

Edgar Filing: AcuNetx, Inc. - Form 10QSB

AcuNetx, Inc.
Form 10QSB
May 15, 2008

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

Form 10-QSB

(X) Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2008

Commission File No. 0-27857

ACUNETX, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

88-0249812

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

2301 W. 205th Street, #102, Torrance, CA 90501

(Address of principal executive offices)

310-328-0477

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file for such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

As of March 31, 2008, the issuer had 65,357,880 shares of common stock outstanding.

Transitional Small Business Disclosure Format (check one)

Yes; No.

Edgar Filing: AcuNetx, Inc. - Form 10QSB

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

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

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

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ACUNETX, INC.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
AS OF MARCH 31, 2008 AND 2007

| | 2008 | 2007 |
|--------------------------|-----------|-------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 66,487 | \$ 87 |
| Restricted Cash | 90,820 | |
| Accounts receivable, net | 35,517 | 286 |

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | | |
|---|--------------|----------|
| Inventory | 146,961 | 209 |
| Prepaid expenses and other current assets | 36,225 | 42 |
| | ----- | ----- |
| Total Current Assets | 376,010 | 625 |
| Property and equipment, net | 16,187 | 24 |
| Other intangible assets | 150,604 | 136 |
| Deferred tax assets | 220,635 | 220 |
| Other assets | 2,020 | 1 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 765,457 | \$ 1,008 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts payable | \$ 377,973 | \$ 567 |
| Accrued liabilities | 823,448 | 385 |
| Notes payable to related parties | -- | 243 |
| Current portion of long-term debt | 80,475 | |
| | ----- | ----- |
| Total Current Liabilities | 1,281,896 | 1,197 |
| Convertible debt, net | 109,626 | |
| Long-Term Debt | 176,869 | 1 |
| | ----- | ----- |
| Total Liabilities | 1,568,391 | 1,198 |
| | ----- | ----- |
| Minority Deficit | (9,696) | |
| Stockholders' Deficit | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 65,357,880 shares issued and outstanding | 65,358 | 62 |
| Paid-in capital | 11,288,426 | 10,901 |
| Accumulated deficit | (12,147,021) | (11,154) |
| | ----- | ----- |
| Total Stockholders' Deficit | (793,238) | (189) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 765,457 | \$ 1,008 |
| | ===== | ===== |

See notes to interim unaudited consolidated financial statements

3

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| FOR THREE MONTHS ENDED MARCH 31, | 2008 | 2007 |
|----------------------------------|------------|--------------|
| | ----- | ----- |
| Sales - Products | \$ 219,588 | \$ 1,123,946 |
| Cost of sales - products | 130,062 | 228,454 |
| | ----- | ----- |

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | | |
|--|--------------|--------------|
| Gross profit | 89,526 | 895,492 |
| ----- | | |
| Operating Expenses: | | |
| Selling, general and administrative expenses | 328,998 | 1,039,407 |
| Stock option expense | 147,530 | 139,077 |
| Impairment of goodwill | -- | 362 |
| ----- | | |
| Total Operating Expenses | 476,528 | 1,178,846 |
| ----- | | |
| Operating loss | (387,002) | (283,354) |
| ----- | | |
| Other income (expenses) | | |
| Interest and other income | 1,338 | 4,261 |
| Interest and other expenses | (20,798) | (9,662) |
| ----- | | |
| Total other income (expenses) | (19,460) | (5,401) |
| ----- | | |
| Net loss before income taxes and minority interest | (406,462) | (288,755) |
| Provision for income taxes | 800 | 800 |
| ----- | | |
| Net loss before minority interest | (407,262) | (289,555) |
| Minority interest in losses of subsidiaries | (1,823) | -- |
| ----- | | |
| Net loss | \$ (405,439) | \$ (289,555) |
| ===== | | |
| Net Loss per share-Basic and Diluted | \$ (0.006) | \$ (0.005) |
| Weighted average number of common shares | 65,286,213 | 63,038,781 |

See notes to interim unaudited consolidated financial statements

4

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| FOR THREE MONTHS ENDED MARCH 31, | 2008 | 2007 |
|---|--------------|--------------|
| ----- | | |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (405,439) | \$ (289,555) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Minority interest | (1,823) | -- |
| Depreciation and amortization | 2,151 | 5,582 |
| Issuance stock and stock equity awards for services | 147,530 | 139,076 |
| Provision for bad debt | 483 | 8,657 |
| Amortization of debt discount | 750 | -- |
| Impairment of goodwill | -- | 362 |

