

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

AcuNetx, Inc.  
Form 10-Q  
November 19, 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 September 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).

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:

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

Common Stock, \$0.001 par value	65,429,585 shares
-----	-----
(Class)	(Outstanding as at November 14, 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.....	31
ITEM 4. CONTROLS AND PROCEDURES.....	31
PART II - OTHER INFORMATION.....	31
ITEM 1. LEGAL PROCEEDINGS.....	31
ITEM 1A. RISK FACTORS.....	31
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.....	31
ITEM 3. DEFAULTS UPON SENIOR SECURITIES.....	31
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	31
ITEM 5. OTHER INFORMATION.....	31
ITEM 6. EXHIBITS.....	32
SIGNATURES.....	33

### 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

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

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, 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

ASSETS	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	-----	-----
Current Assets		
Cash	\$ 95,776	\$ 107,683
Restricted Cash	91,514	27,732
Accounts receivable, net	27,732	91,514
Inventory	107,683	95,776

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

Prepaid expenses and other current assets	99,541	-----	-----
Total Current Assets	422,245		
Property and equipment, net	12,232		
Other intangible assets	115,271		
Deferred tax assets	220,635		
Other investments	15,000		
Other assets	2,020	-----	-----
TOTAL ASSETS	\$ 787,403	=====	\$ =====
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts payable	\$ 453,923		\$
Accrued liabilities	967,188		
Current portion of long-term debt	218,317	-----	-----
Total Current Liabilities	1,639,428		1
Convertible debt, net of debt discount of \$3,874 and \$6,124 for 2008 and 2007, respectively	111,126		
Long-Term Debt	150,000	-----	-----
Total Liabilities	1,900,553	-----	1
Minority Deficit	(14,856)		
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	11,335,177		11
Accumulated deficit	(12,498,901)	-----	(11
Total Stockholders' Deficit	(1,098,294)	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 787,403	=====	\$ =====
See notes to interim unaudited consolidated financial statements			

4

ACUNETX, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the three months ended		
	September 30,		
	2008	2007	20
	-----	-----	-----
Sales - Products	\$ 213,936	\$ 428,286	\$ 7

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

Cost of sales - products	110,373	148,644	3
	-----	-----	-----
Gross profit	103,563	279,642	4
	-----	-----	-----
Operating Expenses:			
Selling, general and administrative expenses	306,805	388,415	9
Stock option expense	17,814	19,931	1
Impairment of goodwill	0	--	
	-----	-----	-----
Total Operating Expenses	324,619	1,134,177	4
	-----	-----	-----
Operating loss	(221,056)	(128,704)	(7)
	-----	-----	-----
Other income (expenses)			
Interest and other income	14,884	8,069	
Interest and other expenses	(19,643)	(12,828)	(
	-----	-----	-----
Total other income (expenses)	(4,760)	(4,760)	(
	-----	-----	-----
Net loss before income taxes and minority interest	(225,816)	(133,464)	(7)
Provision for income taxes	0	--	
	-----	-----	-----
Net loss before minority interest	(225,816)	(133,464)	(7)
Minority interest in losses of subsidiaries	(3,401)	(9,927)	
	-----	-----	-----
Net loss	\$ (222,414)	\$ (123,537)	\$ (7)
	=====	=====	=====
Net Loss per share-Basic and Diluted	\$ (0.00)	\$ (0.00)	\$
	=====	=====	=====
Weighted average number of common shares	65,429,309	64,221,451	65,3

See notes to interim unaudited consolidated financial statements

5

ACUNETX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
FOR NINE MONTHS ENDED SEPTEMBER 30,

2008

CASH FLOW FROM OPERATING ACTIVITIES:

Net loss	\$ (757,319)
Adjustments to reconcile net loss to net cash used in operating activities:	
Minority interest	(7,692)
Depreciation and amortization	6,655

