

Edgar Filing: AcuNetx, Inc. - Form 10-Q

AcuNetx, Inc.
Form 10-Q
August 14, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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

For the transition period from to
Commission File number 0-27857

ACUNETX INC.

(Exact name of registrant as specified in its charter)

NEVADA

88-0249812

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

2301 W. 205TH STREET, #102, TORRANCE, CA 90501

(Address of principal executive offices) (Zip Code)

310-328-0477

(Registrant's telephone number, including area code)

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

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

Large accelerated filer [] Accelerated filer []

Non-accelerated filer [] Smaller reporting company [X]
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$0.001 par value (Class)	65,429,309 shares (Outstanding as at August 12, 2008)
--	--

AcuNetx Inc.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

PART I - FINANCIAL INFORMATION	4
ITEM 1. FINANCIAL STATEMENTS	4
Consolidated Balance Sheet (unaudited)	4
Consolidated Statement of Operations (unaudited)	5
Consolidated Statement of Cash Flows (unaudited)	6
Notes to Financial Statements	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	26
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	29
ITEM 4. CONTROLS AND PROCEDURES	29
PART II - OTHER INFORMATION	30
ITEM 1. LEGAL PROCEEDINGS	30
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	30
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	30
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	30
ITEM 5. OTHER INFORMATION	30
ITEM 6. EXHIBITS	30
SIGNATURES	31

2

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

We desire to take advantage of the "SAFE HARBOR" provisions of the Private Securities Litigation Reform Act of 1995. This Report on Form 10-Q contains a number of forward-looking statements that reflect management's current views and expectations with respect to our business, strategies, products, future results and events and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, acquisitions, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward-looking statements. In particular, the words "BELIEVE," "EXPECT," "INTEND," "ANTICIPATE," "ESTIMATE," "MAY," "WILL," variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information,

Edgar Filing: AcuNetx, Inc. - Form 10-Q

future events or otherwise.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions (including those described below) and apply only as of the date of this Report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below "Management's Discussion and Analysis and Plan of Operation," as well as those discussed elsewhere in this Report, and the risks discussed in our most recently filed Annual Report on Form 10-KSB and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors that may affect our business.

3

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ACUNETX, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2008	
	(Unaudited)	De
ASSETS		
<hr style="border-top: 1px dashed black;"/>		
Current Assets		
Cash	\$102,014	
Restricted Cash	91,105	
Accounts receivable, net	75,043	
Inventory	137,034	
Prepaid expenses and other current assets	112,341	
Total Current Assets	517,537	
Property and equipment, net	14,108	
Other intangible assets	116,194	
Deferred tax assets	220,635	
Other investments	500	
Other assets	2,020	
	\$870,995	
<hr style="border-top: 3px double black;"/>		
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$351,561	
Accrued liabilities	955,413	
Current portion of long-term debt	83,101	
Total Current Liabilities	1,390,075	
Convertible debt, net of debt discount of \$4,625 and \$6,125 for 2008 and 2007, respectively	110,376	

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Long-Term Debt	304,946

Total Liabilities	1,805,396

Minority Deficit	(11,809)
Stockholders' Deficit	
Common stock, \$0.001 par value; 100,000,000 shares authorized; 65,429,309 shares issued and outstanding	65,429
Paid-in capital	11,288,465
Accumulated deficit	(12,276,487)

Total Stockholders' Deficit	(922,592)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$870,995
	=====

See notes to interim unaudited consolidated financial statements

4

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the three months ended June 30, 2008	2007	For
Sales - Products	\$285,463	\$678,474	
Cost of sales - products	59,822	128,280	
	-----	-----	
Gross profit	225,642	550,194	
	-----	-----	
Operating Expenses:			
Selling, general and administrative expenses	336,817	717,952	
Stock option expense	(3,787)	19,441	
Impairment of goodwill	0	0	
	-----	-----	
Total Operating Expenses	333,030	737,393	
	-----	-----	
Operating loss	(107,388)	(187,199)	
	-----	-----	
Other income(expenses)			
Interest and other income	1,620	8,002	
Interest and other expenses	(26,165)	(13,344)	
	-----	-----	
Total other income (expenses)	(24,545)	(5,342)	
	-----	-----	
Net loss before income taxes and minority interest	(131,933)	(192,541)	
	-----	-----	

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Provision for income taxes	0	0	
Net loss before minority interest	(131,933)	(192,541)	
Minority interest in losses of subsidiaries	(2,468)	0	
Net loss	(\$129,465)	(\$192,541)	
Net Loss per share-Basic and Diluted	\$ (0.00)	\$ (0.00)	
Weighted average number of common shares	65,405,499	62,448,443	

See notes to interim unaudited consolidated financial statement

5

ACUNETX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR SIX MONTHS ENDED JUNE 30,

2008

CASH FLOW FROM OPERATING ACTIVITIES:

Net loss	\$	(534,904)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest		(4,291)
Depreciation and amortization		4,504
Issuance stock and stock equity awards for services		142,996
Provision for bad debt		11,775
Amortization of debt discount		1,500
Intellectual property write-down		46,504
Impairment of goodwill		-
Gain on recovery from loan loss		(400)
(Increase) Decrease in:		
Accounts receivable		(41,784)
Inventory		67,245
Prepaid and other assets		(38,756)
Increase (Decrease) in:		
Accounts payable and accrued expenses		118,096

Net cash used in operating activities (227,516)

CASH FLOW FROM INVESTING ACTIVITIES:

Increase in restricted cash	(16,105)
Intellectual property write-down	(12,775)
Repayment from Notes Receivable	-

Net cash provided by (used in) investing activities (28,880)

CASH FLOW FROM FINANCING ACTIVITIES:

Net proceeds from sales of common stocks	20,050
Proceeds from issuance of long-term debt	150,000
Repurchase of common stock	-
Net proceeds from convertible debt	15,000

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Repayments on notes payable	(31,802)

Net cash provided by financing activities	153,248

NET DECREASE IN CASH	(103,148)
CASH BALANCE AT BEGINNING OF PERIOD	205,162

CASH BALANCE AT END OF PERIOD	\$ 102,014
	=====

Supplemental Disclosures of Cash Flow Information:

Taxes Paid	\$ 800
Interest paid	\$ 20,533
Schedule of Noncash Investing and Financing Activities:	
Retirement of common stocks for an equity-method investment	\$ 0
Conversion of accrued interest into debt principal	\$ 0
Issuance of stock options for accrued expenses	\$ 1,036

See notes to interim unaudited consolidated financial statements

6

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 1 - NATURE OF BUSINESS AND GOING CONCERN

NATURE OF BUSINESS

AcuNetx, Inc., a Nevada corporation, (the "Company" or "AcuNetx", formerly known as Eye Dynamics, Inc. or "EDI") and its subsidiaries OrthoNetx Inc. and VisioNetx Inc., combine diagnostic, analytical and therapeutic devices with proprietary software to permit: health providers to diagnose and treat balance disorders and various bone deficiencies; law enforcement officers to evaluate roadside sobriety; and employers in high-risk industries to determine, in real-time, the mental fitness of their employees to perform mission-critical tasks. AcuNetx is headquartered in Torrance, California.

AcuNetx is organized around a dedicated medical division (i) IntelliNetx, a medical division with neurological diagnostic equipment, and two separate subsidiary companies: (ii) OrthoNetx, Inc., a wholly-owned medical subsidiary company with devices that create new bone, and (iii) VisioNetx, Inc., a majority-owned subsidiary company with products for occupational safety and law enforcement.

The product line of AcuNetx and its subsidiaries include the followings: (a) Neurological diagnostic equipment that measures, tracks and records human eye movements, utilizing the company's proprietary technology and computer software, as a method to diagnose problems of the vestibular (balance) system and other balance disorders; (b) Devices designed to test individuals for impaired performance resulting from the influences of alcohol, drugs, illness, stress and other factors that affect eye and pupil performance. These products target the occupational safety and law enforcement markets; and, (c) Orthopedic and craniomaxillofacial (skull and jaw) surgery products, which generate new bone

Edgar Filing: AcuNetx, Inc. - Form 10-Q

through the process of distraction osteogenesis; and (d) A proprietary information technology system called SmartDevice-Connect(TM) ("SDC") that establishes product registry to individual patients and tracks device behavior for post-market surveillance, adverse event and outcomes reporting, and creates "smart devices" that gather and transmit physiological data concerning the device and its interaction with patients.

7

ACUNETX, INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

GOING CONCERN

In the near term, the Company expects the operating cash flows will not be sufficient to cover all debt and payables although it expects its sales to grow and will be able to cover current operating costs and to reduce the working capital deficit.

Management's plans include raising operating capital to take advantage of its IntelliNetx and HawkEye commercial opportunities. To that end, a mezzanine debt financing in conjunction with a commercial bank line of credit is being considered and preliminarily structured by Management and the Board of Directors.

This will enable the Company to focus its efforts on selling its neurological diagnostic products that has historically been its primary business and to increase the marketing and sales efforts for its HawkEye law enforcement product.

The ability of the Company to continue as a going concern is dependent on its ability to meet its financing requirements and the success of its future operations. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

8

ACUNETX, INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION OF INTERIM INFORMATION: The financial information at June 30, 2008 and for the three and six months ended June 30, 2008 and 2007 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and with the instructions to Form 10-Q Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Consolidated Financial Statements and footnotes thereto included in the

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

The consolidated balance sheet as of December 31, 2007 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The results for the six months ended June 30, 2008 may not be indicative of results for the year ending December 31, 2008 or any future periods.

PRINCIPLE OF CONSOLIDATION AND PRESENTATION: The accompanying financial statements include the accounts of AcuNetx, Inc. and its subsidiaries after elimination of all intercompany accounts and transactions. Certain prior period balances have been reclassified to conform to the current period presentation.

USE OF ESTIMATES: The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

OTHER INTANGIBLE ASSETS: Other intangible assets consist primarily of intellectual property and trademarks. The Company capitalizes intellectual property costs as incurred, excluding costs associated with Company personnel, relating to patenting its technology. The majority of capitalized costs represent legal fees related to a patent application. If the Company elects to stop pursuing a particular patent application or determines that a patent application is not likely to be awarded or elects to discontinue payment of required maintenance fees for a particular patent, the Company, at that time, records as expense the capitalized amount of such patent application or patent. Awarded patents will be amortized over the shorter of the economic or legal life of the patent. Trademarks are not amortized, but rather are tested for impairment at least annually. There was no impairment of other intangible assets for the six months ended June 30, 2008 and 2007.

9

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL: Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. An impairment of goodwill of \$362 was recorded for the six months ended June 30, 2007. Goodwill was fully impaired in 2007.

NET INCOME PER SHARE: Basic net income per share includes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted net income per share is computed by dividing net income by the weighted average number of common shares and the dilutive potential common shares outstanding during the period. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares and excludes dilutive potential common shares outstanding, as their effective is anti-dilutive. Dilutive

Edgar Filing: AcuNetx, Inc. - Form 10-Q

potential common shares consist primarily of stock options, stock warrants and shares issuable under convertible debt.