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | | |
|--|-----------|-----------|
| (Increase) Decrease in: | | |
| Accounts receivable | 9,034 | (199,164) |
| Inventory | 57,318 | 42,106 |
| Prepaid and other assets | 37,460 | 53,310 |
| Increase (Decrease) in: | | |
| Accounts payable and accrued expenses | 12,543 | 125,288 |
| Net cash used in operating activities | (139,993) | (114,338) |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Increase in restricted cash | (15,820) | -- |
| Capitalized intellectual property | (406) | (745) |
| Net cash used in investing activities | (16,226) | (745) |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Net proceeds from sales of common stocks | 15,050 | -- |
| Net proceeds from convertible debt | 15,000 | -- |
| Repayments on notes payable | (12,506) | (112) |
| Net cash provided by (used in) financing activities | 17,544 | (112) |
| NET DECREASE IN CASH | (138,675) | (115,195) |
| CASH BALANCE AT BEGINNING OF PERIOD | 205,162 | 202,570 |
| CASH BALANCE AT END OF PERIOD | \$ 66,487 | \$ 87,375 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Taxes Paid | \$ -- | \$ -- |
| Interest paid | \$ 8,746 | \$ -- |
| Schedule of Noncash Investing and Financing Activities: | | |
| Retirement of common stock for an equity-method investment | \$ -- | \$ 14,007 |
| Issuance of stock options for accrued expenses | \$ 1,036 | \$ -- |

See notes to interim unaudited consolidated financial statements

5

ACUNETX, INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND GOING CONCERN

NATURE OF BUSINESS

AcuNetx, Inc., a Nevada corporation, (the "Company" or "AcuNetx", formerly known as Eye Dynamics, Inc. or "EDI") and its subsidiaries OrthoNetx Inc. and VisioNetx Inc., combine diagnostic, analytical and therapeutic devices with proprietary software to permit: health providers to diagnose and treat balance

Edgar Filing: AcuNetx, Inc. - Form 10QSB

disorders and various bone deficiencies; law enforcement officers to evaluate roadside sobriety; and employers in high-risk industries to determine, in real-time, the mental fitness of their employees to perform mission-critical tasks. AcuNetx is headquartered in Torrance, California.

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

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

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. The Company incurred operating losses totaling \$405,439 and \$289,555 for the three months ended March 31, 2008 and 2007 respectively. In addition, the Company has a working capital deficit of \$905,886 and an accumulated deficit of \$12,147,021 as of March 31, 2008. In the near term, the Company expects the operating cash flows will not be sufficient to cover all debt and payables although it expects its sales to grow and will be able to cover current operating costs and to reduce the working capital deficit.

Management's plans include raising operating capital to take advantage of its IntelliNetx and HawkEye commercial opportunities. To that end, \$150,000 was borrowed from S&S Health Products (see Note 15) and the Company is seeking a maximum of \$500,000 under a stock subscription agreement that is based on a unit consisting of \$0.07 common stock associated with a \$0.10 warrant. This will enable the Company to focus its efforts on selling its neurological diagnostic products, which have historically been its primary business, and to increase the marketing and sales efforts for its HawkEye law enforcement product.

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

Edgar Filing: AcuNetx, Inc. - Form 10QSB

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION OF INTERIM INFORMATION: The financial information at March 31, 2008 and 2007 and for the three months ended March 31, 2008 and 2007 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and with the instructions to Form 10-QSB. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

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

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

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

OTHER INTANGIBLE ASSETS: Other intangible assets consist primarily of intellectual property and trademarks. The Company capitalizes intellectual property costs as incurred, excluding costs associated with Company personnel, relating to patenting its technology. The majority of capitalized costs represent legal fees related to a patent application. If the Company elects to stop pursuing a particular patent application or determines that a patent application is not likely to be awarded or elects to discontinue payment of required maintenance fees for a particular patent, the Company, at that time, records as expense the capitalized amount of such patent application or patent. Awarded patents will be amortized over the shorter of the economic or legal life of the patent. Trademarks are not amortized, but rather are tested for impairment at least annually. There was no impairment of other intangible assets for the three months ended March 31, 2008 and 2007.

