AcuNetx, Inc.
Form 10KSB
March 31, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2007

Commission File No. 2-95626-D

AcuNetx, Inc.
(Name of small business issuer in its charter)

Nevada	88-0249812
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2301 W. 205th Street, Suite 102, Torrance, CA	90501
(Address of principal executive offices)	(Zip Code)

Issuer's Telephone Number: (310) 328-0477

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, PAR VALUE $.001 PER SHARE
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes [ ] No [X]

The issuer's revenues for the year ended December 31, 2007 were $2,574,645.

The aggregate market value of the voting stock held by non-affiliates as of March 24, 2008, computed based on the closing price reported on the OTC Bulletin Board, was $4,365,900.

As of March 15, 2007, there were 65,142,880 shares of Common Stock of the issuer outstanding.

Documents Incorporated by Reference: NONE

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BACKGROUND

AcuNetx, Inc. was formed by the merger of Eye Dynamics, Inc. and OrthoNetx, Inc. in December of 2005. AcuNetx is now organized around a dedicated medical division and two separate subsidiary companies: (i) IntelliNetx, a medical division with neurological diagnostic equipment, (ii) OrthoNetx, Inc., a wholly-owned medical subsidiary company with devices that create new bone, and (iii) VisioNetx, Inc., an AcuNetx-controlled subsidiary company, formed January 3, 2007, with products for occupational safety and law enforcement. For all its devices, AcuNetx is also contemplating integrating an information technology (IT) platform that allows the device to capture data about the physiological condition of a human being. Our IT platform is designed to gather data and connect the device-related data with users and support persons. Our products include the following:

o Neurological diagnostic equipment that measures, tracks and records human eye movements, utilizing our proprietary technology and computer software, as a method to diagnose problems of the vestibular (balance) system and other balance disorders.

o Devices designed to test individuals for impaired performance resulting from the influences of alcohol, drugs, illness, fatigue and other factors that affect eye and pupil performance. These products target the occupational safety and law enforcement markets.

o Orthopedic and craniomaxillofacial (skull and jaw) surgery products, which generate new bone through the process of distraction osteogenesis.

Supplementing some of these products is a proprietary information technology system that is designed to establish product registry to individual patients and track device behavior for post-market surveillance, adverse event and outcomes reporting.

INTRODUCTION--EYE TRACKING DEVICES

Human eye movements and pupil reactions are excellent indicators of the presence of disease, drugs or other conditions that can alter the normal response of the human oculomotor system. Our medical eye-tracking technology addresses the central nervous system condition of nystagmus, a rapid, involuntary back-and-forth or up-and-down oscillation of the eyeball. Nystagmus occurs in different forms and has a number of causes, ranging from the serious (e.g., a tumor in the brain or ear) to the benign (such as positional dizziness). The consumption of certain drugs and alcohol also causes nystagmus, and there is a direct and quantifiable correlation between blood alcohol concentration in the body and the angle of onset of nystagmus. Medical research conducted over the past fifty years has furnished evidence demonstrating a relationship between irregular eye movement and abnormal central nervous system physiology. The causes of these conditions are numerous, and include the influences of alcohol, drugs, illness, stress, extreme fatigue and other neurological conditions. The basic technology used in all of our eye-tracking products is similar, yet differs in its application and use. The products utilize infrared sensitive video cameras to monitor, record, and analyze eye performance and movement. All the products share in a modular concept to promote efficiency in manufacturing. The products are PC computer based with specialized and proprietary hardware and embedded firmware. A common element of the products is the Ocular Motor Module, where the subject being tested peers into a dark environment. The products include an infrared sensitive Charge Coupled Device video camera that provides a bright video image, even though the person being tested sees nothing but a small stimulus or tracking light amid complete darkness. All our videonystagmography (VNG) devices are designed to enable doctors to better diagnose balance problems, including those (especially the elderly) who are in danger of falling.

EYE-TRACKING PRODUCTS

MEDICAL PRODUCTS (IntelliNetx division). Eletronystagmographic (ENG) testing is a standard medical procedure that employs electrodes to assess eye movement and a pen recorder to display the results. ENG is used in assessing problems of the balance system of patients. Now, videonystagmography assesses eye movements using infrared video cameras and has largely replaced ENG.

We brought the use of infrared illumination of the eyes into clinical use in 1994 when the U.S. Food and Drug Administration ("FDA") approved marketing of our House Infrared/VNG System. This device was the first to replace the electrodes with infrared sensitive video cameras and with computer digital processing that follows the movement of the eyes and graphically portrays the movements much like the pen recorder. The test subject wears a lightweight goggle assembly which contains miniature infrared video cameras. The goggle is an essential component because certain of the VNG tests require the patient to move his head and often to recline on an examining table. The accuracy and display of the Infrared/VNG System has proved to be a significant improvement over other existing testing methods. In addition, the use of video by the Infrared/VNG System allows the test administrator or medical practitioner to observe the eye movements directly and can provide a video recording of the test for later playback and additional analysis. Since 1994, when we received FDA clearance to market this product, most competitors have embraced video data acquisition as a superior technology. Results from the tests are used by physicians and clinicians.

We developed the AcuNetx system in conjunction with the House Ear Clinic and House Ear Institute, Los Angeles, California. The "House" name is used with the permission of the House Ear Institute.

AcuNetx's IntelliNetx division has obtained ISO 13485: 2003 Certification as a quality medical manufacturer and approval from Health Canada for marketing & sales.

IMPAIRMENT DETECTION PRODUCTS (VisioNetx, Inc. subsidiary). Our impairment detection products include:

- SafetyScan(TM), to screen workers in safety-sensitive jobs for physiological signs of impairment. The system evaluates involuntary changes in eye movements and/or pupil reactions, which may result from drug or alcohol abuse, reactions to medication, medical conditions, stress or fatigue. Occupations in the medical, aviation, emergency response, construction, manufacturing and transportation businesses are key markets for this technology. Unlike most drug and alcohol test methods, SafetyScan(TM) functions without the need for bodily fluids. SafetyScan(TM) determines whether or not a person is impaired at the time of the test and is not a test for past use. Unlike blood, urine and saliva tests, which only measure the presence of a substance in the body, SafetyScan(TM) takes into account the physiological effects of the substance or "stressor." While substance abuse receives the most attention, worker impairment caused by other stressors, such as prescription and over-the-counter medications, extreme fatigue and illness, all result in significant expense to employers. Workers suffering from such impairments are characterized by low productivity, more accidents, higher workers' compensation and insurance costs, and equipment and merchandise damage.

SafetyScan(TM) is based on methods developed by the federal government and used by law enforcement over the past 30 years. SafetyScan(TM) is a simple computer system that evaluates the ability of an individual's eyes to follow a moving light and the pupil of the eye to react to a dim and bright light stimulus. SafetyScan(TM) is non-diagnostic and non-judgmental; it evaluates performance of the individual solely for safety and productivity purposes. It takes only 90 seconds for SafetyScan(TM) to test the human eye by measuring twenty parameters of eye movement and pupil change, assessing parameters of position and reaction time of the eye itself and the size of pupil. SafetyScan(TM) reports the result of the test instantly with a "Pass" or "Fail" result.

Unlike SafetyScan(TM), traditional drug tests do not determine on the job impairment in real-time. Companies and government agencies around the world are beginning to evaluate this cost-effective technology as a replacement for traditional drug tests that require body fluids and are much more expensive to conduct. We believe that SafetyScan(TM) will be especially useful where fatigue in the workplace has an impairing effect on workers. To this end, we have contracted with a major human alertness technology consulting and research organization to optimize SafetyScan(TM) for fatigue testing. We believe SafetyScan(TM) will appeal to employers with round-the-clock workforces who desire to reduce industrial accidents caused by employee fatigue and to improve worker alertness and safety.

o HawkEye(TM) is an evidence capture device for use by police officers in evaluating DUI suspects and in training mode. In most states, law enforcement agencies use a six point evaluation of people thought to be intoxicated, known as the Standardized Field Sobriety Test ("SFST"). The SFST includes three tests for balance and three tests involving eye performance. Thus, we believe there is a need for a product that can be utilized, not only in the jail or precinct house, but in the field by traffic patrol cars. This product, HawkEye (TM), is currently offered as an advanced prototype in a 'handheld' or highly portable configuration.

Current police practices nationwide involve training of officers in the SFST, and some advanced officers in Drug Recognition Expert (DRE) protocols to evaluate individuals suspected of DUI or other drug impairment. Both methods evaluate eye signs extensively, and this evidence has met the Frye standard for scientific validity in courts of law. However, until HawkEye(TM), which is patent-pending, there has been no means for the officer to capture irrefutable objective evidence. Our HawkEye(TM) product allows direct capture of eye motions and pupil responses on video, exactly as observed by the police officer. Early product feedback suggests great enthusiasm on the part of the law enforcement community. In 2007, the United States Patent and Trademark Office approved two HawkEye(TM) patents for issuance.

DISTRACTION OSTEOGENESIS DEVICES FOR OSTEOPLASTIC SURGERY

Osteoplastic (meaning to form or mold bone) surgery is the art and science of correcting deformities and deficiencies of the skeleton caused by errors of birth, trauma, infections and tumors. Osteoplastic surgery is applicable to all areas of the skeleton, including the skull and face, jaws, long bones of the upper and lower extremities, hands, wrists, feet, ankles and the spine.

Our OrthoNetx subsidiary holds patents and FDA approvals for a family of osteoplastic surgery products that generate new bone through the process of distraction osteogenesis. Together, these products address an estimated $730 million potential worldwide market. The first of these products, the GenerOs(TM) CF craniofacial bone generator, has been available for commercial sale since December 2004.

Our GenerOs(TM) CF craniofacial bone generator is a device that assists surgeons in treating conditions such as birth deformities of the skull, facial bones and jaws. It is a small, proprietary device that enables distraction of the bones of the face and skull to correct developmental, congenital, and acquired defects and deficiencies. The device is made of surgical grade stainless steel with an internal gear system that allows for activation to take place even though the device is buried below the skin and soft tissues. The device is often implanted through incisions inside the mouth, thus minimizing external surgical scars. The GenerOs(TM) CF utilizes two blocks that are fixed to the bone on either side of a surgically created bone cut with miniscrews. A small transcutaneous activation pin is turned, which drives a mechanism to separate the two blocks. As the two blocks are separated the bone gap is increased, to a recommended distance of 1mm per day. After the desired separation is achieved (usually 10mm - 20mm in most cases), the pin is removed and the device is left in position on the bone until the bone is completely calcified. The device is then removed in a small outpatient procedure. GenerOs CF will distract up to 20 millimeters, which is adequate for approximately 95% of cases.