5

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

Issuance of stock and stock equity awards for services	190,063
Provision for bad debt	18,711
Amortization of debt discount	2,250
Impairment of goodwill	--
Intellectual property write-down	47,249
Gain on recovery from loan loss	(900)
Unrealized gain on trading securities	(14,100)
(Increase) Decrease in:	
Accounts receivable	(1,408)
Inventory	96,596
Prepaid and other assets	(25,856)
Increase (Decrease) in:	
Accounts payable and accrued expenses	232,232
	-----
Net cash used in operating activities	(213,519)
	-----
CASH FLOW FROM INVESTING ACTIVITIES:	
Increase in restricted cash	(16,514)
Capitalized intellectual property	(12,871)
Repayment from Notes Receivable	--
	-----
Net cash provided by (used in) investing activities	(29,385)
	-----
CASH FLOW FROM FINANCING ACTIVITIES:	
Net proceeds from sales of common stock	20,050
Proceeds from issuance of long-term debt	150,000
Repurchase of common stock	--
Net proceeds from convertible debt	15,000
Repayments on notes payable	(51,532)
	-----
Net cash provided by financing activities	133,518
	-----
NET DECREASE IN CASH	(109,386)
CASH BALANCE AT BEGINNING OF PERIOD	205,162
	-----
CASH BALANCE AT END OF PERIOD	\$ 95,776
	=====
Supplemental Disclosures of Cash Flow Information:	
Taxes Paid	\$ 800
Interest paid	\$ 34,689
Schedule of Noncash Investing and Financing Activities:	
Retirement of common stock for an equity-method investment	\$ 0
Conversion of accrued interest into debt principal	\$ 0
Issuance of stock options for accrued expenses	\$ 1,036
Issuance of warrants as debt discount	\$ 0
See notes to interim unaudited consolidated financial statements	

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

### 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 operates its divisions as IntelliNetx, a medical division with neurological diagnostic equipment; and its two subsidiary companies mentioned above, which are (i) wholly owned OrthoNetx, Inc., which has devices that create new bone; and (ii) VisioNetx, Inc., a majority-owned subsidiary company with products for occupational safety and law enforcement.

AcuNetx and its subsidiaries offer the following product lines: (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, targeting the occupational safety and law enforcement markets, 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; (c) Orthopedic and craniomaxillofacial (skull and jaw) surgery products, which generate new bone through the process of distraction osteogenesis; and (d) A proprietary information technology system called SmartDevice-Connect(TM) ("SDC"). SmartDeviceConnect establishes product registry to individual patients and tracks device results for post-market surveillance, adverse event and outcomes reporting, and creates "smart devices" that gather and transmit physiological data from the device and its interaction with patients.

7

ACUNETX, INC.

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

#### GOING CONCERN

In the near term, the Company expects that operating cash flows will not be sufficient to pay off all debt and payables, although management expects this position to improve as sales grow significantly. In the meantime, the Company will continue to be able to cover current operating costs and to reduce the working capital deficit.

In order to ensure adequate cash flow for operations, management is currently finalizing Purchase Order financing. This financing provides cash to the Company as soon as an order is received, so that management has the working capital to pay for the purchase of inventory and the manufacturing process, as well as to

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

finance sales and administration.

Additionally, management's plans include raising operating capital to take advantage of the Company's IntelliNetx and HawkEye commercial opportunities. 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 new financing is expected to enable the Company to focus its efforts on expanding its ongoing sales to the medical community of its neurological diagnostic products, which have historically constituted its primary and most consistent business; and to increase the enhancement, marketing and sales efforts of the Company's sobriety testing products for law enforcement and work fitness testing products for industry and public safety.

The ability of the Company to continue as a going concern is dependent on the success of its future operations and would be boosted by the success of its new financing efforts. 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 NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRESENTATION OF INTERIM INFORMATION:** The financial information at September 30, 2008 and for the three and nine months ended September 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 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 nine months ended September 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



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

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 nine months ended September 30, 2008 and 2007.

9

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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 effect is anti-dilutive. Dilutive 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 nine months

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

ended September 30, 2008 and 2007, the Company recognized pre-tax stock option compensation expense of \$160,063 and \$178,449, 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 NINE MONTHS ENDED SEPTEMBER 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 May 2008, the FASB issued SFAS No. 162, "THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles in the United States of America. SFAS No. 162 will be effective 60 days after the Securities and Exchange Commission approves the Public Company Accounting Oversight Board's amendments to AU Section 411. The Company does not anticipate the adoption of SFAS No. 162 will have an impact on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 163, "ACCOUNTING FOR FINANCIAL GUARANTEE INSURANCE CONTRACTS - AN INTERPRETATION OF FASB STATEMENT NO. 60." SFAS No. 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement

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

also clarifies how SFAS No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Those clarifications will increase comparability in financial reporting of financial guarantee insurance contracts by insurance enterprises. This Statement requires expanded disclosures about financial guarantee insurance contracts. The accounting and disclosure requirements of the Statement will improve the quality of information provided to users of financial statements. SFAS No. 163 will be effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS No. 163 will have a material impact on its consolidated financial condition or results of operations.