GOODWILL: Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. An impairment of goodwill of \$362 was recorded for the three months ended March 31, 2007. Goodwill was fully impaired in 2007.

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

STOCK-BASED COMPENSATION: The Company has adopted the fair value recognition

Edgar Filing: AcuNetx, Inc. - Form 10QSB

provisions of FASB Statement No.123(R), "SHARE-BASED PAYMENT" (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2007 based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). For the three months ended March 31, 2008 and 2007, the Company recognized pre-tax stock option compensation expense of \$147,530 and \$139,077, respectively.

7

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 07-3, "ACCOUNTING FOR NONREFUNDABLE ADVANCE PAYMENTS FOR GOODS OR SERVICES TO BE USED IN FUTURE RESEARCH AND DEVELOPMENT ACTIVITIES" ("EITF 07-3"). EITF 07-3 requires

Edgar Filing: AcuNetx, Inc. - Form 10QSB

non-refundable advance payments for goods and services to be used in future research and development activities to be recorded as an asset and the payments to be expensed when the research and development activities are performed. EITF 07-1 will be effective for the Company's fiscal year beginning August 1, 2008. Currently, the Company does not anticipate that this statement will have a significant impact on its consolidated financial statements.

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

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

8

ACUNETX, INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 ("SAB 110"). SAB 110 permits companies to continue to use the simplified method, under certain circumstances, in estimating the expected term of "plain vanilla" options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. Adoption of SAB 110 is not expected to have a material impact on the Company's consolidated financial statements.

Edgar Filing: AcuNetx, Inc. - Form 10QSB

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

| | AT MARCH 31, | |
|--------------------------------|--------------|------------|
| | 2008 | 2007 |
| Accounts Receivable, Net | | |
| ----- | ----- | ----- |
| Accounts Receivable | \$ 45,221 | \$ 300,910 |
| Allowance for Bad Debt | (9,704) | (14,002) |
| | ----- | ----- |
| Total Accounts Receivable, Net | \$ 35,517 | \$ 286,908 |
| | ===== | ===== |

INVENTORY

| | | |
|---------------------------------|------------|------------|
| ----- | | |
| Finished Goods | \$ 84,019 | \$ 182,067 |
| Demo units | 82,992 | 84,126 |
| Allowance for loss in inventory | (20,050) | (56,863) |
| | ----- | ----- |
| Total Inventory | \$ 146,961 | \$ 209,330 |
| | ===== | ===== |

PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | | |
|---------------------------|-----------|-----------|
| ----- | | |
| Prepaid Insurance | \$ 17,932 | \$ 19,847 |
| Prepaid rent and deposit | 186 | 278 |
| Other Prepaid Expenses | 18,107 | 21,875 |
| | ----- | ----- |
| Total Prepaids and Others | \$ 36,225 | \$ 42,000 |
| | ===== | ===== |

PROPERTY AND EQUIPMENT, NET

| | | |
|-----------------------------------|-----------|-----------|
| ----- | | |
| Furniture and Fixtures | \$ 9,531 | \$ 9,531 |
| Equipment | 40,530 | 40,530 |
| Software | 5,757 | 5,757 |
| | ----- | ----- |
| | 55,818 | 55,818 |
| Accumulated Depreciation | (39,630) | (31,809) |
| | ----- | ----- |
| Total Property and Equipment, Net | \$ 16,187 | \$ 24,009 |
| | ===== | ===== |

ACCRUED LIABILITIES

| | | |
|-----------------------------------|----------|----------|
| ----- | | |
| Warranty reserve | \$ 5,338 | \$ 7,649 |
| Accrued payroll and related taxes | 111,149 | 60,457 |
| Accrued consulting fees | 361,691 | 96,391 |
| Commissions payable | 1,862 | 81,821 |
| Accrued vacation | 20,508 | 20,709 |
| Accrued professional fees | 181,733 | -- |
| Related party payable | 25,533 | -- |
| Other accrued liabilities | 115,634 | 118,773 |
| | ----- | ----- |

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | | |
|---------------------------|------------|------------|
| Total Accrued Liabilities | \$ 823,448 | \$ 385,800 |
| | ===== | ===== |