Our GenerOs (TM) SB small bone generator has the identical form factor and specifications as GenerOs CF. The difference is an extension of approved indications for small bones of the extremities. We have received FDA clearance for commercialization of this device.

In 2007, we reached an agreement in principal with Robinson MedSurg of Lone Tree, Colorado ("RMS"), that would permit RMS to market and sell our proprietary line of bone distraction devices. RMS is a distributor of medical devices for maxillofacial, craniofacial, and orthopedic use. RMS has special marketing and product supporting relationships with independent resellers throughout the world. The company is owned by Dr. Randolph Robinson, M.D. DDS, the inventor of the OrthoNetx line of distraction devices, and the largest shareholder of AcuNetx, Inc.

MARKETING

VIDEONYSTAGMOGRAPHY (VNG) PRODUCTS. Marketing of the Infrared/VNG System is conducted by AcuNetx through independent distributors. One major distributor, MedTrak Technologies, Inc, also operates through a network of independently owned sub-distributors, known as special instrument dealers. These independently owned businesses are distributors of not only our VNG System, but of a variety of allied and related products for the audiometric and otolaryngology ("ENT") markets. These distributors are across the United States and operate in assigned territories. In addition, there are several foreign distributors that are merchandising the product in Latin American, Canada, and the Middle East. We plan to obtain the "CE" mark of approval to offer the product in the European Community.

The market for the VNG products is relatively mature and represents estimated annual growth of 5%. However, because of the advancement of technology spurred by our introduction of video data acquisition methods in 1994, the market for replacement products has been strong. Also, we intend to expend efforts to open new markets for our products, including the neurology market, through our distributors.

IMPAIRMENT DETECTION PRODUCTS. We have test marketed an early version of SafetyScan(TM), and have sold a few units in the prison system for inmate testing in drug rehabilitation programs. In general, government drug testing regulations are based on urine testing, so testing of employees by governmental agencies, quasi-governmental agencies and certain regulated industries must comply with these regulations. Accordingly, some modification of these regulations may be necessary in order for the SafetyScan(TM) to gain broad acceptance in sectors subject to federal drug test regulations, such as those regulated by the Department of Transportation and certain others. We have conducted discussions with various government agencies regarding modification of applicable regulations and procedures so that they will encompass testing based on eye movement and performance. While certain governmental agencies have expressed an interest in the VisioNetx products, we believe that modifying governmental testing regulations may be a lengthy process and success is not assured.

For these and other reasons, the Company is developing marketing plans that focus on nongovernmental private sector companies that are not regulated by the federal government with respect to testing employees for substance abuse. In general, these are companies with major safety issues related to their operations; have employees in close proximity to, and often in charge of operating, very expensive and dangerous capital equipment in often hostile environments; and /or have encountered recent "cataclysmic" events that have resulted in high-level corrective activities within their enterprises. There are many companies in various industries that meet these criteria, and the marketing plan will focus on an industry that is not subject to governmental regulation.

Recently, we have entered a distribution agreement for SafetyScan(TM) products with Circadian Technologies, Inc., a research and consulting firm to industry concerning shift work and worker safety issues.

HawkEye(TM). In 2007, We successfully completed a licensing agreement with our majority-owned subsidiary, VisioNetx, Inc. The agreement permits us to manufacture, market and distribute the HawkEye(TM) video system to law enforcement agencies throughout the world. AcuNetx is using a direct to customer marketing strategy based on the Internet, E-marketing and a focused approach to conferences and seminars. Sales of this product commenced in 2007.

COMPETITION

VIDEONYSTAGMOGRAPHY (VNG) PRODUCTS. The principal competitors in the medical market producing VNG testing equipment are MicroMedical Technologies, Inc., ICS Medical Corporation and Interacoustics. Since our VNG product was introduced in 1994, these competitors have developed similar video-based VNG goggle products. As a result, the market has become very competitive and subject to pricing pressures. To combat this competitive pressure, AcuNetx has reduced manufacturing costs in an effort to offset the gross margin loss.

IMPAIRMENT DETECTION PRODUCTS. Competition for SafetyScan(TM) is from companies that have developed tests and devices that evaluate motor and cognitive skills. These take the form of hand-eye coordination tests, divided attention tests and other behavioral tests or series of tests administered either in series or selectively. We have identified three such competitors that have marketed these products in the past, including Performance Factors, Inc., Essex Corporation, and Pulse Medical Instruments.

We believe that only Pulse Medical Instruments has developed a product to be directly competitive with our products. The product differs in the fact it does not use the law enforcement testing paradigm which forms the basis for SafetyScan, its results are displayed in graphic form on a computer monitor for the qualified expert to interpret and, based on information available to us, we anticipate that such a product will be more expensive than SafetyScan(TM). Also, we believe it is not ubiquitous in determining overall impairment, i.e. one model is for fatigue, one for alcohol and drugs, etc. We are not aware of whether the product has been validated as a useful device.

SafetyScan(TM) differs from its competitors' approach because the SafetyScan(TM) test evaluates changes in eye performance, which are involuntary responses and not under the control of the individual. For this reason, these responses cannot be faked, spoofed, changed, improved upon or learned. All the other competitive forms of performance tests known to us can be learned, and over time the individual being tested can improve his skills. We believe that this difference is an important competitive advantage over other forms of performance testing.

SafetyScan(TM) also competes with drug and alcohol abuse test kits and devices, which principally rely on collection and testing of urine or breath samples. In addition, certain drug and alcohol abuse tests now being developed will test saliva and/or hair for evidence of the presence of certain drugs or alcohol. The principal advantages of SafetyScan(TM) over others tests are the immediacy of results and the non-invasive nature of the test procedure. We believe that the potential for occupational safety improvement that SafetyScan(TM) will provide for life-risk professions, such as airline pilots, bus drivers and train engineers, will make the system a very important breakthrough for public safety in these fields.

There are no currently known competitors for the HawkEye(TM) line of products.

DISTRACTION OSTEOGENESIS DEVICES.

Several companies offer devices which compete with our GenerOs(TM) devices, including Stryker Leibinger GmbH & Co. (bone distraction systems), KLS Martin, L.P. (distraction osteogenesis products), Walter Lorenz Surgical, Inc., a subsidiary of Biomet, Inc. (distraction osteogenesis devices), Ace Surgical Supply Co. (external mandible and dental distraction devices), Osteomed, Inc. (internal mandibular distraction device) and Wells Johnson Company (mandibular distraction device). We believe our distraction osteogenesis devices offer features that differentiate them from competitive devices currently available. Our devices are generally smaller and more adaptable to the bone, making it easy for the surgeon to use on patients of all ages and varying osteoplastic surgery needs. Also, our craniofacial device can be inserted through the mouth for lower jaw applications and can be positioned for virtually any distraction vector required, and features break-off plates, which make it fast and simple for the surgeon to insert. Finally, its removable, low profile activation pin is unobtrusive and leaves a minimal scar.

MANUFACTURING

We have internally performed all design and engineering of our VNG, SafetyScan(TM) and HawkEye(TM) products, and have developed all software and validation of software algorithms that are used in the analysis portion of the proprietary software.

Manufacturing of both the VNG products and SafetyScan(TM) is conducted primarily by subcontracting with various suppliers. We do not rely on a single supplier for the major manufacturing of items. We complete final integration and testing prior to shipment of devices to customers. All our products share in a modular concept for efficiency in manufacturing. Our electronic products are PC Computer based with specialized and proprietary hardware and embedded firmware. The common elements of the eye-tracking products are the viewport and the goggles, through which the individual being tested peers into a dark environment.

Our GenerOs distraction osteogenesis devices are manufactured under contract by High Precision Devices, Inc.

GOVERNMENT REGULATION

Our VNG products have been cleared for marketing by the U.S. Food and Drug Administration (FDA), and we are licensed by the State of California as a Medical Device Manufacturer. We also are ISO 13485 certified for our manufacturing processes. SafetyScan(TM) and HawkEye(TM) are not subject to FDA regulation, as they are not considered medical devices. However, as discussed above under "Marketing," government regulations on substance abuse testing for government employees and certain private companies impact our ability to market the SafetyScan(TM) in these areas. In 2005, we received ISO 13485-2003 Certification, which should assist in marketing these products.

Our distraction osteogenesis products are medical devices, subject to regulation by the FDA and corresponding state agencies. In order for us to market these products for clinical use in the United States, we must obtain clearance from the FDA via 510(k) pre-market notification or approval by a more extensive submission known as a pre-market approval application ("PMAA"). In addition, certain material changes to medical devices also are subject to FDA review and clearance or approval. The FDA currently has cleared three of our products for sale under 510(k); the GenerOs CF, the GenerOs SB and the GenerOs EX.

Sales of medical devices outside of the United States are subject to regulatory requirements that vary from country to country. The time required to obtain approval or sales internationally may be longer or shorter than that required for FDA clearance, and the requirements may differ.

PATENTS & PROPRIETARY PROTECTION

We license the technology used in our performance evaluation products from Ronald A. Waldorf, CEO and director of AcuNetx, who holds a patent covering claims relating to tracking eye movements in the dark, utilizing infrared illumination and infrared sensitive video cameras, as well as the related analysis methodology. The patent was issued in 1989. The license is for the term of the underlying patent, and calls for nominal annual royalties of $100.

VisioNetx is the owner of a patent issued in August 1992, covering certain technology underlying the SafetyScan(TM), principally relating to the apparatus for testing for impairment by tracking eye movements and pupil reactions to presented stimuli. VisioNetx has two patents pending for SafetyScan(TM), while two patents have been approved for issue for the HawkEye(TM) devices and technology. Additionally, our OrthoNetx subsidiary is the owner of two patents and a patent pending covering our devices for distraction osteogenesis.

The existence of patents may be important to our future operations, but there is no assurance that additional patents will be issued. We also rely on unpatented technology, know-how and trade secrets covering a number of items, particularly the methods of obtaining data regarding eye performance, and we rely on confidentiality agreements and internal procedures to protect such information.

EMPLOYEES

AcuNetx employs three full time employees, including one in executive and administrative positions, one in operations and one in engineering and research. We also employ three part-time employees, one in compliance and administration, one for customer service and training, and the other as our accounting manager. Our employees are not parties to any collective bargaining agreement, and we believe that our employee relations are satisfactory.