In June 2008, the FASB issued FASB SP EITF 03-6-1, "DETERMINING WHETHER INSTRUMENTS GRANTED IN SHARE-BASED PAYMENT TRANSACTIONS ARE PARTICIPATING SECURITIES." SP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earnings per share under the two-class method as described in SFAS No. 128, "Earnings per Share." SP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. The Company is required to adopt SP EITF 03-6-1 in the first quarter of 2009 and is currently evaluating the impact that SP EITF 03-6-1 will have on its consolidated financial statements.

11

ACUNETX, INC.

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

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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.

12

ACUNETX, INC.

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

### NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

ACCOUNTS RECEIVABLE, NET	SEPTEMBER 30, 2008	DECEMBER 31, 2007
	-----	-----
Accounts Receivable	\$ 55,298	\$ 56,177
Allowance for Bad Debt	(27,567)	(11,143)
Total Accounts Receivable, Net	\$ 27,732	\$ 45,034
 INVENTORY		
Finished Goods	\$ 55,310	\$ 170,698
Demo units	72,424	85,206
Allowance for loss in inventory	(20,050)	(51,624)
Total Inventory	\$ 107,683	\$ 204,280
 PREPAID EXPENSES AND OTHER CURRENT ASSETS		
Prepaid Insurance	\$ 6,835	\$ 23,038
Prepaid rent and deposit	(103)	2,065
Employee Advance	6,058	3,415
Other Prepaid Expenses	86,751	45,167
Total Prepaids and Others	\$ 99,541	\$ 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	(43,586)	(37,754)
Total Property and Equipment, Net	\$ 12,232	\$ 18,064

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

ACCRUED LIABILITIES		
Warranty reserve	\$ 3,795	\$ 11,339
Accrued payroll and related taxes	145,148	120,887
Accrued consulting fees	240,526	254,967
Commissions payable	4,685	--
Deferred Revenues	84,201	--
Accrued vacation	21,495	18,072
Accrued professional fees	143,153	136,413
Related party payable	(4,176)	42,165
Other accrued liabilities	328,362	210,915
Total Accrued Liabilities	\$ 967,188	\$ 794,758

13

ACUNETX, INC.

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

NOTE 4 - OTHER INTANGIBLE ASSETS

During the nine months ended September 30, 2008, the Company capitalized intellectual property cost of \$ 12,871 and expensed intellectual property that the Company stopped pursuing which was previously capitalized at a cost of \$47,249. The Company's intangible assets consisted of the following at September 30, 2008 and December 31, 2007:

	SEPTEMBER 30, 2008	DECEMBER 31, 2007
	-----	-----
Pending Intellectual Property	\$ 94,140	\$ 128,518
Awarded patents	21,954	21,954
Accumulated amortization	(823)	--
Total Accounts Receivable, Net	\$ 115,271	\$ 150,472

Amortization of intangibles was \$823 for the nine months ended September 30, 2008. No amortization of intangibles was recorded for the nine months ended September 30, 2007, as no patents were awarded as of that date.

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

Years ended December 31,	
-----	
2008 (From Oct 1, 2008)	\$ 274
2009	1,098
2010	1,098
2011	1,098
2012 and after	17,563
	-----
Total	\$21,131
	=====

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

ACUNETX, INC.  
 NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 September 30, 2008. The former employee is in arrears of payments as of September 30, 2008. In May 2008, the Company received 1,000,000 shares of Preferred Stock of a publicly-traded, company which was provided as a security in the agreement. The shares are 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 gain of \$14,100 was recorded at September 30, 2008.

NOTE 6 - BORROWINGS

LONG-TERM DEBT

	September 30, 2008
=====	
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.	\$ 783
Restructured 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)	217,534
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
-----	
	388,047
Less: Current Maturities	(218,317)
-----	
Long-term debt	\$ 150,000
=====	

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

- (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 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 September 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 NINE MONTHS ENDED SEPTEMBER 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 September 30, 2008, no fund was set aside.

### SERIES A CONVERTIBLE PROMISSORY NOTE

On May 21, 2007, the Company's subsidiary, VisioNetx Inc., conducted a private placement offering of convertible notes and detachable warrants up to \$500,000. The offering price was \$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. 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 automatically converts into shares of VisioNetx under the same terms and conditions as those for investors in the Qualified Financing. Subscribers also received a warrant to purchase VisioNetx shares equal to 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

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

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.