STOCK-BASED COMPENSATION: The Company has adopted the fair value recognition provisions of FASB Statement No.123(R), "SHARE-BASED PAYMENT" (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2007 based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). For the six months ended June 30, 2008 and 2007, the Company recognized pre-tax stock option compensation expense of \$142,996 and \$158,518, respectively.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the EITF Issue No. 00-18, "ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING, GOODS OR SERVICES." SFAS No. 123 states that equity instruments that are issued in exchange for the receipt of goods or services should be measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. Under the guidance in Issue 00-18, the measurement date occurs as of the earlier of (a) the date at which a performance commitment is reached or (b) absent a performance commitment, the date at which the performance necessary to earn the equity instruments is complete (that is, the vesting date).

10

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS: In March 2008, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 161, "DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" ("SFAS 161"). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring companies to enhance disclosure about how these instruments and activities affect their financial position, performance and cash flows. SFAS 161 also improves the transparency about the location and amounts of derivative instruments in a company's financial statements and how they are accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods beginning after that date. As such, the Company is required to adopt these provisions beginning with the quarter ending in February 2009. Adoption of SFAS 161 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 ("SFAS No. 159"), "THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES - INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115." SFAS No. 159 provides an option to report selected financial assets and financial liabilities using fair value, and establishes required presentation and disclosures to facilitate comparisons with companies that use different measurements for similar assets and liabilities. SFAS No. 159 is effective for the Company's fiscal year beginning August 1, 2008, with early adoption allowed only if SFAS No. 157 is also adopted. The Company is currently

Edgar Filing: AcuNetx, Inc. - Form 10-Q

evaluating the potential impact of this standard on the consolidated financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 07-3, "ACCOUNTING FOR NONREFUNDABLE ADVANCE PAYMENTS FOR GOODS OR SERVICES TO BE USED IN FUTURE RESEARCH AND DEVELOPMENT ACTIVITIES" ("EITF 07-3"). EITF 07-3 requires non-refundable advance payments for goods and services to be used in future research and development activities to be recorded as an asset and the payments to be expensed when the research and development activities are performed. EITF 07-1 will be effective for the Company's fiscal year beginning August 1, 2008. Currently, the Company does not anticipate that this statement will have a significant impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "BUSINESS COMBINATIONS" ("SFAS NO.141(R)"). SFAS No. 141(R) will replace SFAS 141, and establishes principles and requirements for how the acquirer in a business combination reorganizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Currently, the Company does not anticipate that this Statement will have a significant impact on its consolidated financial statements.

11

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In December 2007, the FASB issued SFAS No. 160, "NON-CONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS - AN AMENDMENT OF ARB NO. 51" ("SFAS No. 160"). This statement requires that noncontrolling or minority interests in subsidiaries be presented in the consolidated statement of financial position within equity, but separate from the parents' equity, and that the amount of the consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 will be effective for the Company's fiscal year beginning August 1, 2009. The adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB ratified the consensus reached on Emerging Issues Task Force Issue No. 07-1, "ACCOUNTING FOR COLLABORATIVE ARRANGEMENTS RELATED TO THE DEVELOPMENT AND COMMERCIALIZATION OF INTELLECTUAL PROPERTY" ("EITF 07-1"). EITF 07-1 defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 will be effective for the Company's fiscal year beginning August 1, 2009. The Company is currently evaluating the potential impact of this standard on the consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 permits companies to continue to use the simplified method, under

Edgar Filing: AcuNetx, Inc. - Form 10-Q

certain circumstances, in estimating the expected term of "plain vanilla" options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. Adoption of SAB 110 is not expected to have a material impact on the Company's consolidated financial statements.

12

ACUNETX, INC.
 NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007
 (UNAUDITED)

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

ACCOUNTS RECEIVABLE, NET	JUNE 30, 2008	DECEMBER 31, 2007
Accounts Receivable	\$ 93,522	\$ 56,177
Allowance for Bad Debt	(18,479)	(11,143)
Total Accounts Receivable, Net	\$ 75,043	\$ 45,034
	=====	=====
INVENTORY		
Finished Goods	\$ 84,660	\$ 170,698
Demo units	72,424	85,206
Allowance for loss in inventory	(20,050)	(51,624)
Total Inventory	\$ 137,034	\$ 204,280
	=====	=====
PREPAID EXPENSES AND OTHER CURRENT ASSETS		
Prepaid Insurance	\$ 11,087	\$ 23,038
Prepaid rent and deposit	1,013	2,065
Employee Advance	3,512	3,415
Other Prepaid Expenses	96,729	45,167
Total Prepaid and Others	\$ 112,341	\$ 73,685
	=====	=====
PROPERTY AND EQUIPMENT, NET		
Furniture and Fixtures	\$ 9,531	\$ 9,531
Equipment	40,530	40,530
Software	5,757	5,757
	55,818	55,818
Accumulated Depreciation	(41,709)	(37,754)
	-----	-----

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Total Property and Equipment, Net	\$	14,108	\$	18,064
		=====		=====
ACCRUED LIABILITIES				

Warranty reserve	\$	4,491	\$	11,339
Accrued payroll and related taxes		113,244		120,887
Accrued consulting fees		245,527		254,967
Commissions payable		18,467		-
Deferred Revenues		45,000		-
Accrued vacation		20,648		18,072
Accrued professional fees		144,693		136,413
Related party payable		4,190		42,165
Other accrued liabilities		359,153		210,915
		-----		-----
Total Accrued Liabilities	\$	955,413	\$	794,758
		=====		=====

13

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 4 - OTHER INTANGIBLE ASSETS

During the six months ended June 30, 2008, the Company capitalized intellectual property cost of \$ 12,775 and expensed intellectual property that the Company stopped pursuing which was previously capitalized at a cost of \$46,504. The Company's intangible assets consisted of the following at June 30, 2008 and December 31, 2007:

	JUNE 30, 2008	DECEMBER 31, 2007
	-----	-----
Pending Intellectual Property	\$ 94,789	\$ 128,518
Awarded patents	21,954	21,954
Accumulated amortization	(549)	-
	-----	-----
Total Accounts Receivable, Net	116,194	150,472
	=====	=====

Amortization of intangibles was \$549 for the six months ended June 30, 2008. No amortization of intangibles was recorded for the six months ended June 30, 2007 as no patents were awarded as of that date.