ITEM 2. DESCRIPTION OF PROPERTY

The principal offices of AcuNetx are located at 2301 205th Street, Suite 102, Torrance, California 90501. The offices occupy 1620 square feet and the lease expires on January 31, 2010. The current monthly lease payment is $2,106. These offices are considered satisfactory for conducting both corporate business and the production and shipment of our products. We believe that suitable additional space will be available to accommodate planned expansion,

ITEM 3. LEGAL PROCEEDINGS

AcuNetx is not a party to any material legal proceedings.

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

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the OTC Bulletin Board under the symbol "ANTX". The following table sets forth the quarterly high and low closing prices for the Company's Common Stock, as reported on the OTC Bulletin Board, during the 2007 and 2006 calendar years.

	LOW	HIGH
2007		
First Quarter	$0.02	$0.12
Second Quarter	0.025	0.055
Third Quarter	0.026	0.137
Fourth Quarter	0.026	0.142
2006		
First Quarter	$0.18	$0.26
Second Quarter	0.14	0.3
Third Quarter	0.08	0.2
Fourth Quarter	0.06	0.13

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and, thus, may not represent actual transactions

HOLDERS

As of December 31, 2007, AcuNetx Common Stock was held of record by approximately 270 holders. Registered ownership includes nominees who may hold securities on behalf of multiple beneficial owners.

During the last quarter of 2007, the Company issued 57,143 shares of common stock in a private placement offering. The Company believes such sales were exempt from the registration requirements of the Securities Act of 1933, as amended, by virtue of Section 4 (2) thereof and Regulation D thereunder.

DIVIDENDS

The Company has not paid cash dividends on its Common Stock and the Company has no present intention of paying cash dividends in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information about the Company's common stock that may be issued upon the exercise of options, warrants or rights under the Company's existing equity compensation plans. The information in this table is as of December 31, 2007.

PLAN CATEGORY	Number of securities issuable upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants, and rights	Number of securities remaining available
Equity compensation plans approved by security holders	40,000	$ 0.18	N/A
Equity compensation plans not approved by security holders	5,485,768	$ 0.15	8,514,232
Total	5,525,768	$ 0.15	8,514,232

On March 27, 2006 the Board of Directors adopted the 2006 Stock Incentive Plan to provide for the issuance of incentive stock options and/or nonstatutory options to all employees and nonstatutory options to consultants and other service providers. Generally, all options granted to employees and consultants expire in five 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.

In May 2007, the Company conducted a self-written offering to sell up to $200,000 of its equity units which consist of one share of the Company's common stock and one warrant to purchase an additional share of common stock. Each unit is sold for the sum of $0.07. The exercise price for the warrant included in the unit is $0.10 and expires two years from the date of purchase.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes thereto, included elsewhere in this Annual Report on Form 10-KSB. 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 our plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report on Form 10-KSB should be read as being applicable to all related forward-looking statements wherever they appear in this Annual Report on Form 10-KSB. Our 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 Annual Report on Form 10-KSB.

AcuNetx has invested substantial funds in the last several years developing and validating its products. We are producing and marketing the Infrared/Video ENG System, both as a branded product for our major distributor and under the IntelliNetx brand internationally and through independent distributors. In 2007 the VNG line products accounted for virtually all of our revenue. While the current products are being sold into a relatively mature market, recent research has indicated that additional markets may be suitable for our lines, and we will continue to explore those opportunities with our distributors and partners.

Several on-going initiatives are important to our future success. In 2007 we made several important changes to realign its resources. First, it established VisioNetx, Inc. which provides a better capitalization structure for raising the funds necessary to capitalize on its technology for the detection of impairment in the workplace. Second, it licensed the HawkEye(TM) eye observation and recording system from VisioNetx, which should allow AcuNetx management to address this market and generate revenues from the product. Third, it continues to pursue sales and marketing activities for its IntelliNetx division, to take advantage of the growing global opportunity for balance assessment and fall prevention in the elderly, which we believe has the potential to develop into a substantial new market.

We believe that the OrthoNetx product line still has significant potential value in its marketplace, and the relationship with Robinson MedSurg LLC is an important step to maximize this opportunity. .

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RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006.

Revenues from sales of products increased by $350,832, or 16%, from $2,223,813 in 2006 to $2,574,645 in 2007. Changes in revenue recognition from a retail model in the second quarter of 2007 back to a wholesale model impacts the comparison of these figures. A better way to view the company's progress is a comparison of system unit sales. In 2007, 96 IntelliNetx and private label medical systems were sold, compared to 71 of the same systems sold in 2006. This 35% increase was a result of the IntelliNetx marketing and sales initiatives implemented from the time that the company and its private label distributor changed from an exclusive to a non-exclusive arrangement. Two major distributors accounted for approximately 64% of our sales revenues in 2007, and in 2006 accounted for 86%. While VNG products and supplies continue to make up the majority of our revenue, we did have modest revenue growth from the sale of the HawkEye(TM) eye observation and recording law enforcement system, providing an additional $27,200 of revenue (six systems).

While the Company maintained a steady unit cost for its major systems, the overall gross profit improved from $1,608,796 (72%) in 2006 to $1,960,627 (76%) in 2007. That growth was then offset by sales expense for commission payments. The 2006 net loss of $8,223,391 decreased by $7,346,613, or 89%, to $876,778. The decrease was due primarily to a 2006 impairment of goodwill, but also to a significant decrease in selling, general and administrative expenses, which decreased $1,484,945, or 37%, from $4,062,300 in 2006 to $2,577,355 in 2007.

Inventory turnover ratio in 2007 was approximately 3:1, compared to 2.5:1 in 2006. This was achieved as we aligned our inventory stocking to the lower volumes. Inventory was down $47,157, or 19%, from $251,436 at December 31, 2006 to $204,279 on December 31, 2007. Collection of accounts receivables has been very satisfactory with only minimal slow paying accounts. Year end net accounts receivable totaled $45,034 on December 31, 2007, a decrease of $51,367, or 53%, from $96,401 on December 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, the Company had $205,162 in cash and cash equivalents, $75,000 in restricted cash, $45,034 in net accounts receivable, and $204,279 in inventory. Conversely, the Company had $1,261,933 of current liabilities, which included accounts payable of $395,157. The Company also had accrued liabilities of $794,757, and a $268,551 note payable. In 2007, as noted in the footnotes to the financial statements, the holder of the note declared the company in default. Discussions with that holder, a former director of the Company, have resulted in a settlement agreement that allows for interest payments, then interest plus principal, ending in a final payment on August 1, 2009 for $148,852. Long-term liabilities were $291,705. As of December 31, 2007, AcuNetx had an accumulated deficit of $11,741,583.

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

GOING CONCERN

The Company's independent auditors have included an explanatory paragraph in 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. We have taken a number of actions, described in the footnotes, to significantly reduce expenses and conserve cash. All activities will be focused on maintaining our ability to ship our VNG line of products, as well as the HawkEye (TM) product for law enforcement applications, 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.

EFFECT OF INFLATION

We do not believe that inflation has had a material effect on our net sales or profitability in recent years.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of AcuNetx are attached as a separate section of this Annual Report on Form 10-KSB, commencing with page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in or disagreements with our accountants.

ITEM 8A AND 8A (T). CONTROLS AND PROCEDURES.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.

Management and the Board of Directors have agreed that the following plan will be used to implement management's responsibility for establishing and maintaining adequate internal controls over financial reporting (ICOFR).

RISK EVALUATION & METHOD OF ASSESSMENT.

Management's evaluation of ICOFR effectiveness was conducted using the financial control elements provided by the Committee of Sponsoring Organizations (COSO) framework. The assessment of risks and internal controls was conducted by all appropriate service providers and member employees of the Company with moderator of the assessment done by the Chairman of our Audit Committee. A log of this assessment is available for detailed study.

The result of this assessment indicates that there are no material weaknesses in internal controls as of December 31, 2007 that would impact the 2007 financial statements. While management concluded that ICOFR were effective, the assessment did highlight areas that could be improved, as described below.

AcuNetx, with a small number of employees, minimizes risk factors in financial controls and reporting by assigning major tasks to individuals within their specialty skills, such as inventory controls and buying process, accounting documentation and disbursal of funds to payables.

Control and evaluation of finances for our partially owned subsidiary out of state may be at risk, but close communication with the financial and operating principals of the subsidiary is maintained in order to assure clarity and accuracy of data.

With a small number of employees the risk for fraud and/or inaccurate financial reporting is minimized because we do not duplicate functions and spread responsibilities to multiple parties.

EFFECTIVENESS OF INTERNAL CONTROLS.

The primary judge of the effectiveness of controls is the quarterly and annual audits that have been done over the past several years and the recent assessment that confirms that there are no material deficiencies that impact the 2007 financial statements.

A principal concern, the recent lack of effectiveness in maintaining a proper central record of corporate documents. is in process of being rectified. This lack of proper record maintenance was caused by the transfer of corporate recordkeeping out of state in January 2006 in connection with a merger, but this transfer was reversed in January 2007 when our records were relocated back to our corporate headquarters in Torrance, California.

The move out of state in 2006 involved new personnel taking responsibility for these items, and the reversal back to Torrance one year later also caused some confusion and delay in locating and organizing corporate documentation in a single location.

AcuNetx is in the process of moving all significant corporate documents to a single dedicated computer in the Torrance office. This data will be backed up on a weekly basis, with the backup located at a separate site for security and audit purposes. We expect to have this project completed by mid 2008.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes to the Company's ICFOR during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ONGOING ASSESSMENT AND ACTIVITIES.

The Company received ISO approval by independent auditors for the last two years as required under certain FDA regulations. Wherever ISO procedures or processes may be in conflict with appropriate financial internal controls, there is a mechanism to amend the ISO procedures to be in compliance with our internal financial controls.

Management continues to gather evidence of controls effectiveness by assessing processes and procedures and how each is applied. Also of importance is whether the personnel assigned to a task have the competence and the necessary authority to fulfill the tasks.

By the end of the third quarter of 2008, management plans to have adequate evidence to document and evaluate the design and operating effectiveness of the controls. We will continue to look for material weaknesses in the reporting function as well as control deficiencies that may pose a risk to interim and annual financial statements

By the end of the fourth quarter, management plans to have identified, assessed, and corrected identified deficiencies in the ICOFR process and procedure. This will include whether material weaknesses (if any) affect the company's financial reporting and internal controls, as well as plans to address any material weakness that may occur in the future. These will be described to the company's audit committee as well as our independent auditors.

