,000 for the comparable prior year period. The increase in the use of cash for operating activities was mainly due to our emphasis on continuing to pay down our accrued expenses and to maintain current accounts payable, even though we had no significant increase in operating cash receipts. During the nine months ended September 30, 2004, we used $108,000 to pay down accrued expenses and trade accounts payable, as opposed to using $15,000 during the same period in 2003. These payments resulted in an increase in the use of cash for operating purposes of $93,000 for the current period as compared to the comparable prior year period. They also resulted in total accrued expenses and trade accounts payable of $479,000 as of September 30, 2004, as compared with $587,000 at September 30, 2003, a decrease of $108,000. The payments on accrued expenses are all payments toward past-due tax obligations.

The increased use of cash toward accrued expenses and accounts payable was accompanied by issuance of common stock for salaries and services of $146,000 during the nine months ended September 30, 2004 as compared with $176,000 for the comparable prior year period. In addition, we recognized deferred revenue of $55,000 during the current year as compared with deferring revenue of $25,000 during the prior period, which represents increased use of cash of $80,000 during the nine months ended September 30, 2004. These factors increased the use of cash for operating purposes by a total of $110,000 for the current period as compared with the prior period.

The increases in cash used for operating purposes were balanced by the change in accounts receivable. During the nine months ended September 30, 2004, accounts receivable increased $57,000, as compared with an increase of $307,000 during the comparable prior year period. This change represents a decrease in the use of cash for operating purposes of $250,000. The large increase in 2003 is due to several large contracts completed near the end of the quarter.

Trade accounts payable were $67,000 at September 30, 2004 as compared to $122,000 at December 31, 2003, reflecting our emphasis on keeping our payables current. We continue to accrue the salary of our president, Richard Govatski, which at September 30, 2004, was an aggregate of $107,000. This amount represents 95% of the accrued payroll balance at September 30, 2004. This obligation will only be paid when there is available cash, therefore it will have no material adverse effect on our liquidity. The remainder of the accrued payroll will be paid in common shares, therefore it also will have no material adverse effect on our liquidity. Payroll taxes due as of September 30, 2004, are approximately $277,000, including penalties and interest.

The following table shows current balances and payment details of our obligations as of September 30, 2004:

	Sept 30 Balance	Negotiated Payment	Payment Frequency
Notes Payable:			
Los Alamos National Bank note + interest	168,000	25,000	semiannually
Grossman + interest	62,000	In negotiations	
First Mirage + interest	79,000	No payment plan established yet	
Demand Notes	68,000		
Past due Accounts Payable:			
New Mexico payroll taxes	19,000	1,000	monthly
IRS + estimated penalties & interest	258,000	5,000	monthly
Attorney fee	6,000	No payment plan established yet	
Other payables (current)	58,000		
Accrued Payroll and Deferred Revenue	132,000		
Total Liabilities per Balance Sheet	785,000		

Accounts receivable increased from $450,000 at December 31, 2003 to $507,000 at September 30, 2004, primarily due to new sales during the current and prior quarter, some of which have extended payment plans. Five customers account for $453,000 (81%) of the outstanding balance. One customer represents the first shipment of our prepackaged products shipped near the end of the third quarter. Two of the balances are for contracts with extended payment plans completed near the end of the prior quarter totaling $153,000. One is an existing customer on a payment plan with a current balance of $104,000, and the other $135,000 is an agreement for advertising still owed to us, which will be used during 2004 or 2005. The advertising agreement was a barter transaction, so this receivable will not directly generate cash. However, it will allow us to generate advertising in the coming year without expending cash.

Investing activities used $17,000 for the nine months ended September 30, 2004, as compared to $6,000 for the comparable prior year period. The increase in the cash used for investing activities for the current period was due to the purchase of leasehold improvements associated with our office relocation (approximately $12,000) and the purchase of equipment to manufacture our new prepackaged products (approximately $5,000).

Financing activities provided $265,000 in cash for the nine months ended September 30, 2004, as compared to $176,000 for the comparable prior year period. The increase in cash provided by financing activities was primarily attributable to two factors: the issuance of common stock and new notes payable. During the year we issued 488,000 shares of common stock for gross proceeds of $107,000 and we received gross proceeds of $78,000 for common stock that has not yet been issued. We also received gross proceeds of $105,000 in the form of three new notes payable during the year.