Based on the carrying amount of the intangibles as of June 30, 2008, and assuming no impairment of the underlying assets, the estimated future amortization is as follows:

Years ended December 31,	

2008 (from July 1, 2008)	\$ 549
2009	1,098
2010	1,098
2011	1,098
2012 and over	17,563

Total	\$ 21,406
	=====

Edgar Filing: AcuNetx, Inc. - Form 10-Q

14

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 5 - SETTLEMENT ON NOTES RECEIVABLE

In March 2007, the Company entered into a settlement agreement with a former employee who created indebtedness to the Company of \$49,489 in 2001 to 2004 and had agreed to a Note Receivable (Receivable). The employee had been in default on payments on this Receivable, which was fully reserved in 2004. The agreement calls for the former employee to repay the Company \$55,000 at a rate of \$4,000 per month beginning in April 2007. The Company collected \$24,000 through June 30, 2008. The former employee is nine months in arrears of payments as of June 30, 2008. In May 2008, the Company collected 1,000,000 preferred stocks of a public company which was provided as a security in the agreement. The stocks were classified as trading securities, of which the shares were reported in the balance sheet at fair value with realized and unrealized gains and losses included in current period operations. The fair market value at the time of collection was \$900. An unrealized loss of \$400 was recorded at June 30, 2008.

NOTE 6 - BORROWINGS

LONG-TERM DEBT

	June 30, 2008	December 31, 2007

Installment note payable secured by computer equipment. Monthly payments total \$81, including interest at 18.99%. The original note amount was \$2,062. Matures July 21, 2009.	\$ 864	\$ 1,000
Reconstructed note payable to related party. Monthly interest payment only at 13% through January 31, 2008. Effective February 1, 2008, principal and interest payment based on a 36-month amortization. Matures August 1, 2009. (a)	237,183	268,551
Note payable to S&S Health Products, Inc maturing on April 1, 2011. The note provides for monthly payments of interest only at the rate of 10% per annum. (b)	150,000	

Less: Current Maturities	388,047 (83,101)	269,000 (72,000)

Long-term debt	\$ 304,946	\$ 197,000
=====		

(a) On June 30, 2007, the Company entered into an Agreement for Extension and Amendment of a Note ("Agreement") with a related party. Under the Agreement, the Company's subsidiary, OrthoNetx, Inc. executed an Amended and Extended Promissory Note in favor of a related party, in the principal amount of \$268,551. The new note replaces a promissory note issued by

Edgar Filing: AcuNetx, Inc. - Form 10-Q

OrthoNetx, Inc. on January 30, 2005 in the original amount of \$300,000. The new note bears interest at 13% per annum, and provides for payments of interest that commenced on August 1, 2007. Payments of principal and interest commenced on February 1, 2008, based on a 36-month amortization schedule. All principal and interest is due on August 1, 2009. As of June 30, 2008, the Company has made all scheduled interest payments. Under the Agreement, the Company entered into a Commercial Guaranty under which it guaranteed payment of the note. Also, the related party entered into a termination of guaranty to release the former CEO from his guaranty of the original note.

15

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 6 - BORROWINGS (CONTINUED)

- (b) The Note provides that if, on the second anniversary of the date of the Note, AcuNetx has not set aside at least \$100,000 for repayment of the Note upon maturity, the principal of S&S has the right to compel AcuNetx to conduct a private offering to raise the funds necessary to repay the Note. The Note also provides that if AcuNetx is unable to pay the balance at maturity, S&S is entitled to a penalty equal to 10% of the principal balance of the Note, payable monthly until fully paid. As of June 30, 2008, no fund was set aside.

SERIES A CONVERTIBLE PROMISSORY NOTE

On May 21, 2007, VisioNetx Inc. conducted a private placement offering to sell and issue convertible notes and detachable warrants up to \$500,000. The offering price is \$50,000 per unit, each unit consisting of a convertible debenture in the amount of \$50,000 and a detachable warrant to purchase shares of VisioNetx common stock. The note bears interest payable annually at 10% per annum, and is due the earlier of (i) December 31, 2010 or (ii) two years from the closing date of a minimum of \$300,000 of units were sold. In the event that VisioNetx (i) issues and sells its common stock for aggregate consideration of at least \$3.5 million ("Qualified Financing") and (ii) the note has not been paid in full, then the entire outstanding principal and all unpaid accrued interest of the note shall automatically convert into shares of VisioNetx under the same terms and conditions as those for investors in the Qualified Financing. Subscribers to this offering will receive a warrant to purchase VisioNetx shares equal to a 150% of the common stock to be issued to investors in the Qualified Financing. The warrants expire in seven years after the date of issuance.

The offering was closed on September 14, 2007. Through that date, VisioNetx had sold one half of a unit and received \$25,000 in proceeds. In consideration for the release of the funds from escrow for the Company's working capital needs, VisioNetx agreed to issue to the subscriber an additional warrant, with the same terms and conditions as the previously issued warrant for an additional 50% of the common stock to be issued to investors in a Qualified Financing.

The Company allocated the proceeds between the convertible note (\$17,500) and the warrants (\$7,500) based on the management's subjective judgment as the exercise price of the warrants and the conversion feature of the note were not determinable. The warrants were classified as a component of equity and charged against the note as a debt discount which will be amortized over the life of the note using the effective interest method.