The 2008 Annual Report will include status reporting on the progress of the company's improvement of effectiveness of its ICOFR Plan and its compliance with COSO financial control elements.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following table sets forth information on the officers and directors of the Company:

NAME	AGE	POSITION
Charles E. Phillips	72	Chairman of the Board of Directors
Ronald A. Waldorf	60	President, CEO and a Director
Robert S. Corrigan	54	Director
Peter Miterko	54	Director
Terry R. Knapp, M.D.	63	Chairman of VisioNetx, Inc.

Directors hold office for a period of one year from their election at the annual meeting of shareholders or until their successors are duly elected and qualified.

Mr. Phillips is the co-founder of Eye Dynamics, predecessor to AcuNetx, and was its President between 1988 and 2005. He became Chairman of the Board in 2006. From 1974 to 1985, Mr. Phillips was Executive Vice President and Director of Akai America, Ltd., a consumer electronics company. Prior to that he was President of Califone-Roberts Division of Rheem Manufacturing Company. Mr. Phillips received a B.A. from Pepperdine College, Los Angeles, California with emphasis on Business and Speech Education, in 1956.

Mr. Waldorf was Chairman of the Board of Directors of Eye Dynamics between 1991 and 2005 and is currently President and Chief Executive Officer of AcuNetx, Inc. He is also the Chairman of the Board and President of OrthoNetx, Inc. He is the co-inventor of the IR/Video ENG System, SafetyScan and HawkEye products. Since 1969 Waldorf has been active in the field of otolaryngology, primarily in an academic research environment at the University of Florida, College of Medicine and at the University of California (Irvine), Department of Surgery. He has published numerous articles on vestibular and optokinetic research in international scientific and medical journals and was the principal investigator in a research grant funded by the National Institute of Health/National Institute on Alcohol Abuse and Alcoholism (NIH/NIAAA). Mr. Waldorf earned an M.S. from the Department of Physiology of the College of Medicine, University of Florida, in 1972.

Mr. Corrigan has been a director since December 2005. He has been Chairman and Chief Executive Officer of Centennial Capital Group, Inc. for the past twelve years. CCGI is an investment banking enterprise which assists developmental stage and other companies in corporate finance, mergers and acquisitions and business development. Prior to founding CCGI, Mr. Corrigan was employed by the major financial services companies of Merrill Lynch, Pierce Fenner & Smith, Inc. and Paine Webber, Inc. Mr. Corrigan is a Director of AcuNetx, Inc, and VisioNetx, Inc. Mr. Corrigan holds a B.S. degree from Castleton State College, Castleton, Vermont and an M.S. from Youngstown State University, Youngstown, Ohio.

Peter Miterko is a partner and Executive Vice President of Denver Management Advisors, Inc. Previously, he was Chairman of HR Source, the largest compensation, consulting and human resources outsourcing firm in the Rocky Mountain area .As a partner at Ernst & Young, Peter founded and ran the Human Resources Consulting Division of the firm, and served on the firm's U.S. Operating Committee. Peter practiced law in New York City, where he also served as senior associate in compensation and benefits at Carter, Ledyard & Milburn, a Wall Street law firm. He has also served on the Board of the Association of Private Pension and Welfare Plans, a Washington, D.C. based lobbying group and has taught compensation and benefits law at the University Of Denver School Of Law.

Dr. Knapp was a director of AcuNetx between December 2005 and April 2007. In April 2007he became Chairman of the Board of VisioNetx, Inc. He was CEO and a director of OrthoNetx, Inc. between December 2003 and its acquisition by AcuNetx. He served as President and CEO throughout 2006. He was a founder and a director of Collagen Corporation, a publicly traded (NASDAQ) medical device company. He co-founded, served as Chairman and CEO for Lipomatrix, a medical device company based in Switzerland, with operations in the U.S. and Europe, until its acquisition. Dr. Knapp founded PrivaComp, Inc. in 1999 as an information technology solution for health care data management, product tracking and surveillance, and informed consent. Dr. Knapp is a reconstructive facial and hand surgeon, and has spoken and published extensively on matters of quality systems and risk management in health care. Dr. Knapp is President and co-founder of DRL Foundation, a 501(c)3 humanitarian organization for reconstructive surgery and telehealth to developing countries.

ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the information required by Securities and Exchange Commission Regulation S-B Item 402 as to the compensation paid or accrued by us for the two years ended December 31, 2007 for services rendered in all capacities, by all persons who served as our Chief Executive Officer or Chief Financial Officer and the other most highly compensated executive officers during the year ended December 31, 2007(the "Named Executive Officers").

NAME AND PRINCIPAL POSITION

NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY (1)	BONUS	STOCK AWARDS	OPTION AWARDS (A)(B)	NON-EQUITY INCENTIVE PLAN COMPENSATION	NONQUALIF DEFERRE COMPENSAT EARNING
Ronald A. Waldorf	2007	$150,000	-0-	-0-	$122,996	-0-	-0-
Chief Executive Officer	2006	$150,000	-0-	-0-	$77,766	-0-	-0-

Terry R. Knapp, M.D.	2007	$-0-	-0-	-0-	-0-	-0-	-0-
Chief Executive Officer	2006	$180,000	-0-	-0-	$204,066	-0-	-0-
Douglas McCarthy	2007	-0-	-0-	-0-	-0-	-0-	-0-
Chief Operating Officer	2006	$140,000	-0-	-0-	$81,627	-0-	-0-

(A) Options vested and valued using assumptions as described in financial statement Note 11 - STOCK OPTIONS AND WARRANTS.

(B) Award amended per Narrative Disclosure to the Summary Compensation Table.

Narrative Disclosure to the Summary Compensation Table

In January 2008, the Company entered into a new Employment Agreement with Ronald A. Waldorf, Chief Executive Officer of the Company. The Employment Agreement provides for an annual salary of $150,000, subject to annual cost of living increases, and options to purchase 1.5 million shares of the Company's Common Stock, vesting over a three-year period. The agreement also provides for a stock bonus to purchase 850,000 shares of the Company's Common Stock, vested immediately. If he is terminated without cause, or there is a change in control of AcuNetx, the shares vest immediately.

OUTSTANDING EQUITY AWARDS AT YEAR-END

The following table sets forth information concerning all equity awards held by our Named Executive Officers as of December 31, 2007.

Outstanding Equity Awards at Fiscal Year-End

Name	Option awards				
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable		Equity incentive plan (#)	O
Ronald Waldorf	20,000	-		-	
Ronald Waldorf	500,000	-		-	

Ronald Waldorf	850,000	-		-
Ronald Waldorf	500,000	-		-
Ronald Waldorf	-	500,000	(A)	-
Ronald Waldorf	-	500,000	(B)	-
Ronald Waldorf	-	500,000	(C)	-

(A) Vests on December 31, 2008
(B) Vests on December 31, 2009 (C) Vests on December 31, 2010

COMPENSATION OF DIRECTORS

The following table provides information concerning the compensation of all directors for the year ended December 31, 2007.

Director Compensation

Name	Option awards ($)		All other compensation ($)
Charles E. Phillips	37,961	(A)(C)	-
Robert S. Corrigan	37,961	(A)(D)	45,000
Terry R. Knapp, MD	37,961	(A)(E)	-

(A) Options vested and valued using assumptions as described in financial statement Note 11 - STOCKS OPTIONS AND WARRANTS.
(B) Consulting Fees
(C) 500,000 Options outstanding as of 12/31/2007.
(D) 500,000 Options outstanding as of 12/31/2007.
(E) 1,833,333 Options outstanding as of 12/31/2007.

Narrative Disclosure to the Director Compensation Table

On January 18, 2007 the Board of Directors agreed to provide options to purchase 500,000 shares of Common Stock to each of the three nonemployee directors as compensation for 2007 services pursuant to the 2006 Stock Option Plan.. The stock options vested immediately and are exercisable at $0.09 per share, for a period of five years.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Common Stock of the Company as of March 24, 2008, by (i) each person known by the Company to beneficially own 5% or more of the outstanding Common Stock of the Company; (ii) each of the Company's directors; (iii) the Named Executive Officers identified in the Summary Compensation Table; and (iv) all directors and Named Executive Officers of the Company as a group.

Name & Address
Randolph C. Robinson - 7144 S Chapparal Cir E Centennial, CO 80016
Winchester Fiduciary Services Limited - 295 Madison Ave 5th Floor New York, NY 10017
Galen Capital Group LLC - 1660 International Drive, #410 McLean, VA 22102
Charles E. Phillips - 2301 W. 205th St., #102 Torrance, CA 90501
Ronald A. Waldorf - 2301 W. 205th St., #102 Torrance, CA 90501
Robert S. Corrigan - 809 St. Andrews Lane, Louisville, CO 80027
All directors and executive officers as a group (3 persons)

(1) Total includes 3,571,429 warrants
(2) Total includes 1,388,889 warrants
(3) Total includes 1,370,000 options
(4) Total includes 1,870,000 options
(5) Total includes 1,350,000 options
(6) Total includes 2,758,889 options and warrants

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Shares of Common Stock subject to securities currently convertible or convertible within 60 days after March 24, 2008, are deemed to be outstanding in calculating the percentage ownership of a person or group but are not deemed to be outstanding as to any other person or group.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (the "10% Stockholders"), to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Officers, directors and 10% Stockholders of the Company are required by Commission regulation to furnish the Company with copies of all Section 16(a) forms so filed.

Based upon a review of filings made and other information available to it, the Company believes that each of the Company's present Section 16 reporting persons filed all forms required of them by Section 16(a) during the year 2007.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

None.

ITEM 13. EXHIBITS

The following exhibits are included herein or incorporated by reference:

2.1 Agreement and Plan of Merger, dated September 1, 2005, among Eye Dynamics, Inc., OrthoNetx, Inc., and Eye Dynamics Acquisition Corp. (1)

3.1 Amended and Restated Articles of Incorporation (2)

3.2 Amended and Restated Bylaws (2)

10.1 Executive Employment Agreement, dated January 1, 2008 between the Company and Ronald A. Waldorf

10.2 Exclusive Licensing Agreement, dated November 1, 1989 between the Company and Ronald A. Waldorf (3)

10.3 Licensing Agreement, dated November 15, 2004 between the Company and Terry Knapp (2)

10.4 Exclusive Manufacturing, Sales, Licensing and Software Ownership Agreement, dated May 18, 2006 between the Company and Medtrak, Inc.