16

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 was \$50,000 per unit, consisting of a convertible debenture in the amount of \$50,000 and 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 is to convert the principal and interest of the note into the New Securities. Also upon conversion of the note, the note holders are to receive warrants to purchase up to 100% of the number of New Securities to be issued. The warrants are exercisable for five (5) years.

	September 30, 2008	Decem
10% Series A Convertible Promissory Note, matures on December 31, 2010	\$ 25,000	\$
8% Convertible Promissory Notes, maturing commencing May 18, 2009	90,000	
	115,000	1
Less: Unamortized debt discount	(3,874)	
Long-term debt	\$ 111,126	\$

### NOTE 7 - INCOME TAXES



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

Provision for income taxes consisted of a minimum state franchise tax of \$800 for nine months ended September 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

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

### NOTE 8 - STOCKHOLDERS' EQUITY

#### STOCK COMPENSATION

On July 17, 2008, the Compensation Committee approved the issuance of 1,000,000 shares of common stock to the incoming Chief Executive Officer as a signing bonus. The shares are vested ratably over the remaining periods in 2008. The shares were valued at quoted market price on the grant date and are amortized over the vesting period. The stocks will be issued in the fourth quarter.

#### 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-underwritten 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-underwritten 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

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

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 NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

NOTE 9 - STOCK OPTIONS (CONTINUED)

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

	2008		2007	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	5,525,768	\$ 0.15	7,309,102	\$ 0.21
Granted	6,472,088	\$ 0.05	1,500,000	\$ 0.09
Exercised, Expired and Cancelled	(1,750,000)	\$ 0.06	(3,375,001)	\$ 0.21
Outstanding at end of period	10,247,856	\$ 0.10	5,434,101	\$ 0.17
Exercisable at end of period	8,204,443	\$ 0.12	4,434,101	\$ 0.17

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  
-----

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

Weighted average fair value per option granted	\$0.04	\$0.09
Risk-free interest rate	3.26%	4.75%
Expected dividend yield	0.00%	0.00%
Expected lives	5.00	5.00
Expected volatility	129.73%	120.88%

As of September 30, 2008 there was \$45,745 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 11 months.

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

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
-----	-----	-----	-----	-----
\$0.01-\$0.30	10,247,856	3.76 years	\$ 0.10	8,204,443

19

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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		2007
	-----		-----
Number	Weighted	Number	Weighted
of	Average	of	Average
Shares	Exercise	Shares	Exercise
	Price		Price
	-----		-----

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

Outstanding at beginning of year	479,500	\$ 0.10	--	\$ 0.00
Granted	96,000	\$ 0.10	362,500	\$ 0.10
Exercised/Expired/Cancelled	--	\$ 0.00	--	\$ 0.00
	-----		-----	
Outstanding at end of period	575,500	\$ 0.10	362,500	\$ 0.10
	=====		=====	
Exercisable at end of period	314,951	\$ 0.10	20,139	\$ 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	2007
	-----	-----
Weighted average fair value per option granted	\$0.04	\$0.05
Risk-free interest rate	3.45%	4.60%
Expected dividend yield	0.00%	0.00%
Expected lives	5.00	10.00
Expected volatility	134.64%	143.00%

As of September 30, 2008 there was \$12,465 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 1.54 years.

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

NOTE 9 - STOCK OPTIONS (CONTINUED)

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

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

Range of		Weighted	Weighted	
Exercise	Options	Average	Average	Options
Prices	Outstanding	Remaining	Exercise	Exercisable
-----	-----	Contractual	Price	-----
		Life		
		-----	-----	

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

\$0.10                      575,500                      7.17 years                      \$0.10                      314,951

NOTE 10 - NET LOSS PER SHARE

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

	For Three Months Ended September 30,		For Nine Months September
	2008	2007	2008
-----			
Numerator:			
Net loss	\$ (222,414)	\$ (123,537)	\$ (757,319)
-----			
Denominator:			
Weighted average of common shares	65,429,309	64,221,451	65,373,674
-----			
Net loss per share-basic and diluted	\$ (0.003)	\$ (0.002)	\$ (0.01)
			\$

As the Company incurred net losses for the three and nine months ended September 30, 2008, the effect of dilutive securities totaling 75,346 and 1,168,099 equivalent shares, respectively, have been excluded from the calculation of diluted net loss per share because their effect is anti-dilutive.

Stock options and warrants to purchase approximately 17,517,437 and 15,560,770 shares of the Company's common stock were outstanding, but were not included in the computation of diluted net loss per share for the three and nine months ended September 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.