10

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - OTHER INTANGIBLE ASSETS

During the three months ended March 31, 2008, the Company capitalized intellectual property cost of \$406. The Company's intangible assets consisted of the following at March 31, 2008 and 2007:

| | 2008 | 2007 |
|--------------------------------|------------|------------|
| | ----- | ----- |
| Pending Intellectual Property | \$ 128,925 | \$ 126,860 |
| Awarded patents | 21,954 | -- |
| Trademarks | -- | 10,072 |
| Accumulated amortization | (274) | -- |
| | ----- | ----- |
| Total Accounts Receivable, Net | \$ 150,604 | \$ 136,932 |
| | ===== | ===== |

Amortization of intangibles was \$274 for the three months ended March 31, 2008. No amortization of intangibles was recorded for the three months ended March 31, 2007 as no patents were awarded as of that date.

Based on the carrying amount of the intangibles as of March 31, 2008, and assuming no impairment of the underlying assets, the estimated future amortization is as follows:

| Years ended December 31, | |
|---------------------------|-----------|
| ----- | |
| 2008 (From April 1, 2008) | \$ 1,566 |
| 2009 | 1,291 |
| 2010 | 1,291 |
| 2011 | 1,291 |
| 2012 and over | 16,514 |
| | ----- |
| Total | \$ 21,954 |
| | ===== |

NOTE 5 - SETTLEMENT ON NOTES RECEIVABLE

In March 2007, the Company entered into a settlement agreement with a former employee who created indebtedness to the Company of \$49,489 in 2001 to 2004 and had agreed to a Note Receivable (Receivable). The employee had been in default on payments on this Receivable, which was fully reserved in 2004. The agreement calls for the former employee to repay the Company \$55,000 at a rate of \$4,000 per month beginning in April 2007. The Company collected \$24,000 through March 31, 2008. The former employee is six months in arrears of payments as of March 31, 2008. The Company is currently seeking to collect the stock certificate of a public company which was provided as a security in the agreement.

Edgar Filing: AcuNetx, Inc. - Form 10QSB

NOTE 6 - BORROWINGS

NOTE PAYABLE TO RELATED PARTY

 The Company has an installment note payable to a related party with monthly payments of \$14,263, including interest at 13%. The original note amount was \$300,000 maturing on December 31, 2007. As of March 31, 2007, the loan balance and the related accrued interest were \$243,731 and \$13,530, respectively. The note was restructured on June 30, 2007 -see Long-Term Debt.

11

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

 NOTE 6 - BORROWINGS (CONTINUED)

LONG-TERM DEBT

| | |
|--|---------------------|
| At March 31, | 2008 |
| ----- | |
| Installment note payable secured by computer equipment. Monthly payments total \$81, including interest at 18.99%. The original note amount was \$2,062. Matures July 21, 2009. | \$ 1,138 |
| (a) Reconstructed note payable to related party. Monthly interest payment only at 13% through January 31, 2008. Effective February 1, 2008, principal and interest payment based on a 36-month amortization. Matures August 1, 2009. | 256,206 |
| ----- | |
| Less: Current Maturities | 257,344 (80,475) |
| Long-term debt | \$ 176,869 |
| ===== | |

(a) On June 30, 2007, the Company entered into an Agreement for Extension and Amendment of a Note ("Agreement") with a related party. Under the Agreement, the Company's subsidiary, OrthoNetx, Inc. executed an Amended and Extended Promissory Note in favor of a related party, in the principal amount of \$268,551. The new note replaces a promissory note issued by OrthoNetx, Inc. on January 30, 2005 in the original amount of \$300,000. The new note bears interest at 13% per annum, and provides for payments of interest that commenced on August 1, 2007. Payments of principal and interest commenced on February 1, 2008, based on a 36-month amortization schedule. All principal and interest is due on August 1, 2009. As of March 31, 2008, the Company has made all scheduled interest payments. Under the Agreement, the Company entered into a Commercial Guaranty under which it guaranteed payment of the note. Also, the related party entered into a termination of guaranty to release the former CEO from his guaranty of the original note.