10.5 Standard Multi-Tenant Commercial Industrial Lease-Gross, dated January 9, 2003, between the Company and AMB Property, L.P. (4)

10.6 AcuNetx, Inc. 2006 Non-Executive Directors' Stock Plan (2)

10.7 Licensing Agreement, dated October 30, 2007, between the Company and VisioNetx, Inc.,

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated by reference from Report on Form 8K dated September 1, 2005.

(2) Incorporated by reference from Report on Form 10-KSB for the fiscal year ended December 30, 2005, filed on March 31, 2006.

(3) Incorporated by reference from Report on Form 10-SB filed on December 13, 1999.

(4) Incorporated by reference from Report on Form 10-KSB for the year ended December 31, 2002.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following is a summary of the fees billed to the Company by Spector & Wong for professional services rendered for the fiscal years ended December 31, 2007 and 2006:

Fee Category	Fiscal 2007 Fees	Fiscal 2006 Fees
Audit Fees	$74,000.00	$74,000.00
Audit-Related Fees		
Tax Fees		
All Other Fees		150.00
Total Fees	$74,000.00	$74,150.00

Audit Fees. Consists of fees billed for professional services rendered for the audit of the Company's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Spector & Wong, LLP in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." There were no Audit-Related services provided in fiscal 2007 or 2006.

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning.

All Other Fees. Consists of fees for products and services other than the services reported above. There were no management consulting services provided in fiscal 2007 or 2006.

Policy On Audit Committee Pre-Approval Of Audit And Permissible Non-Audit Services Of Independent Auditors

The Company's Audit Committee, subject to Board of Directors consent pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval would generally be provided for up to one year and any pre-approval would be detailed as to the particular service or category of services, and would be subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee and Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AcuNetx, Inc.

By: /s/ Ronald A. Waldorf

Ronald A. Waldorf, President and
Chief Executive Officer

Date: March 31, 2008

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

(1) Principal Executive Officer and Principal Financial and Accounting Officer

/s/ Ronald A. Waldorf --------------------- Ronald A. Waldorf	Chief Executive Officer, Interim Chief Financial Officer and a Director	March 31, 2008

(3) Directors

/s/ Charles E. Phillips ---------------------- Charles E. Phillips	Director	March 31, 2008
/s/ Robert S. Corrigan ---------------------- Robert S. Corrigan	Director	March 31, 2008
/s/ Peter Miterko ---------------- Peter Miterko	Director	March 31, 2008

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[Letterhead of Spector & Wong, LLP]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of AcuNetx, Inc.

We have audited the accompanying consolidated balance sheets of AcuNetx, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AcuNetx, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company's ability to continue in the normal course of business is dependent upon the success of future operations. The Company has recurring losses, substantial working capital deficiency, stockholders' deficit and negative cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SPECTOR & WONG, LLP

Pasadena, CA
March 20, 2008

ACUNETX, INC.
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

ASSETS		
Current Assets	2007	2006
Cash	$ 205,162	$ 202,570
Restricted Cash	75,000	--
Accounts receivable, net	45,034	96,401
Inventory	204,279	251,436
Prepaid expenses and other current assets	73,685	95,519
Total Current Assets	603,160	645,926
Property and equipment, net	18,064	29,591

Goodwill	--	362
Other intangible assets	150,472	136,187
Deferred tax assets	220,635	220,635
Other investments	--	14,007
Other assets	2,020	1,563
TOTAL ASSETS	$ 994,351	$ 1,048,271

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Accounts payable	$ 395,157	$ 615,103
Accrued liabilities	794,757	212,883
Current portion of long-term debt	72,019	244,263
Total Current Liabilities	1,261,933	1,072,249
Convertible debt, net of debt discount of $6,125	93,876	--
Long-Term Debt	197,830	1,295
Total Liabilities	1,553,639	1,073,544
Minority Deficit	(8,394)	--
Stockholders' Deficit		
Common stock, $0.001 par value; 100,000,000 shares authorized; 65,142,880 shares issued and outstanding	65,143	62,975
Common stock to be issued	--	40,500
Paid-in capital	11,125,546	10,736,057
Accumulated deficit	(11,741,583)	(10,864,805)
Total Stockholders' Deficit	(550,894)	(25,273)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 994,351	$ 1,048,271

See notes to consolidated financial statements

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR YEARS ENDED DECEMBER 31,	2007	2006
Sales - Products	$ 2,574,645	$ 2,223,813

Cost of sales - products	614,017	615,017
Gross profit	1,960,628	1,608,796
Operating Expenses:		
Selling, general and administrative expenses	2,577,355	4,062,300
Stock option expense	253,647	464,349
Impairment of goodwill	362	4,823,138
Research and development	--	285,332
Total Operating Expenses	2,831,364	9,635,119
Operating loss	(870,736)	(8,026,323)
Other income(expenses)		
Interest and other income	27,477	17,769
Loss on equity-method investments	--	(173,278)
Interest and other expenses	(54,633)	(40,393)
Total other income (expenses)	(27,156)	(195,902)
Net loss before income taxes and minority interest	(897,892)	(8,222,225)
Provision for income taxes	800	1,166
Net loss before minority interest	(898,692)	(8,223,391)
Minority interest in losses of subsidiaries	21,914	--
Net loss	$ (876,778)	$ (8,223,391)
Net Loss per share-Basic and Diluted	$ (0.01)	$ (0.14)
Weighted average number of common shares	63,703,365	57,605,037

See notes to consolidated financial statements

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Amount	Common Stock to be issued	Paid-in Capital
Balance at December 31, 2005	47,817,651	$ 47,818	$ --	$ 8,287,17
Issuance of stock for services	3,316,259	3,316	40,500	350,68
Issuance of stock for cash	11,438,892	11,439		1,530,09
Exercise of warrants	399,999	400		19,60
Issuance shares on OrthoNetx merger	2,013	2		36
Stock option and warrant expenses				548,15
Net loss				
Balance at December 31, 2006	62,974,814	$ 62,975	$ 40,500	$ 10,736,05
Issuance of stock for services	225,000	225	(40,500)	40,27
Issuance of stock for cash	785,715	786		54,21
Issuance of stock for accounts payable	57,143	57		3,94
Return to treasury	(1,064,078)	(1,064)		(20,20
Shares adjustments on prior year subscriptions	2,164,286	2,164		(2,16
Stock option and warrant expenses				246,64
Equity adjustments related to subsidiary stock transactions				66,77
Net loss				
Balance at December 31, 2007	65,142,880	$ 65,143	$ --	$ 11,125,54

See notes to consolidated financial statements

ACUNETX, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR YEAR ENDED DECEMBER 31,	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	$ (876,778)	$(8,223,391)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in loss of subsidiaries	(21,914)	--
Depreciation	11,527	7,047
Issuance of stocks and stock equity awards for services	319,447	942,651
Provision for bad debt	6,089	7,865
Provision for inventory valuation	--	56,863
Impairment of goodwill and intangible assets	10,434	4,823,138
Gain on recovery from loan loss	(24,000)	--
Amortization of debt discount	1,375	--
Deferred tax (benefit)	--	366
(Gain) or loss on equity-method investments	--	173,278
Loss on disposal of assets	--	2,521
Write-off fixed assets	--	1,174
(Increase) Decrease in:		
Accounts Receivable	45,278	11,833
Inventory	47,157	12,961
Prepaid and Others	21,377	(6,116)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	387,379	463,282
Net cash flows provided by (used in) operating activities	(72,628)	(1,726,528)
CASH FLOW FROM INVESTING ACTIVITIES:		
Closing of Certificate of Deposits	--	305,274
Capitalize of patent costs and trademarks	(24,357)	(46,566)
Purchase of property and equipment	--	(6,250)
Cash collected from note receivable	24,000	--
Net cash flows provided by (used in) investing activities	(357)	252,458
CASH FLOW FROM FINANCING ACTIVITIES:		
Net proceeds from sales of common stocks	55,000	1,541,529
Repurchase of common stocks	(7,262)	--
Net proceeds from exercising of stock warrants	--	20,000
Proceeds from convertible debt	25,000	--
Increase in long-term debt	3,369	--
Net repayments on notes payable	(530)	(56,229)
Net cash flows provided by (used in) financing activities	75,577	1,505,300
NET INCREASE (DECREASE) IN CASH	2,592	31,230
CASH BALANCE AT BEGINNING OF YEAR	202,570	171,340
CASH BALANCE AT END OF YEAR	$ 205,162	$ 202,570
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 14,982	$ 32,554

Taxes Paid	$ 800	$ 800
Schedule of noncash investing and financing activities:		
Retirement of common stocks for an equity-method investment	$ 14,007	$ --
Conversion of accrued interest into debt principal	$ 21,451	$ --
Issuance of warrants as debt discount	$ 7,500	$ --
Note payable incurred for purchase of fixed asset	$ --	$ 1,787
Issuance of common stocks for:		
Accounts Payable	$ 4,000	$ --
Merger with OrthoNetx	$ --	$ 362

See notes to consolidated financial statements

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES

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. For all its devices, AcuNetx is integrating an information technology (IT) platform that allows the device to capture data about the physiological condition of a human being. The company's IT platform is designed to gather data and connect the device-related data with users and support personnel.

AcuNetx products 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; (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") 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.

PRINCIPLE OF CONSOLIDATION AND PRESENTATION: The accompanying consolidated 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 accounting principles generally accepted in the United States (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.

REVENUE RECOGNITION: The Company recognizes revenue from the sale of products, and related costs of products sold, where persuasive evidence of an arrangement exists, shipment has occurred, the seller's price is fixed or determinable and collectibility is reasonably assured.

For its domestic customers, the Company supplies systems through several distribution channels; though its IntelliNetx sales group of manufacturer representatives and international dealers, its private label distributor, MedTrak Technologies, Inc. (Scottsdale, AZ) and its direct sales, commission-based, HawkEye(TM) team. Revenue is recognized when products are shipped. No provisions were established for estimated product returns and allowances based on the Company's historical experience. Price discounts and other sales incentives are charged to sales when sales are recognized.

The Company provides repair and maintenance, consulting and education services to its customers. Revenue from such services is generally recognized over the period during which the service is performed or on a service-performed basis.

The Company evaluated Statement of Position No. 97-2, "SOFTWARE REVENUE RECOGNITION" ("SOP 97-2"), but does not expect that SOP 97-2 will have a material impact on the Company's financial position, results of operations, or cash flows since the Company did not sell, license, lease or market any individual computer software. The Company's computer software is included with equipment sales and is not sold separately.