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

NOTE 11 - MAJOR CUSTOMERS AND CREDIT CONCENTRATION

During the three months ended September 30, 2008 and 2007, sales to major customers (those exceeding 10% of the Company's net revenues) approximated 37% and 75%, respectively, of the Company's consolidated net revenues. During the nine months ended September 30, 2008 and 2007, sales to major customers approximated 33% and 67%, respectively, of the Company's consolidated net revenues.

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

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

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 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 NINE MONTHS ENDED SEPTEMBER 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	Nin	
	September 30,	S	
	2008	2007	2008

---

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

Net Revenue to external customers:			
INX	\$213,936	\$423,886	\$700,22
ONX	--	--	18,76
VNX	--	4,400	-
<hr style="border-top: 1px dashed black;"/>			
Consolidated Net Revenue to external customers	\$213,936	\$428,286	\$718,98
<hr style="border-top: 1px dashed black;"/>			
Cost of Revenue:			
INX	\$110,373	\$147,888	\$257,97
ONX	--	--	42,28
VNX	--	756	-
<hr style="border-top: 1px dashed black;"/>			
Consolidated Cost of Revenue	\$110,373	\$148,644	\$300,25
<hr style="border-top: 1px dashed black;"/>			
Gross Margin:			
INX	\$103,563	\$275,999	\$442,24
ONX	--	--	(23,51
VNX	--	3,644	-
<hr style="border-top: 1px dashed black;"/>			
Consolidated Gross Margin	\$103,563	\$279,642	\$418,73

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 September 30,	
	2008	2007
<hr style="border-top: 1px dashed black;"/>		
Total margin for reportable segments	\$ 103,563	\$ 279,642
Corporate and general and administrative expenses	(306,805)	(388,415)
Stock option expenses	(17,814)	(19,931)
Research and development	0	0
Impairment of goodwill	0	0
Interest and Other Expense	(19,643)	(12,828)
Gain (loss) on equity-method investments	0	0
Interest and Other Income	14,884	8,069
<hr style="border-top: 1px dashed black;"/>		
Net loss before income taxes and minority interest	\$ (225,816)	\$ (133,464)
<hr style="border-top: 3px double black;"/>		

ACUNETX, INC.

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

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

### 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 September 30, 2008 the company had current related party payables, in a deficit of \$4,176.

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.

### 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 September 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.



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

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

For the Nine Months Ended September 30,	2008	2007
Beginning balance	\$ 11,339	\$ 7,200
Provision for warranty	(7,544)	4,991
Utilization of reserve	0	(1,800)
Ending balance	\$ 3,795	\$ 10,391

### NOTE 15 - DEPARTURE AND ELECTION OF NEW OFFICERS

On July 14, 2008, Ronald A. Waldorf, President, Chief Executive Officer, 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 Executive Officer on an interim basis to replace Mr. Waldorf.

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

On July 22, 2008, the Board appointed Alexander P. Limbert to serve as Chief Financial Officer of the Company. In September of 2008, Alexander Limbert, former Chief Financial Officer of AcuNetx, resigned to pursue his public accounting practice. He was replaced on September 22, 2008 by Dennis G. Geselowitz.

### NOTE 16 - SUBSEQUENT EVENTS

On September 27, 2008, Mr. Hunter resigned as CEO of VisioNetx, Inc. (VisioNetx). In October, VisioNetx returned the investments of two investors totaling \$75,000 plus the amount of interest that was earned on those investments (\$996) while in an interest bearing account at a bank. The Company will reflect a reduction of expense in the fourth quarter equal to \$4,010, which is the difference between the amount of interest accrued on those notes and the amount of interest paid.

In addition, there are shares of VisioNetx's common stock that are to be issued to its officers, the value of which have been recorded on the books at \$65,000 (\$0.10 per share) and related payroll tax expense of \$28,206. In light of the inability to complete the needed financing, the value of those shares may be reduced, resulting in an additional reduction of expense in the period the new value is established and the shares issued.

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

### INTRODUCTION

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

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 September 30, 2008 and cash flows for the nine months ended September 30, 2008.
- o Results of operations. This section provides an analysis of the Company's results of operations for the nine months ended September 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-Q 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 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.

BUSINESS OVERVIEW

AcuNetx Inc. is a manufacturer of innovative products that track eye movement and are used in medical, law enforcement, workplace safety and optical polygraph applications.