Edgar Filing: AcuNetx, Inc. - Form 10-Q

16

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 6 - BORROWINGS (CONTINUED)

CONVERTIBLE PROMISSORY NOTES

On November 9, 2007, VisioNetx Inc. initiated a private placement offering to sell and issue convertible notes for up to \$750,000. The offering price is \$50,000 per unit consisting of a convertible debenture in the amount of \$50,000 which has underlying warrants. The notes bear interest payable annually at 8% per annum, and are due the earlier of (i) eighteen months from the date of issue or (ii) upon completion of a financing of New Securities, as defined, of at least \$2.0 million ("Qualified Financing"). Upon completion of a Qualified Financing the note holder shall convert the principal and interest of this note into the New Securities. Also upon conversion of the note, the note holder shall received warrants to purchase up to 100% of the number of New Securities to be issued. The warrants are exercisable for five (5) years.

	June 30, 2008	Decem

10% Series A Convertible Promissory Note, matures on December 31, 2010	\$ 25,000	\$
8% Convertible Promissory Notes, matures commencing May 18, 2009	90,000	

	115,000	
Less: Unamortized debt discount	(4,625)	

Convertible debt, net	\$ 110,376	\$
=====		

NOTE 7 - INCOME TAXES

Provision for income taxes consisted of a minimum state franchise tax of \$800 for six months ended June 30, 2008 and 2007.

The Company had removed the valuation allowance on December 31, 2003 because it believed it was more likely than not that all deferred tax assets would be realized in the foreseeable future and would be reflected as a credit to operations. However, as of December 31, 2005, the Company's ability to utilize its federal net operating loss carryforwards was uncertain due to the merger with OrthoNetx which had net operating loss carryforwards of approximately \$1.7 million. Thus a valuation reserve was provided against the Company's net deferred tax assets.

As of December 31, 2007, the Company has net operating loss carryforwards of approximately, \$6,800,000 and \$4,300,000 to reduce future federal and state taxable income, respectively. To the extent not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2009 and the state net operating loss carryforwards will begin to expire in fiscal 2012.

17

Edgar Filing: AcuNetx, Inc. - Form 10-Q

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 8 - STOCKHOLDERS' EQUITY

SALES OF COMMON STOCK

In May 2008, the Company sold 71,429 equity units, consisting of 71,429 shares of common stock and warrants, and received \$5,000 in gross proceeds under the April 2008 self-written offering.

In February 2008, the Company sold 215,000 equity units, consisting of 215,000 shares of common stock and warrants, and received \$15,050 in gross proceeds under the May 2007 self-written offering.

COMMON STOCK RETIREMENT

In March 2007, the Company retired 483,100 shares of its common stock to rescind an equity-method investment. The market value of the shares returned to the Company at closing was equal to the carrying value. Accordingly, the Company did not recognize any gain or loss on this transaction.

NOTE 9 - STOCK OPTIONS

ACUNETX, INC.

On March 27, 2006 the Board of Directors approved and adopted the 2006 Stock Option Plan to provide for the issuance of incentive stock options and/or nonstatutory options to employees and nonstatutory options to consultants and other service providers. Generally, all options granted to employees and consultants expire ten and three years, respectively, from the date of grant. All options have an exercise price equal to or higher than the fair market value of the Company's stock on the date the options were granted. Options generally vest over three years. The plan reserves 14 million shares of common stock under the Plan and is effective through December 31, 2015.

18

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 9 - STOCK OPTIONS (CONTINUED)

A summary of the status of stock options issued by the Company as of June 30, 2008 and 2007 is presented in the following table.

	2008	2007
	-----	-----
Number of Shares	Weighted Average Exercise Price	Number of Shares

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Outstanding at beginning of year	5,525,768	\$0.15	7,309,102
Granted	3,830,000	\$0.07	1,500,000
Exercised, Expired and Cancelled		\$0.00	(3,360,000)
Outstanding at end of period	9,355,768	\$0.12	5,449,102
Exercisable at end of period	7,855,768	\$0.12	4,449,101

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes Merton option valuation model. The assumptions are listed in the table below. Expected volatilities are based on the historical volatility of the Company's stock. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2008	2007
Weighted average fair value per option granted	\$0.06	\$0.09
Risk-free interest rate	3.28%	4.75%
Expected dividend yield	0.00%	0.00%
Expected lives	5.00	5.00
Expected volatility	134.64%	120.88%

The following table sets forth additional information about stock options outstanding at June 30, 2008:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
\$0.01-\$0.30	7,855,768	3.67 years	\$ 0.12	7,855,768

19

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 9 - STOCK OPTIONS (CONTINUED)

VISIONETX, INC.

On August 16, 2007, the shareholders of VisioNetx, Inc. approved the adoption of the 2007 Stock Incentive Plan to provide for the issuance of incentive stock options and/or nonstatutory options to officers, directors, employees, and consultants who provide services to VisioNetx. All options have an exercise price equal to or higher than the fair market value of VisioNetx common stock on the date the options were granted. Options generally vest over three years and are exercisable from five to ten years from the date of grant. The plan reserves 1 million shares of common stock.

2008

Edgar Filing: AcuNetx, Inc. - Form 10-Q

	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	479,500	\$0.10
Granted	96,000	\$0.10
Exercised/Expired/Cancelled	-	\$0.00
Outstanding at end of period	575,500	\$0.10
Exercisable at end of period	284,072	\$0.10

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes Merton option valuation model. The assumptions are listed in the table below. Expected volatilities are based on the historical volatility of the Company's stock. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2008
Weighted average fair value per option granted	\$0.04
Risk-free interest rate	3.45%
Expected dividend yield	0.00%
Expected lives	5.00
Expected volatility	134.64%

As of June 30, 2008 there was \$14,679 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a weighted average period of 1.81 years.