Management anticipates that our primary uses of cash in the next year will be allocated to continue to satisfy delinquent obligations and for general operating purposes. Our business strategy is to increase working capital by internal growth through continued hosting of our existing customers, sale of licenses for our Roswell products, maintenance of these licenses, and sales of our prepackaged products, as well as externally through the sale of potentially dilutive securities. We may also continue to incur debt as needed to meet our operating needs. In addition, we may be forced to issue additional equity compensation to employees and outside consultants to meet payroll and pay for needed legal and other services.

At September 30, 2004, we had an outstanding balance on a line of credit with Los Alamos National Bank (LANB) which was originally due on July 24, 2002. The outstanding principal amount due at that date was $300,000, plus interest of $10,545. We negotiated a three month extension on the repayment of the outstanding balance of the line of credit by reducing the principal amount of the debt with the payment of $50,000 and the payment of the interest due on July 24, 2002. We were able to negotiate an extension of the amount due on the line of credit until April 24, 2003, by paying $25,000 of the principal amount due and $4,555 in interest due at October 24, 2002. On April 24, 2003, we paid $12,224 of principal and $12,768 of interest, and we negotiated another six-month extension to October 20, 2003. On October 20, 2003 we negotiated an extension of the amount due until April 23, 2004 by paying $25,000 in principal and $7,500 in interest. On March 27, 2004, we received a letter from LANB extending the note until October 15, 2004, with payment of $25,000 of principal and approximately $6,000 of interest due on April 15, 2004. On April 5, 2004, we paid the $25,000 of principal and $6,000 of interest as agreed. The principal balance due for this line of credit was $163,168 as of September 30, 2004. On October 4, 2004, we received a letter from LANB extending the note until April 15, 2005 upon payment of $25,000 of principal and approximately $6,000 of interest, which we paid on October 8, 2004. The company has the necessary cash to continue to reduce the note under these circumstances. Our inability to retire this debt, negotiate an extension of the payment amount and/or date, or obtain an alternative loan would likely have a material negative impact on our business, and could impair our ability to continue operations if the bank foreclosed on the note. However, the bank has continued to extend the note six months at a time, providing we pay an agreed-upon amount of principal and interest at the time of the extension. We believe that LANB will continue to work with us in this manner.

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.

Management anticipates that the capital requirements for operations for the next twelve months will be approximately $1,200,000 - $1,500,000, based on cash flow projections. The company currently has contracts which provide for recurring revenues of approximately $600,000 over the next twelve months. Although one annual contract for software maintenance for 2004 was prepaid at the end of 2003, the remaining software maintenance contracts provide a monthly cash flow of approximately $40,000. Based on the prior year licensing and custom programming revenue, we can expect these services to generate an additional $300,000 - $400,000 over the next twelve months. We have four projects in process (combined maintenance and custom programming) that will generate additional cash flow of approximately $30,000 per month plus initial custom programming fees of approximately $300,000. We anticipate that new clients and our new products will provide the remaining necessary cash flow for the next year.

We have received a non-binding letter of intent from a fiduciary trust, In God We Trust, to invest up to $500,000 in New Mexico Software over the next six months, which will provide working capital necessary for operations over the next twelve months and to retire long-term debt and past-due payroll taxes. The letter of intent does not require the investor to fund. However, we have had a long-term relationship with this investor and believe that the investor has the willingness and wherewithal to provide funds should our cash requirements exceed our abilities to generate cash elsewhere. Through a combination of increased marketing efforts and continued reduction of expenses, management anticipates continued positive working cash flow during 2004.

FORWARD-LOOKING STATEMENTS

This report contains statements that plan for or anticipate the future. Forward-looking statements include statements about the future of operations involving the marketing and maintenance of products which manage large volumes of media or digital material, statements about our future business plans and strategies, and most other statements that are not historical in nature. In this report forward-looking statements are generally identified by the words anticipate, plan, believe, expect, estimate, and the like. Although management believes that any forward-looking statemen makes in this report are reasonable, because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. For example, a few of the uncertainties that could affect the accuracy of forward-looking statements include the following:

o

Rapid changes in technology relating to the Internet

o

Continued growth and use of the Internet

o

Changes in government regulations

o

Changes in our business strategies

o

Hardware failure of a catastrophic proportion

o

Terrorist interference with the operation of the Internet or effects of terrorist activities on the economy

o

Difficulty recruiting and retaining staff of sufficient technical caliber to provide adequate and on-going customer support and product maintenance and development o

Failure to successfully market our products through the Internet and our representatives

o

Inability to locate sources to retire our line of credit or to obtain alternative lending sources

o

Inability to solve cash flow problems

In light of the significant uncertainties inherent in the forward-looking statements made in this report, particularly in view of our early stage of operation, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

ITEM 3.

CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer (collectively the "Certifying Officers") maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed, is accumulated and communicated to management timely. Under the supervision and with the participation of management, the Certifying Officers evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule [13a-14(c)/15d-14(c)] under the Exchange Act) within 90 days prior to the filing date of this report. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures are effective in timely alerting them to material information relative to our company required to be disclosed in our periodic filings with the SEC.

(b) Changes in internal controls

Our Certifying Officer has indicated that there were no significant changes in our internal controls or other factors that could significantly affect such controls subsequent to the date of his evaluation, and there were no such control actions with regard to significant deficiencies and material weaknesses.

PART II

ITEM 1.

LEGAL PROCEEDINGS

Grossman Lawsuit: Kurt Paul Grossman and Ann Grossman filed a complaint for Breach of Contract on a Promissory Note against us on November 25, 2003, in the Superior Court of California, Orange County Division, case # 03CC14074. There was a question of whether the complaint was properly served and whether the California courts have jurisdiction over us. The Grossmans filed an Application for Writ of Attachment which was denied on January 30. The Grossmans asked for $55,000 ($50,000 on the promissory note plus $5,000 interest); $304.40 in costs; and $24,000 in attorney s fees. The Grossmans, through a separate entity, Doctors Telehealth Network, purchased software from us, and it has not been paid for. We filed a motion to quash the service of summons for lack of personal jurisdiction and to vacate a default judgment against us. The court tentatively ruled in favor of the Grossmans. However, after our oral argument on April 23, 2004, the court withdrew its tentative ruling and ruled in favor of us. Specifically, the court ruled that we do not have sufficient contact with California to warrant the exercise of personal jurisdiction. Based on this ruling, there is no action pending against us at this time.

Internal Revenue Service Payments: In October 2003 we entered into an interim agreement with the Internal Revenue Service concerning the repayment of federal tax deposits that we failed to pay for the six operating quarters ended September 30, 2003. We have agreed to pay $5,000 per month beginning November 1, 2003. During this interim period the IRS has agreed withhold the filing of a federal tax lien. Consideration of filing a lien in the future will be based upon a determination of how long it may take to pay the taxes. Also, our failure to make timely federal tax deposits will default this interim agreement and necessitate the filing of the lien. Our unpaid tax returns for these quarters are being assessed by the IRS, and we expect to receive an assessment notice for each period upon completion of this assessment. We estimate that these assessments will total approximately $300,000, including penalties and interest.

Manhattan Scientifics Lawsuit: On March 9, 2004, our legal counsel received a letter from an attorney representing Manhattan Scientifics. The letter threatened litigation against us for alleged breach of contract and against Richard Govatski for alleged tortious interference with contract. This is based on the fact that we were alleged to have declined to honor Manhattan Scientifics alleged request for a cashless exercise of 150,000 of our Common Stock Purchase Warrants (the Warrants) allegedly issued to Manhattan Scientifics. It is our position that the Warrants, among other things, were issued in a transaction that was not an arms-length transaction and therefore, the Warrants should be cancelled, and that in any event, the alleged cashless exercise was not properly done and itself is a nullity. In May 2004, Manhattan Scientifics filed a suit in Federal Court in New York against us and Mr. Govatski for damages in this matter. The case was dismissed by the Federal Court due to a lack of diversity jurisdiction. On June 25, 2004, we were served with a complaint filed in the Supreme Court of the State New York, County of New York, Index No. 601793/04, asserting the same claims. Manhattan Scientifics seeks damages against us for an alleged breach of contract for failure to allow the alleged cashless exercise, in an amount of $1.5 million, and alleges a tortious interference claim against Mr. Govatski.