CONVERTIBLE DEBT, NET

 At March 31, 2008

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | |
|--|------------|
| 10% Series A Convertible Promissory Note, matures on December 31, 2010 | \$ 25,000 |
| 8% Convertible Promissory Notes, matures commencing May 18, 2009 | 90,000 |
| | 115,000 |
| Less: Unamortized debt discount | (5,375) |
| Convertible debt, net | \$ 109,625 |

NOTE 7 - INCOME TAXES

Provision for income taxes consisted of a minimum state franchise tax of \$800 for three months ended March 31, 2008 and 2007.

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

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

12

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDERS' EQUITY

SALES OF COMMON STOCK

In February 2008, the Company sold 215,000 equity units, consisting of 215,000 shares of common stock and warrants, and received \$15,050 in gross proceeds.

COMMON STOCK RETIREMENT

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

NOTE 9 - STOCK OPTIONS

ACUNETX, INC.

Edgar Filing: AcuNetx, Inc. - Form 10QSB

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

A summary of the status of stock options issued by the Company as of March 31, 2008 and 2007 is presented in the following table.

| | 2008 | | |
|----------------------------------|------------------------|--|------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares |
| Outstanding at beginning of year | 5,525,768 | \$0.15 | 7,309 |
| Granted | 3,830,000 | \$0.07 | 1,500 |
| Exercised/Expired/Cancelled | - | \$0.00 | (3,360) |
| | | | |
| Outstanding at end of period | 9,355,768 | \$0.12 | 5,449 |
| | | | |
| Exercisable at end of period | 7,855,768 | \$0.12 | 4,449 |
| | | | |

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

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

As of March 31, 2008 there was \$73,167 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 2.75 years.

Edgar Filing: AcuNetx, Inc. - Form 10QSB

NOTE 9 - STOCK OPTIONS (CONTINUED)

The following table sets forth additional information about stock options outstanding at March 31, 2008:

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercised |
|--------------------------|---------------------|---|---------------------------------|-------------------|
| \$0.01-\$0.30 | 9,355,768 | 5.68 years | \$ 0.12 | 7,855 |

VISIONETX, INC.

On August 16, 2007, the shareholders of VisioNetx, Inc. approved the adoption of the 2007 Stock Incentive Plan to provide for the issuance of incentive stock options and/or nonstatutory options to officers, directors, employees, and consultants who provide services to VisioNetx. All options have an exercise price equal to or higher than the fair market value of VisioNetx common stock on the date the options were granted. Options generally vest over three years and exercisable from five to 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 March 31, 2008 is presented in the following table.

| | 2008 | |
|----------------------------------|------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 479,500 | \$0.10 |
| Granted | 96,000 | \$0.10 |
| Exercised/Expired/Cancelled | - | \$0.00 |
| Outstanding at end of period | 575,500 | \$0.10 |
| Exercisable at end of period | 229,486 | \$0.10 |

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

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

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | |
|---------------------|---------|
| Expected lives | 5.00 |
| Expected volatility | 134.64% |

As of March 31, 2008 there was \$16,934 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 years.

The following table sets forth additional information about stock options outstanding at March 31, 2008:

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Opti Exerci |
|--------------------------------|------------------------|---|--|----------------|
| \$ 0.10 | 575,000 | 7.67 years | \$ 0.10 | 229 |

14

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - NET LOSS PER SHARE

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

| For three months ended March 31, | 2008 | 2007 |
|--|--------------|--------------|
| ----- | | |
| Numerator: | | |
| Net loss | \$ (405,439) | \$ (289,555) |
| Denominator: | | |
| Weighted average of common shares | 65,286,213 | 63,038,781 |
| Net loss per share - basic and diluted | \$ (0.006) | \$ (0.005) |

As the Company incurred a net loss for the three months ended March 31, 2008, the effect of dilutive securities totaling 3,124,853 equivalent shares were also excluded from the calculation of diluted loss per share because their effect was antidilutive.

The Company had no dilutive securities as of March 31, 2007. Stock options and warrants to purchase approximately 14,582,436 shares of the Company's common stocks were outstanding, but were not included in the computation of diluted net loss per share for the three months ended March 31, 2007 because the exercise price of the stock options and warrants was greater than the average share price of the common shares, and, therefore, the effect would have been antidilutive.