20

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 9 - STOCK OPTIONS (CONTINUED)

The following table sets forth additional information about stock options outstanding at June 30, 2008:

A summary of the status of stock options issued by VisioNetx as of June 30, 2008 is presented in the following table.

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
\$ 0.10	575,500	7.42 years	\$ 0.10	284,072

NOTE 10 - NET LOSS PER SHARE

Edgar Filing: AcuNetx, Inc. - Form 10-Q

The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended June 30,		Six Months
	2008	2007	2008
<hr style="border-top: 1px dashed black;"/>			
Numerator:			
Net loss	\$ (129,465)	\$ (192,541)	\$ (534,900)
<hr style="border-top: 1px dashed black;"/>			
Denominator:			
Weighted average of common shares	65,405,499	62,448,443	65,345,850
<hr style="border-top: 1px dashed black;"/>			
Net loss per share-basic and diluted	\$ (0.002)	\$ (0.003)	\$ (0.003)

As the Company incurred net loss for the three and six months ended June 30, 2008, the effect of dilutive securities totaling 304,098 and 1,714,476 equivalent shares, respectively, have been excluded from the calculation of diluted net loss per share because their effect are anti-dilutive.

Stock options and warrants to purchase approximately 14,582,436 shares of the Company's common stocks were outstanding, but were not included in the computation of diluted net loss per share for the three and six months ended June 30, 2007 because the exercise price of the stock options and warrants was greater than the average share price of the common shares, and, therefore, the effect would have been anti-dilutive.

21

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 11 - MAJOR CUSTOMERS AND CREDIT CONCENTRATION

During the three months ended June 30, 2008 and 2007, sales to major customers (those exceeding 10% of the Company's net revenues) approximated 64.9% and 54.2%, respectively, of the Company's consolidated net revenues. Approximately 27.1% and 54.2% of revenues for the three months ended June 30, 2008 and 2007 respectively, were to an independent distributor. Approximately 27.1% and 0% of revenues for the three months ended June 30, 2008 and 2007 respectively, were from another independent distributor. Approximately 10.7% and 0% of revenues for the three months ended June 30, 2008 and 2007 respectively, were from a state university. In addition, accounts receivable balances of such major customers approximated 56.0% of the Company's total accounts receivable balance at June 30, 2008.

The loss or substantial reduction of the business of any of the major customers could have a material adverse impact on the Company's results of operations and cash flows.

The Company maintains cash deposits with major banks, which from time to time may exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss

Edgar Filing: AcuNetx, Inc. - Form 10-Q

is minimal.

NOTE 12 - SEGMENT INFORMATION

The Company evaluates its reporting segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131. The Chief Executive Officer allocates resources to each segment based on their business prospects, competitive factors, net sales and operating results.

The Company has three market-oriented operating segments: (i) IntelliNetx division, (ii) OrthoNetx, Inc., and (iii) VisioNetx, Inc. The IntelliNetx division markets patented medical devices that assist in the diagnosis of dizziness and vertigo, and rehabilitate those in danger of falling as a result of balance disorders. The OrthoNetx division markets patented medical devices that mechanically induce new bone formation in patients with skeletal deformities of the face, skull, jaws, extremities and dentition. The VisioNetx division markets patented products that track and analyze human eye movements for impairment screening. The Company also has other subsidiaries that do not meet the quantitative thresholds of a reportable segment.

The Company reviews the operating companies' income to evaluate segment performance and allocate resources. Operating companies' income for the reportable segments excludes income taxes and amortization of goodwill. Provision for income taxes is centrally managed at the corporate level and, accordingly, such items are not presented by segment. The segments' accounting policies are the same as those described in the summary of significant accounting policies.

The Company does not track its assets by operating segments. Consequently, it is not practical to show assets by operating segments.

22

ACUNETX, INC.
 NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 12 - SEGMENT INFORMATION (CONTINUED)

Summarized financial information of the Company's results by operating segment is as follows:

	Three Months Ended June 30, 2008	2007	Six Months Ended June 30, 2008	2007

Net Revenue to external customers:				
INX	\$ 285,463	\$ 669,519	\$ 486,285	\$ 1,789,06
ONX	-	-	18,766	
VNX	-	8,955	-	13,35

Consolidated Net Revenue to external customer	\$ 285,463	\$ 678,474	\$ 505,051	\$ 1,802,42

Cost of Revenue:				

Edgar Filing: AcuNetx, Inc. - Form 10-Q

INX	\$ 56,854	\$ 127,122	\$ 147,604	\$ 353,70
ONX	2,968	-	42,280	
VNX	-	1,158	-	3,02
<hr/>				
Consolidated Cost of Revenue	\$ 59,822	\$ 128,280	\$ 189,884	\$ 356,73
<hr/>				
Gross Margin:				
INX	\$ 228,609	\$ 542,397	\$ 338,681	\$ 1,435,35
ONX	(2,968)	-	(23,514)	
VNX	-	7,797	-	10,32
<hr/>				
Consolidated Gross Margin	\$ 225,642	\$ 550,194	\$ 315,168	\$ 1,445,68
<hr/>				

Inter-segment transactions are recorded at cost. The margins reported reflect only the direct controllable expenses of each line of business and do not represent the actual margins for each operating segment because they do not contain an allocation of product development, information technology, marketing and promotion, stock-based compensation, and corporate and general and administrative expenses incurred in support of the lines of business.