ACCOUNTS RECEIVABLE: The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on the history of past write-offs and collections and current credit conditions. An allowance for doubtful accounts of $11,143 and $5,345 has been established for the years ended December 31, 2007 and 2006, respectively.

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

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).

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123(R) 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(R) 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).

CONVERTIBLE PROMISSORY NOTES AND WARRANTS: The Company has evaluated all freestanding instruments and embedded features embodied in the Convertible Promissory Notes financing arrangement in accordance with current accounting standards for complex financing transactions. The following points illustrate the key considerations in the Company's evaluation:

- The terms and features of the Convertible Promissory Notes resulted in the Company's conclusion that the instrument was more akin to a debt security than an equity security. Therefore, embedded features that met the definition of derivative financial features were evaluated for their clear and close relationship with a debt instrument. Significant features included conversion features; redemption features and interest features. While conversion features, such as those included in the Convertible Promissory Notes, are generally not clearly and closely related to debt instruments, the Company was afforded the "Conventional Convertible" exemption from derivative accounting. While redemption features and interest features are generally considered clearly and closely related to debt instruments, the Company was also afforded the "Conventional Convertible" exemption from derivative accounting.

- The terms and features of the freestanding warrants were evaluated under the guidance for equity classification set forth in EITF 00-19, "ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO A COMPANY'S OWN STOCK" and EITF 05-04, "THE EFFECT OF A LIQUIDATING DAMAGES CLAUSE ON A FREESTANDING FINANCIAL INSTRUMENT SUBJECT TO EITF 00-19." As a result, the Company concluded that the warrants did not rise to an uneconomic settlement. In addition, all other indicators of equity provided in EITF 00-19 were present. Therefore, the warrants were afforded equity classification.

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

OTHER SIGNIFICANT ACCOUNTING POLICIES:

CASH EQUIVALENTS: For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

CONCENTRATIONS OF CREDIT RISK: Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its cash with high quality financial institutions and limits its credit exposure with any one financial institution. At times, the Company's bank account balances may exceed federally insured limits.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The carrying amounts of the financial instruments have been estimated by management to approximate fair value.

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

INVENTORIES: Costs incurred for materials, technology and shipping are capitalized as inventories and charged to cost of sales when revenue is recognized. Inventories consist of finished goods and are stated at the lower of cost or market, using the first-in, first-out method. A provision is provided for slow-moving facial bone devices and demo units.

PROPERTY AND EQUIPMENT: Property and Equipment are valued at cost. Maintenance and repair costs are charged to expenses as incurred. Depreciation is computed on the straight-line method based on the following estimated useful lives of the assets: 3 years for computer software, 5 to 7 years for computer and office equipment, and 7 years for furniture and fixtures. Depreciation expense was $11,527 and $7,047 for 2007 and 2006, respectively.

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 patent applications. 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.

In December of 2007, the Company stopped paying for certain AcuNetx graphic art trademark maintenance fees. As a result, the Company conducted an impairment evaluation, which resulted in a $10,072 impairment charge to these trademarks, classified in the caption "selling, general and administrative expenses". There was no impairment of other intangible assets for the year ended December 31, 2006.

GOODWILL: The Company accounts for Goodwill and Intangible Assets in accordance with SFAS No. 141, "BUSINESS COMBINATIONS" and SFAS No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS." Under SFAS No. 142, goodwill and intangibles that are deemed to have indefinite lives are no longer amortized but, instead, are to be reviewed at least annually for impairment. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of the fair value and/or goodwill impairment for each reporting unit. The Company's annual impairment review of goodwill has identified that the goodwill impairment charge of $362 and $4,823,138 for the years ended December 31, 2007 and 2006, respectively.

INCOME TAXES: Income tax expense is based on pretax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized.

ADVERTISING COSTS: The Company uses advertising to promote its product lines. The costs of advertising are expensed when time the advertising takes place. Advertising expenses were $8,717 and $24,326 for 2007 and 2006, respectively.

SHIPPING AND HANDLING COSTS: The Company historically has included inbound shipping charges in cost of sales and classified outbound shipping charges as operating expenses. For the years ended December 31, 2007 and 2006, the outbound shipping charges included in operating expenses were $36,897 and $50,255, respectively.

RESEARCH AND DEVELOPMENT COSTS: Research and development costs are expensed as incurred and consist primarily of product development costs. Financial accounting standards require the capitalization of certain development costs after technological feasibility of the product is established. In the development of the Company's new products and enhancements to existing products, technological feasibility is not established until substantially all product development is complete. As a result, product development costs that are eligible for capitalization are considered insignificant and are charged to research and development expense. During the years ended December 31, 2007 and 2006, research and development costs were $0 and $285,332, respectively.

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

MINORITY INTEREST (DEFICIT): Minority interest (deficit) represents other stockholders' proportionate share in the equity (deficit) of VisioNetx, Inc. At December 31, 2007, the Company owned 84% of the issued and outstanding common stocks in VisioNetx, Inc.

NEW ACCOUNTING PRONOUNCEMENTS: In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, "THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND LIABILITIES - INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115." SFAS No. 159 provides companies with an option to measure, at specified election dates, certain financial instruments and other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in its financial statements during each subsequent reporting date. SAFS No.159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect SFAS 159 to have material impact on its consolidated financial position, results of operations and cash flows.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, "DEFINITION OF SETTLEMENT IN FASB INTERPRETATION NO. 48." FSP 48-1 amended FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP 48-1 required application upon the initial adoption of FIN 48. The adoption of FSP 48-1 did not affect the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "NONCONTROLLING INTEREST IN CONSOLIDATED FINANCIAL STATEMENTS - AN AMENDMENT OF ARB No. 51." SFAS 160 clarifies the accounting for noncontrolling or minority interests. This statement requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and interests of the noncontrolling owners of a subsidiary. Those expanded disclosures include a reconciliation of the beginning and ending balances of the equity attributable to the parent and the noncontrolling owners and a schedule showing the effects of changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent. The provisions of SFAS 160 are effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS 160 on its consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES", ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "ACCOUNTING FOR INCOME TAXES." This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not engage in risky tax transactions and therefore does not anticipate the need for a FIN 48 tax adjustment.

In September 2006, the FASB issued SFAS No. 157, "FAIR VALUE MEASUREMENTS." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement addresses how to calculate fair value measurements required or permitted under other accounting pronouncements. Accordingly, this statement does not require any new fair value measurements. However, for some entities, the application of the statement will change current practice. SFAS No. 157 is effective for the Company beginning January 1, 2008.

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 108 ("SAB 108"), "CONSIDERING THE EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING MISSTATEMENTS IN CURRENT YEAR FINANCIAL STATEMENTS." The stated purpose of SAB 108 is to provide consistency between how registrants quantify financial statement misstatements.

Prior to the issuance of SAB 108, there have been two widely-used methods, known as the "roll-over" and "iron curtain" methods, of quantifying the effects of financial statement misstatements. The roll-over method quantifies the amount by which the current year income statement is misstated while the iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Neither of these methods considers the impact of misstatements on the financial statements as a whole.

NOTE 1 - NATURE OF BUSINESS AND CRITICAL ACCOUNTING POLICIES (CONTINUED)

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the Company's financial statements and the related financial statement disclosures. This approach is referred to as the "dual approach" as it requires quantification of errors under both the roll-over and iron curtain methods.

SAB 108 allows registrants to initially apply the dual approach by either retroactively adjusting prior financial statements as if the dual approach had always been used, or by recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings.

The Company will initially apply SAB 108 using the cumulative effect transition method in connection with the preparation of the annual financial statements for the year ending December 31, 2006. The Company does not believe the adoption of SAB 108 will have a significant effect on its consolidated financial statements.

NOTE 2 - GOING CONCERN

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

As indicated in the accompanying consolidated financial statements, the Company incurred operating losses totaling $876,778 and $8,223,391 for the years ended December 31, 2007 and 2006 respectively. In addition, the Company has a working capital deficit of $658,833 and an accumulated deficit of $11,741,583 as of December 31, 2007. Total liabilities exceeded its total assets by $559,287. In the near term, the Company expects the operating cash flows will not be sufficient to cover all the old debt and payables.

Management of the Company plans to cover current operating costs and to reduce the working capital deficit through sales growth, cost reduction and equity financing. In addition, VisioNetx, Inc. has recruited senior management and is seeking funding that will allow it to move forward with its marketing and sales efforts. During 2007, the Company and VisioNetx, Inc. raised a total sum of $155,000 through selling its common stocks and convertible notes payable. Subsequent to 2007, an additional sum of $15,050 was raised.

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.

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

ACCOUNTS RECEIVABLE, NET	AT DECEMBER 31, 2007	2006
Accounts Receivable	$ 56,177	$ 101,746
Allowance for Bad Debt	(11,143)	(5,345)
Total Accounts Receivable, Net	$ 45,034	$ 96,401
INVENTORY		
Finished Goods	$ 170,698	$ 252,424
Demo units	85,206	55,875
Allowance for loss in inventory	(51,624)	(56,863)
Total Inventory	$ 204,279	$ 251,436
PREPAID EXPENSES AND OTHER CURRENT ASSETS		
Prepaid Insurance	$ 23,038	$ 45,709
Prepaid rent and deposit	2,065	7,321
Employee advance	3,415	--
Other Prepaid Expenses	45,167	42,489
Total Prepaids and Others	$ 73,685	$ 95,519
PROPERTY AND EQUIPMENT, NET		
Furniture and Fixtures	$ 9,531	$ 9,531
Equipment	40,530	41,698
Software	5,757	5,110
	55,818	56,339
Accumulated Depreciation	(37,754)	(26,748)
Total Property and Equipment, Net	$ 18,064	$ 29,591
ACCRUED LIABILITIES		
Warranty reserve	$ 11,339	$ 17,200
Accrued payroll and related taxes	120,887	191,028

Accrued consulting fees	254,967	223,250
Accrued vacation	18,072	24,003
Accrued professional fees	136,413	--
Related party payable	42,165	--
Other accrued liabilities	210,915	167,402
Total Accrued Liabilities	$ 794,757	$ 212,883

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - IMPAIRMENT OF GOODWILL

The Company recorded $4,823,500 of goodwill in connection with its acquisition of OrthoNetx in 2005. The amount that the Company recorded in connection with this acquisition was determined by comparing the aggregate amounts of the respective purchase price plus related transaction costs to the fair values of the net tangible and identifiable intangible assets acquired for the business acquired.