NOTE 11 - MAJOR CUSTOMERS AND CREDIT CONCENTRATION

Edgar Filing: AcuNetx, Inc. - Form 10QSB

An independent sales representative accounted for \$82,500, or 42.4%, of IntelliNetx revenues for the three months ended March 31, 2008. During the three months ended March 31, 2007, this sales representative accounted for revenues of \$818,535, or 69.2%, of IntelliNetx revenues.

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

NOTE 12 - SEGMENT INFORMATION

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

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

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

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

15

ACUNETX, INC. NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - SEGMENT INFORMATION (CONTINUED)

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

| | THREE MONTHS ENDED MARCH 31, | |
|------------------------------------|---------------------------------|-------------|
| | 2008 | 2007 |
| Net Revenue to external customers: | | |
| INX | \$ 200,822 | \$1,119,546 |
| ONX | 18,766 | |

Edgar Filing: AcuNetx, Inc. - Form 10QSB

| | | |
|--|------------|-------------|
| VNX | -- | 4,400 |
| | ----- | ----- |
| Consolidated Net Revenue to external customers | \$ 219,588 | \$1,123,946 |
| | ===== | ===== |
| Cost of Revenue: | | |
| INX | \$ 90,750 | \$ 226,585 |
| ONX | 39,312 | |
| VNX | -- | 1,869 |
| | ----- | ----- |
| Consolidated Cost of Revenue | \$ 130,062 | \$ 228,454 |
| | ===== | ===== |
| Gross Margin: | | |
| INX | \$ 110,072 | \$ 892,961 |
| ONX | (20,546) | -- |
| VNX | -- | 2,531 |
| | ----- | ----- |
| Consolidated Gross Margin | \$ 89,526 | \$ 895,492 |
| | ===== | ===== |

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 Three Months Ended March 31, | 2008 | 2007 |
| | ----- | ----- |
| Total margin for reportable segments | \$ 89,526 | \$ 895,492 |
| Corporate and general and administrative expenses | (328,998) | (1,039,407) |
| Stock option expenses | (147,530) | (139,077) |
| Impairment of goodwill | 0 | (362) |
| Interest and Other Expense | (20,798) | (9,662) |
| Interest and Other Income | 1,338 | 4,261 |
| | ----- | ----- |
| Net loss before income taxes and minority interest | \$ (406,462) | \$ (288,755) |
| | ===== | ===== |

NOTE 13 - RELATED PARTY TRANSACTION

The Company's employees periodically pay business-related expenses using personal funds. Until reimbursed, these expenses are recorded in "Accrued Liabilities" and listed as "Related party payables" in the balance sheet details above. At March 31, 2008 the company had a current related party payable to the Company's CEO, in the amount of \$24,952.

16

ACUNETX, INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - GUARANTEES AND PRODUCT WARRANTIES

The Company from time to time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) divestiture agreements, under

Edgar Filing: AcuNetx, Inc. - Form 10QSB

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 March 31, 2008.

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

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

| For Three Months ended March 31, | 2008 | 2007 |
|----------------------------------|-----------|----------|
| ----- | ----- | ----- |
| Beginning balance | \$ 11,339 | \$ 7,200 |
| Provision for warranty | (6,001) | 2,249 |
| Utilization of reserve | - | (1,800) |
| | ----- | ----- |
| Ending balance | \$ 5,338 | \$ 7,649 |
| | ===== | ===== |

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to March 31, 2008, the Company executed a promissory note for \$150,000 in favor of S&S Health Products, Inc. The note carries an interest rate at 10% per annum and matures on April 1, 2011. In addition, the note provides that S&S will have the right to purchase up to twenty (20) IntelliNetx I systems and up to twenty IntelliNetx DX Screener systems at discounted prices for a period of five years.

Subsequent to March 31, 2008, VisioNetx entered into a placement agent agreement planning to raise at least \$5 million through equity or debt financing.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

CAUTIONARY STATEMENT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 2, "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this 10-QSB that does not consist of historical facts, are "forward-looking statements."

Edgar Filing: AcuNetx, Inc. - Form 10QSB

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

BUSINESS OVERVIEW

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

In the first quarter of 2008, the VNG line of products accounted for 94.3% of the Company's revenue. The balance of the revenue came from HawkEye sales and other R&D projects. While the current products are being sold into a relatively mature market, recent research has indicated that additional markets may be suitable for the Company's lines, and the company will continue to explore those opportunities with its distributors and partners.