During the first nine months of 2008, sales of medical related products, in a mature market, accounted for 90.5% of the Company's revenues, with the balance of the revenues coming from law enforcement and optical polygraph sales. Recent research indicates that the Company's newer product lines, in the early stages of their product life cycles, should sell well in growing markets. The company will 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. AcuNetx, Inc. has licensed the HawkEye(TM) eye observation and recording system from VisioNetx to help provide additional resources to promote the law enforcement product lines.

Secondly, the Company is ramping up product development, marketing, and sales activities for both its new product lines, and its popular existing Videonystagmography (VNG) medical equipment. The Company expects a growing global demand for instruments such as these, for balance assessment and fall prevention for the sick and elderly.

Thirdly, the company is attempting to expand significantly the market for its medical product line. Historically, the Company's VNG product line has been aimed at specialized physicians. While the Company has, by remaining a significant seller in this market, proven that its 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 for universal patient diagnosis, and the Company will continue to pursue this market going forward.

The Company believes that the OrthoNetx product line for repair and reconstruction, and elongation, of human bones, has value in its marketplace, and the Company's 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

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

their report on the December 31, 2007 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.

Management understands the comments in the auditor's report relative to the Company as a going concern and has taken a number of actions, described in the footnotes, to improve operating revenues, reduce expenses and conserve cash.

Cash flow is expected to be improved and normalized by the new purchase order financing. Additionally, 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 solid relationships already formed with our suppliers, distributors, and customers, the latter including a growing and impressive portfolio of public entities, including state safety and police departments nationwide and recently the U.S. Army. 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 \$180,915 from December 31, 2007 to September 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, restricted cash balances and other current assets.

### OTHER INTANGIBLE ASSETS

Other intangible assets decreased by \$35,201 from December 31, 2007 to September 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

On a positive note, current liabilities have increased by \$377,495 from December 31, 2007 to September 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 affected by an increase of \$58,766 in accounts payable.

### LONG-TERM DEBT

Long-term debt decreased by \$47,830 from December 31, 2007 to September 30, 2008, primarily due to the increase in current portion of long-term debt, net of issuance of a new note payable in the amount of \$150,000. This decrease was partially affected by debt payment of approximately \$51,000.

### STOCKHOLDERS' DEFICIT

Stockholders' deficit increased by \$547,400 from December 31, 2007 to September 30, 2008, primarily due to a net loss for the period. This decrease was offset, to a lesser extent, by a \$209,631 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.

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

### LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2008, the Company had \$422,245 in current assets. This includes \$95,776 in non-restricted cash and cash equivalents and \$91,514 in restricted cash. Net accounts receivable was \$27,732, and inventory was \$107,683.

29

The Company had \$1,639,428 in current liabilities, which included accounts payable of \$453,923. The Company also had accrued liabilities of \$967,188 and a current portion of long term debt of \$218,317. Long-term liabilities were \$150,000. As of September 30, 2008, AcuNetx had an accumulated deficit of \$12,498,901.

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

#### NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007

The nine months ended September 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.

Revenues during the nine months ended September 30, 2008 were \$718,988, compared to \$2,230,706 for the corresponding period in 2007. System unit shipments decreased to 35 units in the first nine 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 77% to 58%. Total operating expenses decreased by \$1,190,408, from \$2,234,585 in the first nine months of 2007 to \$1,134,177 in the first nine months of 2008. Selling, general and administrative expenses decreased from \$2,145,774, in the first nine months of 2007, to \$974,114 in the first nine months of 2008. Net loss increased from \$605,663 in the first nine months of 2007 to \$757,319 in the first nine months of 2008.

30

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company" the 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 September 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 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 September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

None.

### ITEM 1A. RISK FACTORS

As a "smaller reporting company" the Company is not required to provide the information required by this item.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

### ITEM 5. OTHER INFORMATION

On May 31, 2008, Charles E. Phillips, Chairman of the Board of Directors of the Company, resigned from the Board for health reasons.

Robert S. Corrigan, a current member of the Board of Directors, was appointed Chairman of the Board to replace Mr. Phillips.

On July 14, 2008, Ronald A. Waldorf, President, Chief Executive Officer, 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 Executive Officer on an interim basis to replace Mr. Waldorf.

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

On July 22, 2008, the Board appointed Alexander P. Limbert to serve as Chief Financial Officer of the Company. In September of 2008, Alexander Limbert, former Chief Financial Officer of AcuNetx, resigned to pursue his public accounting practice. He was replaced on September 22, 2008 by Dennis G. Geselowitz.

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.

SIGNATURES

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

Date: November 19, 2008

By: /s/ Robert S. Corrigan

-----  
Robert S. Corrigan,  
Chief Executive Officer