The Company performed its annual impairment test of goodwill at its designated valuation dates of December 31, 2006 and 2007 in accordance with SFAS 142. As a result of these tests, the Company determined that the amount of goodwill recorded was not recoverable. Accordingly the Company recorded a goodwill impairment charge of $362 and $4,823,138 for the years ended December 31, 2007 and 2006, respectively.

The Company recorded the aforementioned charge during the quarter ended December 31, 2006 after key management re-evaluated the Company's available resources and the strategic direction of the business. As a result of having made this evaluation, management determined that the Company's entry into osteoplastic surgery market and the market for the Company's impairment detection devices was not feasible given its limited capital resources.

Accordingly, management determined that, it would be necessary to curtail certain of the businesses activities and principally pursue opportunities for sales of its neurological diagnostic products.

Based on these factors, the Company revised its forecasts of future sales to give effect to its limited capital resources.

NOTE 5 - OTHER INTANGIBLE ASSETS

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 patent applications. Awarded patents will be amortized over the shorter of the economic or legal life of the patent.

In December 2007, two intellectual properties were awarded. These two patents will be amortized using the straight-line method over 17 years commencing January 1, 2008.

The Company's intangible assets consisted of the following at December 31, 2007 and 2006:

	2007	2006
Pending Intellectual Property	$128,518	$126,115
Awarded patents	21,954	--
Trademarks	--	10,072
Accumulated amortization	--	--
Total Accounts Receivable, Net	$150,472	$136,187

Future amortization expense as of December 31, 2007 was as follows:

Years ended December 31,	
2008	$ 1,291
2009	1,291
2010	1,291
2011	1,291
2012 and over	16,788
Total	$21,954

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - SALES OF INVESTMENTS

On March 28, 2007, the Company entered into an agreement to exchange the shares of common stock it holds in High Precision Devices, Inc. ("HPD"), a privately held Colorado corporation, for all the common stock of the Company held by HPD, which were 483,100 shares. The market value of the shares returned to the Company at closing was $14,007, which was equal to the carrying value. Accordingly, the Company did not recognize any gain or loss on this transaction. The returned shares were retired at March 31, 2007. The Company recognized a loss of $173,278 on this investment in 2006.

NOTE 7 - 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 March 2007. The Company collected $24,000 through December 31, 2007. The former employee is three months in arrears of payments as of December 31, 2007. The Company is seeking to collect the stock certificate of a public company which was provided as a security of the agreement.

NOTE 8 - BORROWINGS

NOTE PAYABLE TO RELATED PARTY

On June 30, 2007, the Company entered into an Agreement for Extension and Amendment of 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 will commence on February 1, 2008, based on a 36-month amortization. All principal and interest is due on August 1, 2009. As of December 31, 2007, 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.

In accordance with SFAS No. 15, "ACCOUNTING BY DEBTORS AND CREDITORS FOR TROUBLED DEBT RESTRUCTURING," the carrying amount of the old debt was not changed as it did not exceed the future cash payments specified by the new debt terms. The difference will be amortized over the life of the new debt using the effective interest method.

Debt Carrying Value as of June 30, 2007:		
Original carrying amount of old debt	$ 243,731	
Accrued and unpaid interest balance	21,451	
Carrying value of debt		$ 265,182
Future Cash Flows:		
New debt principal	$ 268,551	
Interest to be paid on new principal amount	60,630	
Total future cash payments required		329,181
Future cash payments over carrying value of debt		$ (63,999)

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - BORROWINGS (CONTINUED)

LONG-TERM DEBT

At December 31,	2007	20
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.	$ 589	$ 1,8
Reconstructed note payable to related party. Monthly interest payment only		--

13% through January 31. 2008. Effective February 1, 2008, principal and interest payment based on a 36-month amortization. Matures August 1, 2009.	268,551	
	269,141	1,
Less: Current Maturities	(71,901)	(
Long-term debt	$ 197,240	$ 1,

The following is a schedule of the maturities of long-term debt:

Years ended December 31,	
2008	$ 71,901
2009	197,240
	$269,141

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.

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.

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - BORROWINGS (CONTINUED)

Upon completion of a Qualified Offering, the Company may redeem the notes for a cash payment equal to the note amount plus any accrued, but unpaid interest. However, upon completion of a Qualified Offering and election to redeem the notes, the note holder will be given 30 days notice to elect to either receive the proceeds of the redemption (and receive the underlying warrants) or convert the notes into New Securities subject to the terms of the Qualified Offering.

At December 31, 2007 the Company had received $75,000 in proceeds from this offering and has deposited these funds in a restricted cash account. Under the terms of this offering, proceeds from the offering are available for use by the Company upon receipt of at least $300,000.

NOTE 9 - INCOME TAXES

The provision for income taxes (benefits) consisted of the following:

For the Year ended December 31,	2007	2006
Federal:		
Current	$ --	$ --
Deferred	--	377
	--	377
State:		
Current	800	800
Deferred	--	(11)
	800	789
Total	$ 800	$ 1,166

The provision for income taxes differs from the amount computed by applying the federal statutory rate to the income tax expense (benefit) at the effective rate is as follows:

For years ended December 31,	2007	2006
Income tax expense (benefit) at statutory rate	$ (282,579)	$(2,795,953)
State tax expense, net of federal benefit	(272)	(272)
Nondeductible deferred stock services	94,842	186,371
NOL Carryforwards	--	--
Others	1,879	4,647

Valuation Allowance	186,930	2,606,372
Provision of income tax (benefit)	$ 800	$ 1,166

The components of the deferred net tax assets are as follows:

At December 31,	2007	2006
Net Operating Loss Carryforwards	$ 2,586,715	$ 2,039,478
Property and equipment	(824)	(329)
Accruals and reserves	2,335,252	2,256,990
Other	547	261,186
Valuation Allowance	(4,701,055)	(4,336,690)
Net deferred tax assets	$ 220,635	$ 220,635

The Company had removed the valuation allowance as of 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 was reflected as a credit to operations. However, as of December 31, 2005, the Company's ability to utilize its federal net operating loss carryforwards is uncertain due to the net loss of the year and the merger with OrthoNetx which has net operating loss carryforwards approximately of $1.7 million, as of that date, and thus a valuation reserve has been 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.

NOTE 10 - STOCKHOLDERS' EQUITY

COMMON STOCK RETIREMENT

On April 17, 2007, the Company repurchased and retired 580,978 shares of its common Stock. The shares were purchased from a single shareholder in a privately negotiated transaction at $0.0125 per share for a total repurchase price of $7,262.

SELF-WRITTEN OFFERING

In May 2007, the Company conducted a self-written offering to sell up to $200,000 of its equity units which consist of one share of the Company's common stock and one warrant to purchase an additional share of common stock. Each unit is sold for the sum of $0.07. The exercise price for the warrant included in the unit is $0.10 and expires two years from the date of purchase. As of December 31, 2007, the Company raised $55,000 from the offering and sold 785,715 units.

In July 2007, pursuant to the terms in the investment agreement, the Company resolved to issue additional 2,164,286 shares of the common stock to the investors who subscribed to the Company shares in October 2006. In addition, the Company cancelled all the warrant agreements that were attached in lieu of the shares sold and reissued new warrant agreements to those investors. The new warrant agreements reduced the exercise price from $0.20 per share to $0.10 per share and revised the expiration date to July 11, 2009.

Non-Executive Directors' Stock Plan

On January 18, 2007 the Board of Directors agreed to provide 500,000 stock options to each of the three nonemployee directors as compensation for 2007 services pursuant to the 2006 Stock Option Plan established on March 27, 2006. The stock options vested immediately and are exercisable at $0.09 per share for a period of five years.

On December 3, 2007 the Board of Directors agreed to provide 850,000 stock options to each of the two nonemployee directors as compensation for 2008 services pursuant to the 2006 Stock Option Plan established on March 27, 2006. The stock options vested immediately and are exercisable at $0.061 per share for a period of five years.

On February 27, 2006 the Board of Directors agreed to provide 300,000 shares of restricted stock to each of the four non-employee directors as compensation for 2006 services pursuant to the 2006 Non-Executive Stock Plan established on January 1, 2006. The shares were valued at $0.18 per share, the closing market price on the effective date of the Plan, and were amortized on a straight-line basis over a twelve month period.

For the year ended December 31, 2007 and 2006, the Company recognized directors' compensation of $113,884 and $184,500, respectively.

Subsidiary Stock Transactions

On January 8, 2007, VisioNetx resolved to issue 800,000 shares to three non-executive directors for their services provided at a fair value of $0.001 per share or aggregate of $800.

On July 16, 2007, VisioNetx entered into three executive employment agreements providing that VisioNetx agreed to issue 650,000 shares at a fair value of $0.10 per share to these executives. The shares will not be issued until the first equity financing was obtained. The aggregate amount of $65,000 was accrued and classify as an equity component.

The Company complies with the requirement of SEC Staff Accounting Bulletin No. 51, "Accounting for Sales of Stock by a Subsidiary," which requires that the difference between the carrying amount of parent's investment in a subsidiary and the underlying net book value of the subsidiary after the issuance of stock by the subsidiary be reflected as either a gain or loss in the statement of operations or reflected as an equity transaction. The Company has elected to record gains or losses resulting from the issuance of subsidiary's stock as equity transactions.

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - STOCKS OPTIONS AND WARRANTS

STOCK OPTIONS

On March 27, 2006 the Board of Directors approved and adopted the 2006 Stock Incentive Plan to provide for the issuance of incentive stock options and/or nonstatutory options to all employees and nonstatutory options to consultants and other service providers. Generally, all options granted to employees and consultants expire in three to ten years 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 issued. It is the policy of the Company to issue new shares for stock option exercised and restricted stock, rather than issue treasury shares. Options generally vest immediately or over a three year period. The plan reserves 14 million shares of common stock under the Plan and shall be effective through December 31, 2015.

A summary of the status of stock options issued by the Company as of December 31, 2007 and 2006 is presented in the following table.

	2007		2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	E
Outstanding at beginning of year	7,309,102	$ 0.21	415,000	$
Granted	2,425,000	$ 0.08	6,894,102	$
Exercised/Expired/Cancelled	(4,208,334)	$ 0.21	0	$
Outstanding at end of period	5,525,768	$ 0.15	7,309,102	$
Exercisable at end of period	5,525,768	$ 0.15	2,975,768	$

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.