Several ongoing initiatives are important to the Company's future success. First, it established VisioNetx, Inc. which provides a better capitalization structure for raising the funds necessary to commercialize 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 marketing and sales activities for its IntelliNetx division, to take advantage of the growing global opportunity for balance assessment and fall prevention in the elderly, which it believes has the potential to develop into a substantial growth market.

In the first quarter of 2008 the company's Balance Wellness Screener was introduced to the market place offering a low cost, 'standard of care', product for non-specialized healthcare physicians. This paradigm can open a significantly larger customer base for the company's product, as it has a

Edgar Filing: AcuNetx, Inc. - Form 10QSB

potential domestic customer base of over 400,000 healthcare physicians, compared to less than 50,000 of specialists for its current medical product line.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THREE MONTHS ENDED MARCH 31, 2007

The first quarters of 2008 and 2007 represent the combined results of AcuNetx, Inc. and its subsidiaries, OrthoNetx Inc. and VisioNetx Inc. One significant aspect in the Company's year-to-year comparison is a change in revenue recognition with regard to one of the company's key distributors. In the first quarter of 2007, the Company sold its products directly to end customers and paid the distributor sales commissions based on sales to these customers. Since July of 2007, the Company sells its products directly to this distributor at wholesale prices. This change results in lower revenues for the same unit volume of sales, along with lower gross profits, as costs do not change. Correspondingly, a decrease in commission expense occurs as the distributor is no longer receiving commissions.

Revenues during the first quarter of 2008 were \$219,588 compared to \$1,123,946 for the corresponding period in 2007. System unit shipments decreased to 11 units in the first quarter from 32 units in the prior year as a result of two significant factors: (i) the overall uncertainty with the domestic economy, and (ii) the lack of adequate funds to market the company's products. Gross profit, as a percentage of sales, decreased from 79.6% to 40.7%. Total operating expenses decreased by \$702,318, from \$1,178,846 in the first quarter of 2007 to \$476,528 in the first quarter of 2008. Selling, general and administrative expenses decreased from \$1,039,407, in the first quarter of 2007, to \$328,998 in the first quarter of 2008. Net loss increased from \$289,555 (\$0.005 per share) in the first quarter of 2007 to \$405,439 (\$0.006 per share) in the first quarter of 2008. Management believes that the Company's efforts to raise marketing capital and the introduction of its Screener product should bring the company back on track as in previous quarters.

In regards to the Company's subsidiaries, VisioNetx, Inc. is in discussions with funding sources to secure the investment necessary to implement its business plan, and OrthoNetx inventory is being delivered to Robinson MedSurg, LLC per the distribution agreement between the companies.

The Company is distributing VNG products under the IntelliNetx brand through a number of new channels. These sales should result in an improvement to the bottom line as the company has negotiated a more favorable margin structure with these channels. The company is working with all of its marketing channels to formulate a consistent message to highlight its product and company strengths.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

19

MATERIAL COMMITMENTS

The Company has no material commitments.

Edgar Filing: AcuNetx, Inc. - Form 10QSB

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008, the Company had \$66,487 in cash and cash equivalents, \$90,000 in restricted cash, \$35,517 in net accounts receivable, and \$146,961 in inventory. Conversely, the Company had \$1,281,896 of current liabilities, which included accounts payable of \$377,973. The Company also had accrued liabilities of \$823,448 and a \$256,206 note payable. Long-term liabilities were \$286,494. As of March 31, 2008, AcuNetx had an accumulated deficit of \$12,147,021.

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

ITEM 3 - CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, our CEO and CFO concluded that as of March 31, 2008 our disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company (or the Company's consolidated subsidiaries) required to be included in the Company's periodic filings with the SEC, such that the information relating to the Company required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There has been no material change in our internal control over financial reporting during the three months ended March 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any material pending legal proceedings.

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

In February 2008, the Company sold 215,000 units, each consisting of one share of Common Stock and a warrant to purchase one share of Common Stock, to a small group of private investors. The Company received gross proceeds of \$15,050.

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

20

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

Edgar Filing: AcuNetx, Inc. - Form 10QSB

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

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

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

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

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

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

SIGNATURES

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

Date: May 15, 2008

By: /s/ Ronald A. Waldorf

Ronald A. Waldorf, Chief Executive Officer