	Three Months Ended June 30, 2008	2007	Six Months Ended June 2008	2007
Total margin for reportable segments	\$ 225,642	\$ 550,194	\$ 315,168	\$ 1,445,
Corporate and general and administrative expenses	(336,817)	(717,952)	(666,562)	(1,757,
Stock option expenses	3,787	(19,441)	(142,996)	(158,
Impairment of goodwill	0	0	0	(
Interest and Other Expense	(26,165)	(13,344)	(46,963)	(23,
Gain (loss) on equity-method investments	0	0	0	
Interest and Other Income	1,620	8,002	2,958	12,
<hr/>				
Net loss before income taxes and minority	\$ (131,933)	\$ (192,541)	\$ (538,395)	\$ (481,
<hr/>				

23

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 13 - RELATED PARTY TRANSACTION

The Company's employees periodically pay business-related expenses using personal funds. Until reimbursed, these expenses are recorded in "Accrued Liabilities" and listed as "Related party payables" in the balance sheet details above. At June 30, 2008 the company had a current related party payable to the Company's CEO, in the amount of \$3,869.

In June of 2008, the Company decided to discontinue maintenance fee payments related to its Limb Lengthener intellectual property petition. At that time, the Company entered into an assignment agreement with a related party. In exchange for consideration of \$1, the party agreed to maintain the patent at its discretion, without obligation, and at its expense. It further agreed that, upon patent approval, it would give AcuNetx Inc. first right of refusal to repurchase the assignment by reimbursing its expenses plus ten percent (10%) for a period of 90 days from the date of issuance.

Edgar Filing: AcuNetx, Inc. - Form 10-Q

NOTE 14 - GUARANTEES AND PRODUCT WARRANTIES

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of June 30, 2008.

In general, the Company offers a one-year warranty for most of the products it sells. To date, the Company has not incurred any material costs associated with these warranties. The Company provides reserves for the estimated costs of product warranties based on its historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise with specific products. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

24

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

NOTE 14 - GUARANTEES AND PRODUCT WARRANTIES (CONTINUED)

The following table presents the changes in the Company's warranty reserve during the first six months of 2008 and 2007:

For the Six Months Ended June 30,	2008	2007
Beginning balance	11,339	7,200
Provision for warranty	(6,847)	3,588
Utilization of reserve	0	(1,800)
Ending balance	4,492	8,988

NOTE 15 - SUBSEQUENT EVENT

On July 14, 2008, Ronald A. Waldorf, President and Acting Chief Financial Officer of the Company, resigned from those positions for personal and health reasons. At the time of his departure, the Company owed Ronald A. Waldorf an accrued salary of \$16,668 and accrued vacation of \$16,954.

Robert S. Corrigan, Chairman of the Board of Directors, was appointed as President and Acting Chief Financial Officer on an interim basis to replace Mr.

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Waldorf.

Mr. Waldorf remains a member of the Board of Directors.

25

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

INTRODUCTION

Management's discussion and analysis of financial condition and results of operations ("MD&A") supplements the accompanying consolidated financial statements and notes to help provide an understanding of AcuNetx Inc.'s financial condition, changes in financial condition and results of operations. MD&A is organized as follows:

- o Cautionary statement concerning forward-looking statements. This section provides a description of the use of forward-looking information contained in this report.
- o Business overview. This section provides a description of the Company's business and recent developments the Company believes are important in understanding the results of operations and financial condition.
- o Financial condition and liquidity. This section provides an analysis of the Company's financial condition as of June 30, 2008 and cash flows for the six months ended June 30, 2008.
- o Results of operations. This section provides an analysis of the Company's results of operations for the six months ended June 30, 2008.

CAUTIONARY STATEMENT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 2, "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this 10-QSB that does not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing, words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements and, as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to release publicly any updates or revisions to the forward-looking statements herein to reflect any change in the Company's expectations with regard thereto, or any changes in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto, included

Edgar Filing: AcuNetx, Inc. - Form 10-Q

elsewhere in this Quarterly Report on Form 10-Q. Except for the historical information contained in this report, the following discussion contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Quarterly Report on Form 10-Q should be read as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. The Company's actual results may differ materially from the results discussed in the forward-looking statements, as a result of certain factors including, but not limited to, those discussed elsewhere in this Quarterly Report on Form 10-Q.

26

BUSINESS OVERVIEW

AcuNetx Inc. is an innovative medical, law enforcement, workplace safety and optical polygraph equipment manufacturer and retailer. During the first half of 2008, medical related products accounted for 90.5% of the Company's revenues. The balance of the revenues came from law enforcement and optical polygraph sales. While the Company's medical product lines are being sold in a relatively mature market, recent research indicates additional markets may be suitable for the Company's newer product lines, and the company will continue to actively explore those opportunities with distributors and partners both in the United States and Internationally.

Several developing initiatives are important to the Company's future success. First, the creation of VisioNetx, Inc. establishes a more effective and efficient capitalization structure to help promote the Company's workplace safety and law enforcement product lines. Second, AcuNetx Inc. licensed the HawkEye(TM) eye observation and recording system from VisioNetx to help provide additional resources to promote the law enforcement product lines. Third, the Company is ramping up product development, marketing, and sales activities for both its new and existing Videonystagmography (VNG) medical equipment product lines, to help meet what the Company expects to be a growing global demand for balance assessment and fall prevention for the sick and elderly.

Historically, the Company's VNG product line was aimed at specialized physicians. While remaining in this market has proven that the Company's VNG systems have gained general acceptance among its specialist customers, the market of primary care physicians is significantly larger. Therefore, the company believes that focusing on primary care physicians has the potential to develop into a substantially larger growth market. As a result, during the first half of 2008, the company introduced a new more affordable VNG medical device aimed at primary care physicians and will continue to pursue this market going forward.

The Company believes that the OrthoNetx product line still has potential value in its marketplace, and the relationship with Robinson MedSurg LLC is an important step in maximizing that opportunity.