	2007	2006
Weighted average fair value per option granted	$ 0.07	$ 0.17
Risk-free interest rate	4.19%	4.41%
Expected dividend yield	0.00%	0.00%
Expected lives	5.00	9.80
Expected volatility	126.12%	155.69%

For the years ended December 31, 2007 and 2006, the Company recognized pre-tax stock option compensation expense of $246,649 and $464,349, respectively.

The following table sets forth additional information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
$0.01-$0.30	5,525,768	6.62 years	$0.15	5,525,768

Stock Warrants

As of December 31, 2007 and 2006, the Company had 12,083,336 and 9,383,335 outstanding warrants, respectively. The warrants allow for the purchase of common stock at pricing ranging from $0.10 to $2.00 per share.

In December 2007, the Board approved to extend 3,333,340 warrants attached in lieu of stocks sold between 2005 and 2006 for one year to December 22, 2008 and reduced exercised price from $0.33 per share to $0.165 per share. The modification has no impact on the Company's net loss.

NOTE 11 - STOCKS OPTIONS AND WARRANTS (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 non-statutory 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 exercisable for ten years from the date of grant. The plan reserves 1 million shares of common stock.

A summary of the status of stock options issued by VisioNetx as of December 31, 2007 is presented in the following table.

	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	--	$ 0.00
Granted	479,500	$ 0.10
Exercised/Expired/Cancelled	--	$ 0.00

Outstanding at end of period	479,500	$ 0.10
Exercisable at end of period	157,278	$ 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 AcuNetx'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.

	2007
Weighted average fair value per option granted	$ 0.05
Risk-free interest rate	4.51%
Expected dividend yield	0.00%
Expected lives	8.78
Expected volatility	143.00%

As of December 31, 2007 there was $16,165 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 2.67 years.

For the years ended December 31, 2007, VisioNetx, Inc. recognized pre-tax stock option compensation expense of $6,999.

The following table sets forth additional information about stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
$ 0.10	479,500	8.49 years	$0.10	157,278

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - NET LOSS PER SHARE

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

Years ended December 31,	2007	2006

Numerator:		
Net loss	$ (876,778)	$ (8,223,391)
Denominator:		
Weighted average of common shares	63,703,365	57,605,037
Net loss per share-basic and diluted	$ (0.01)	$ (0.14)

As the Company incurred net loss for the year ended December 31, 2007, the effect of dilutive securities totaling 173 equivalent shares has been excluded from the calculation of diluted loss per share because their effect was anti-dilutive. As of December 31, 2007, stock options and warrants to purchase approximately 17,534,104 shares of the Company's common stocks were out of the money.

As the Company incurred net loss for the year ended December 31, 2006, the effect of dilutive securities totaling 346,703 equivalent shares has been excluded from the calculation of diluted loss per share because their effect was anti-dilutive.

NOTE 13 - FORMATION OF SUBSIDIARY

The Company formed a new subsidiary, VisioNetx, Inc. ("VisioNetx"), and transferred certain intangible assets and liabilities related to the Company's impairment detection devices. The carrying value of the assets (totaling $30,160 at December 31, 2006) and the liabilities assumed (at date of transfer totaling $198,572) were transferred at cost in accordance with SFAS No. 141.

In July 2007, a new VisioNetx CEO was introduced. The former CEO resigned from his position and remained as the Chairman of Board of the new subsidiary. VisioNetx then appointed two additional new executives to lead VisioNetx. As disclosed in Note 10, VisioNetx awarded 800,000 shares to three nonexecutive directors on January 8, 2007; as a result, AcuNetx Inc.`s ownership on VisioNetx was reduced from 100% to 84%.

NOTE 14 - MAJOR CUSTOMERS

During the year ended December 31, 2007, major distributors accounted for $1,777,388 or 69% of IntelliNetx division revenues.

National distributor	$631,136 or 25%
SID distributors	$1,146,252 or 44%

During year ended December 31, 2006, the national and SID distributors accounted for $488,425, or 22.2%, and $1,342,167, or 61.1% of total revenues, respectively.

NOTE 15 - 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.

In December 2006, the Company changed the structure of its internal organization to develop three market-oriented operations: (i) IntelliNetx (INX) division, (ii) OrthoNetx (ONX) Inc., a wholly-owned subsidiary, and (iii) VisioNetx (VNX) Inc, a majority-owned subsidiary. 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 o the face, skull, jaws, extremities and dentition. The VisioNetx division markets patented products that track and analyze human eye movements for worker impairment screening. In addition, the Company licensed from its VisioNetx subsidiary the manufacturing and sales rights to VisioNetx's law enforcement systems.

NOTE 15 - SEGMENT INFORMATION (CONTINUED)

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. The 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.

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

	Years ended December 31, 2007	2006
Net Revenue to external customers:		
INX	$ 2,556,890	$ 2,177,528
ONX	--	28,300
VNX	17,755	17,985
Consolidated Net Revenue to external customers	$ 2,574,645	$ 2,223,813
Cost of Revenue:		
INX	$ 610,234	$ 548,294
ONX	--	61,723
VNX	3,783	5,000
Consolidated Cost of Revenue	$ 614,017	$ 615,017
Gross Margin:		
INX	$ 1,946,656	$ 1,629,234
ONX	--	(33,423)
VNX	13,972	12,985
Consolidated Gross Margin	$ 1,960,627	$ 1,608,796
Intercompany Segment Revenue:		
INX	$ 6,000	$ --

ONX	--	--
VNX	--	--
Total Intercompany Segment Revenue	$ 6,000	$ --

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.

	For years ended December 31, 2007	2006
Total margin for reportable segments	$ 1,960,627	$ 1,608,796
Corporate and general and administrative expenses	(2,577,355)	(4,062,300)
Stock option expenses	(253,647)	(464,349)
Research and development	0	(285,332)
Impairment of goodwill	(362)	(4,823,138)
Interest and Other Expense	(54,633)	(40,393)
Gain (loss) on equity-method investments	0	(173,278)
Interest and Other Income	27,477	17,769
Net loss before income taxes and minority interest	$ (897,893)	$(8,222,225)

NOTE 16 - COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The Company lease facilities and a copier under operating leases. As of December 31, 2007, the minimum annual operating lease payments were as follows:

Year Ended December 31,	Amount
2008	30,680
2009	31,823
2010	7,817
2011	469
	70,789

Rent expense totaled $46,173 and $100,611 for 2007 and 2006, respectively. Certain lease agreements contain renewal options providing for an extension of the lease term at market rates. The monthly lease payment for the copier does not include additional maintenance, insurance and per copy charges.

MARKETING AND DISTRIBUTION AGREEMENT

On May 25, 2006 the Company executed a Marketing and Distribution Agreement with a national distributor. The agreement restructures the Company's relationship with the national distributor into a nonexclusive one, so that the Company is in a position to manufacture and sell VNG products under its own brand names, as well as through the national distributor. The Agreement is for a period of eight years, provides for successive three year options, and supersedes and replaces the previous Manufacturing, Sales, Licensing, and Software Agreement and the Sales Incentive Agreement.

The Company also executed a Consulting Agreement with the owner of the national distributor whereby the owner will provide advisory and consulting services to the Company for the purposes of improving the Company's VNG products and other balance-related product lines. The agreement is for a period of three years, and renews for an additional one year term.

During 2007, the Company setup an accrued liability in the amount of $100,000. This amount is being amortized and expensed over a 12 month period. The Agreement further requires six additional annual payments of $100,000. In addition, the Agreement requires payments of $45,000 per year in consulting fees to be paid ending in 2008.

The minimum payments schedule under these agreements was as follows:

Year Ended December 31,	Amount
2008	145,000
2009	100,000
2010	100,000
2011	100,000
2012 and thereafter	200,000
	$ 645,000

NOTE 17 - RELATED PARTY TRANSACTIONS

FINANCIAL ADVISOR

In April 2007, the Company entered into a consulting agreement with a director of the Company, for the purpose of assisting the Company in strategic planning of relevant capital formation alternatives, market making alternatives and merger and acquisitions. Such contract provides for monthly consulting fees of $5,000 per month. During 2007, the Company paid the director $40,000 in fees related to this agreement.

LICENSING AGREEMENT

The Company has a licensing agreement with the Company's former CEO for the licensing of a patent. The licensing agreement provides for contingent payments, to be determined at a later date, in the event the Company receives a benefit from the patent. As of December 31, 2007, the Company had no liability for payment of fees under this agreement.

ACUNETX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - RELATED PARTY TRANSACTIONS (CONTINUED)

EMPLOYEE BUSINESS-RELATED EXPENSES

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 December 31, 2007 the company had a current related party payable to the Company's CEO, in the amount of $42,970.

EMPLOYMENT AGREEMENTS

In December 2007, the Board approved an amended employment agreement with the Company's CEO providing that the CEO will receive an annual salary of $150,000 and stock options to purchase 1.5 million shares of the Company's common stocks vested over a three-year period. The agreement also provided a stock option bonus to purchase 850,000 shares of the Company's stocks vested immediately. The agreement expired in December 2010.

In August 2007, VisioNetx, Inc. entered into individual employment agreements with each of its officers and senior management. The agreements provide annual salary ranging from $150,000 to $175,000 and an aggregate of 650,000 shares of VisioNetx common stock and 362,500 stock options. The salary will commence when VisioNetx receives at least $300,000 in fund raising and common stock will then be issued in lieu of the salary. The agreements also provide equity incentives if certain performances are reached.

NOTE 18 - DEPARTURE AND ELECTION OF NEW CHIEF EXECUTIVE OFFICER

As part of a corporate restructuring, on January 8, 2007 the company's Chief Executive Officer, Terry Knapp, resigned and Ronald Waldorf, the company's Interim Chief Financial Officer was elected to serve as the Company's Chief Executive Officer. On August 1, 2007, the former CEO resigned from the Board of Directors of the Company.

NOTE 19 - 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 December 31, 2007.

In general, the Company offers a one-year warranty for most of the products sold. 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.

The following table presents the changes in the Company's warranty reserve in the fiscal years ended December 31, 2007 and 2006:

Years Ended December 31,	2007	2006
Beginning balance	$ 7,200	$ 8,462
Provision for warranty	5,939	--
Utilization of reserve	(1,800)	(1,262)
Ending balance	$ 11,339	$ 7,200

NOTE 20 -SUBSEQUENT EVENTS

Subsequent to December 31, 2007, the Company sold 215,000 units and received proceeds of $15,050 from the self-written offering conducted in May 2007.

Subsequent to December 31, 2007, VisioNetx, Inc. received $15,000 from the private placement offering conducted in November 2007.