We served our Answer to the Complaint on August 16, 2004. Mr. Govatski is seeking dismissal of the claim against him for lack of personal jurisdiction and for failure to state a claim. Along with our Answer, we are asserting Counterclaims against Manhattan Scientifics for monies owed by Manhattan Scientifics and for a declaratory judgment, and against a former Company Director, Marvin Maslow for fraud and breach of fiduciary duty due to his persuading the Company to enter into the Warrant transaction with Manhattan Scientifics, which we contend was done for the benefit of Maslow and Manhattan Scientifics, and not for the benefit of the Company as Mr. Maslow then knowingly falsely claimed. We believe that due to the fact that Mr. Maslow and a second former Company director (Scott Bach), were also Directors of Manhattan Scientifics at the time of the transactions in dispute, and constituted two of the Company s three Directors at the time, Mr. Maslow and Mr. Bach should have excused themselves from participating in negotiating and voting on the issue of whether to approve the Warrants. Messrs. Maslow and Bach resigned as our Directors in December 2002. We believe that Mr. Maslow had other financial conflicts in connection with the transaction in dispute, which further underscored that the transaction was not arms-length. It is our position that such financial conflicts include Mr. Maslow s causing the Company to pay for third-party consulting services provided to Manhattan Scientifics, while falsely contending that such services would be provided to, and were needed by, the Company purportedly as part of the transaction. It is our position that Mr. Maslow also misrepresented the fairness of the transaction in dispute at the time to us, which we contend was being done for the benefit of Mr. Maslow and Manhattan Scientifics, to the detriment of the Company, despite Mr. Maslow s knowingly false advise to the us that the transaction would benefit the Company. In our counterclaims, we are seeking, among other relief, a determination that the Warrants should be declared null and void from inception, plus damages against Mr. Maslow. It is further our position that even if the Warrants were properly issued (we contend they were not), the Warrants were never properly exercised by Manhattan Scientifics.

Other than listed above, neither our parent company nor any of its subsidiaries, or any of their properties, is a party to any pending legal proceeding. We are not aware of any contemplated proceeding by a governmental authority. Also, we do not believe that any director, officer, or affiliate, any owner of record or beneficially of more than five percent of the outstanding common stock, or security holder, is a party to any proceeding in which he or she is a party adverse to us or has a material interest adverse to us.

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

During the quarter ended September 30, 2004, the following securities were sold by us without registering the securities under the Securities Act:

In August 2004, we issued 33,000 shares of our common stock to five investors for gross proceeds of $8,250.00. These securities were issued without registration under the Securities Act by reason of the exemption from registration afforded by the provisions of Section 4 (2) thereof, as a transaction by an issuer not involved in a public offering. Each of the investors acknowledged the investment nature of the securities issued and consented to the imposition of restrictive legends upon the certificates evidencing the shares. The investors did not enter into the transaction as a result of or subsequent to any advertisement, article, notice, or other communication published in any newspaper, magazine, or similar media or broadcast on television or radio, or presented at any seminar or meeting. The investors were afforded the opportunity to ask questions of our management and to receive answers concerning the terms and conditions of the transaction. No underwriting discounts or commissions were paid in connection with such issuance.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES

During the quarter ended September 30, 2004, we were delinquent in the payment of interest and principal on a $50,000 promissory note payable to Kurt and Ann Grossman. The note was due and payable on April 23, 2003, and bears interest of $5,000. As of the filing date of this report, the total amount due on the note is $55,000. We have continued to accrue interest at an imputed annual rate of 10%. The total amount of interest accrued as of September 30, 2004 is $12,000.

During the quarter ended September 30, 2004, we were delinquent in the payment of interest and principal on a $25,000 promissory note payable to First Mirage, Inc. The note was due and payable on June 30, 2003, and bears interest at the rate of 7% per annum. As of the filing date of this report, the total amount due on the note is approximately $27,775. On August 29, 2003, First Mirage granted an extension of the maturity date of the note to December 31, 2003. On December 31, 2003, First Mirage granted an extension of the maturity date of the note to April 15, 2004. On April 15, 2003, First Mirage granted an extension of the maturity date to June 30, 2004.

ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following exhibits are attached to this report:

31.1

Rule 15d-14 (a) Certification by Principal Executive Officer

31.2

Rule 15d-14 (a) Certification by Principal Financial Officer

32

Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

(b) Reports. The following reports on Form 8-K were filed during the quarter ended September 30, 2004: None.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NMXS.com, INC.

Date:

November 15, 2004

By /s/ Richard Govatski

Richard Govatski, Chief Executive Officer and President (Principal Executive Officer)

Date: November 15, 2004

By /s/ Teresa Dickey

Teresa Dickey, Treasurer (Principal

Financial Officer/Principal Accounting Officer)