FINANCIAL CONDITION AND LIQUIDITY

GOING CONCERN

The Company's independent auditors have included an explanatory paragraph in their report on the June 30, 2008 consolidated financial statements discussing issues which raise substantial doubt about the Company's ability to continue as a "going concern." The going concern qualification is attributable to the Company's operating losses during the year and the amount of capital which the Company projects it needs to satisfy existing liabilities and achieve profitable operations.

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Management understands the comments in the auditor's report relative to the Company as a going concern. We have taken a number of actions, described in the footnotes, to reduce expenses and conserve cash. All activities will be focused on maintaining our ability to ship our VNG medical equipment line of products, as well as the HawkEye (TM) law enforcement product lines, which continue to serve as our source of revenue. These activities will include maintaining the excellent relationships already formed with our suppliers, distributors, and customers. Any future expenses not related to this core business will be examined in the light of our current liquidity position before approval. Management believes that the plan that has been implemented will allow continuing operations and improvements over time.

CURRENT ASSETS

Current assets decreased by \$85,623 from December 31, 2007 to June 30, 2008 primarily due to a lower cash balance, but also to a lower inventory balance. These decreases were offset, to a lesser extent, by higher prepaid expenses, accounts receivable, restricted cash balances and other current assets.

27

OTHER INTANGIBLE ASSETS

Other intangible assets decreased by \$34,278 from December 31, 2007 to June 30, 2008 primarily due the Company's assignment of its Limb Lengthener. This decrease was partially offset by an increase of \$12,226 resulting from the Company's decision to advance its optical polygraph equipment intellectual property petition.

CURRENT LIABILITIES

Current liabilities have increased by \$128,142 from December 31, 2007 to June 30, 2008 primarily due to higher accrued liabilities, but also to a higher current portion of long-term debt. The primary reason for the increase in current liabilities is a \$100,000 accrual in May of 2008 relating to a sales agreement with a major distributor. The increase in accrued expenses was partially offset by a decrease of \$43,596 in accounts payable.

LONG-TERM DEBT

Long-term debt increased by \$123,616 from December 31, 2007 to June 30, 2008 primarily due to the issuance of a new note payable in the amount of \$150,000, but also to a lesser extent, due to the result of other long-term borrowing. This increase was partially offset, by debt payment of approximately \$31,000.

STOCKHOLDERS' DEFICIT

Stockholders' deficit increased by \$371,698 from December 31, 2007 to June 30, 2008 primarily due to a net loss for the period. This decrease was offset, to a lesser extent, by a \$162,919 increase in Paid-in capital for the same period. The increase in Paid-in capital was primarily due to the increase in stock option expense.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2008, the Company had \$517,537 in current assets. This includes \$102,014 in non-restricted cash and cash equivalents and \$91,105 in restricted cash. Net accounts receivable was \$75,043 and inventory was \$137,034.

The Company had \$1,390,075 in current liabilities, which included accounts

Edgar Filing: AcuNetx, Inc. - Form 10-Q

payable of \$351,561. The Company also had accrued liabilities of \$955,413 and a current portion of long term debt of \$ 83,101. Long-term liabilities were \$415,322. As of June 30, 2008, AcuNetx had an accumulated deficit of \$12,276,487.

AcuNetx has no plans for significant capital equipment expenditures for the foreseeable future.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

MATERIAL COMMITMENTS

The Company has no material commitment to make capital equipment expenditures.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO SIX MONTHS ENDED JUNE 30, 2007

The six months ended June 30, 2008 and 2007 represent the combined results of AcuNetx, Inc. and its subsidiaries, OrthoNetx Inc. and VisioNetx Inc.

A significant aspect of the Company's year-to-year comparison is a change in revenue recognition relating to one of the company's major distributors. During the first half of 2007, the Company sold its products directly to end customers and paid the distributor sales commissions based on sales to these customers. Since July of 2007, the Company sells its products directly to this distributor at wholesale prices. This change results in lower revenues for the same unit volume of sales, along with lower gross profits, as costs do not change. Correspondingly, a decrease in commission expense occurs as the distributor is no longer receiving commissions.

28

Revenues during the six months ended June 30, 2008 were \$505,051 compared to \$1,802,420 for the corresponding period in 2007. System unit shipments decreased to 27 units in the first six months of 2008 from 49 units in the same period of the prior year as a result of two significant factors: (i) the overall uncertainty with the domestic economy, and (ii) the lack of funds to adequately market the company's products. Gross profit, as a percentage of sales, decreased from 80% to 62%. Total operating expenses decreased by \$1,106,681, from \$1,916,239 in the first half of 2007 to \$809,558 in the first half of 2008. Selling, general and administrative expenses decreased from \$1,757,359, in the first half of 2007, to \$666,562 in the first half of 2008. Net loss increased from \$482,096 in the first half of 2007 to \$534,904 in the first half of 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Per Item 305(e) of Regulation S-K, a smaller reporting company is not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, our CEO and CFO concluded that as of June 30, 2008 our disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company required to be included in the

Edgar Filing: AcuNetx, Inc. - Form 10-Q

Company's periodic filings with the SEC, such that the information relating to the Company required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There has been no material change in our internal control over financial reporting during the three months ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

29

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

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

In May 2008, the Company sold 71,429 units, each consisting of one share of Common Stock and a warrant to purchase one share of Common Stock, to a small group of private investors. The Company received gross proceeds of \$5,000.

The Company believes the offer and sale of the units was exempt from the registration requirements of the Securities Act of 1933 by reason of Section 4(2) thereof and Regulation D promulgated thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

31.1 Certification of the Company's Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

31.2 Certification of the Company's Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934

32.1 Certification of the Company's Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

32.2 Certification of the Company's Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

30

SIGNATURES

Edgar Filing: AcuNetx, Inc. - Form 10-Q

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

Date: August 14, 2008

By: /s/ Robert S. Corrigan

Robert S. Corrigan, Chief Executive Officer