

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

AcuNetx, Inc.
Form 10-Q
May 20, 2009

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

Form 10-Q

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

For the quarterly period ended March 31, 2009

Commission File No. 0-27857

ACUNETX, INC.

(Exact name of registrant 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

(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, 2009, the issuer had 65,429,309 shares of common stock outstanding.

Transitional Small Business Disclosure Format (check one) () Yes; (X) No.

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

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

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

ASSETS	March 31, 2009 (Unaudited)	December (Audi
-----	-----	-----
Current Assets		
Cash	\$ 1,849	\$ 12
Restricted Cash	15,667	15
Accounts receivable, net	113,866	79
Inventory	93,735	99
Prepaid expenses and other current assets	34,202	51

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

Total Current Assets	259,319	258
Property and equipment, net	8,480	10
Goodwill	--	
Other intangible assets	114,722	114
Deferred tax assets	220,635	220
Other investments	15,000	15
Other assets	2,020	2

TOTAL ASSETS	\$ 620,176	\$ 621
	=====	
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	\$ 440,411	\$ 429
Accrued liabilities	979,821	909
Notes payable to related parties	--	
Current portion of long-term debt	205,003	211

Total Current Liabilities	1,625,235	1,551
Convertible debt, net of debt discount of \$2,374 and \$3,124 for 2009 and 2008, respectively	37,626	36
Long-Term Debt	150,000	150

Total Liabilities	1,812,861	1,737

Stockholders' Deficit		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 65,429,309 shares issued and outstanding	65,429	65
Common stock to be issued	--	
Paid-in capital	11,293,013	11,288
Accumulated deficit	(12,534,810)	(12,457)

Total AcuNetx Inc. Stockholders' Deficit	(1,176,368)	(1,103)
Noncontrolling deficit in subsidiary	(16,317)	(12)

Total Stockholders' Deficit	(1,192,685)	(1,116)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 620,176	\$ 621
	=====	

See notes to interim unaudited consolidated financial statements

3

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the three months ended March 31,	
	2009	2008

Sales - Products	\$ 292,118	\$ 219,588

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

Cost of sales - products	74,532	130,062
	-----	-----
Gross profit	217,586	89,526
	-----	-----
Operating Expenses:		
Selling, general and administrative expenses	263,776	328,998
Stock option expense	7,973	147,530
	-----	-----
Total Operating Expenses	271,749	476,528
	-----	-----
Operating loss	(54,163)	(387,002)
	-----	-----
Other income (expense)		
Interest and other income	31	1,338
Interest and other expenses	(29,168)	(20,798)
	-----	-----
Total other income (expenses)	(29,137)	(19,460)
	-----	-----
Net loss before income taxes and minority interest	(83,300)	(406,462)
Provision for income taxes	800	800
	-----	-----
Net loss before noncontrolling interest	(84,100)	(407,262)
Noncontrolling interest in losses of subsidiary	(6,569)	(1,823)
	-----	-----
Net loss	\$ (77,531)	\$ (405,439)
	=====	=====
Net Loss per share-Basic and Diluted	\$ (0.00)	\$ (0.01)
	=====	=====
Weighted average number of common shares	65,429,309	65,286,213

See notes to interim unaudited consolidated financial statements

4

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

FOR THREE MONTHS ENDED MARCH 31,

2009

CASH FLOW FROM OPERATING ACTIVITIES:

Net loss	\$ (77,531)
Adjustments to reconcile net loss to net cash used in operating activities:	
Noncontrolling interest in loss of subsidiary	(6,569)
Depreciation and amortization	2,149
Issuance of stock and stock equity awards for services	7,973
Provision for bad debt	7,000
Amortization of debt discount	750

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

(Increase) Decrease in:	
Accounts receivable	(41,699)
Inventory	5,285
Prepaid and other assets	17,614
Increase (Decrease) in:	
Accounts payable and accrued expenses	80,958
Net cash used in operating activities	(4,070)
CASH FLOW FROM INVESTING ACTIVITIES:	
Increase in restricted cash	(31)
Capitalized intellectual property	(0)
Net cash used in investing activities	(31)
CASH FLOW FROM FINANCING ACTIVITIES:	
Net proceeds from sales of common stock	--
Net proceeds from convertible debt	--
Repayments on notes payable	(6,765)
Net cash provided by (used in) financing activities	(6,765)
NET DECREASE IN CASH	(10,866)
CASH BALANCE AT BEGINNING OF PERIOD	12,715
CASH BALANCE AT END OF PERIOD	\$ 1,849
Supplemental Disclosures of Cash Flow Information:	
Taxes Paid	\$ 0
Interest paid	\$ 4,784
Schedule of Noncash Investing and Financing Activities:	
Issuance of stock options for accrued expenses	\$ 0

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. was formed by the merger of Eye Dynamics, Inc., incorporated in 1988, and OrthoNetx, Inc., in December of 2005. AcuNetx is now organized around a dedicated medical division and two separate subsidiaries, as follows: (i) IntelliNetx, a medical division with neurological diagnostic equipment, (ii)

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

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. Our products offer a technology platform that allows the devices to capture data about physiological conditions and connect the device-related data to computers operated by 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 cranio-maxillofacial (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.

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 net losses of \$77,531 and \$405,439 for the three months ended March 31, 2009 and 2008, respectively. The Company had a working capital deficit of \$74,193 and an accumulated deficit of \$12,534,810 as of March 31, 2009. 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.

6

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND GOING CONCERN (CONTINUED)

Management's plans include raising operating capital to take advantage of its IntelliNetx and HawkEye commercial opportunities. The company is seeking a maximum of \$500,000 in a private placement of securities, the terms of which have not been finalized. This will enable the Company to focus its efforts on selling its neurological diagnostic products that has historically been its primary business and to increase the marketing and sales efforts for its HawkEye law enforcement product.

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

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

that might be necessary if the Company is unable to continue as a going concern.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION OF INTERIM INFORMATION: The financial information at March 31, 2009 and for the three months ended March 31, 2009 and 2008 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and with the instructions to Form 10-Q. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results for the three months ended March 31, 2009 may not be indicative of results for the year ending December 31, 2009 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.

7

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2009 and 2008.

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

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

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 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 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, 2009 and 2008, the Company recognized pre-tax stock option compensation expense of \$7,973 and \$147,530, respectively.

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

8

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENTS: On January 1, 2008, the Company adopted the provision of SFAS No. 157, "FAIR VALUE MEASUREMENTS," except as it applies to those nonfinancial assets and nonfinancial liabilities for which the effective date has been delayed by one year. The Company measures at fair value certain financial assets and liabilities, including its marketable securities trading

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

- o Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- o Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the

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

- o full term of the asset or liability;
- o Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Fair Value Measurements as of March 31, 2009				
	Total	Level 1	Level 2	Level 3
Marketable securities				
Trading	\$15,000	\$15,000	\$0	\$0
	=====	=====	==	==

The adoption of SFAS 157 did not have a material effect on the Company's financial position or results of operations.

NEW ACCOUNTING PRONOUNCEMENTS: On January 1, 2009, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 160, "NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS, AN AMENDMENT TO ARB NO. 51." SFAS No. 160 changed the Company's classification and reporting for its noncontrolling interests in its variable interest entity to a component of stockholders' equity and other changes to the format of its financial statements. Except for these changes in classification, the adoption of SFAS No. 160 did not have a material impact on the Company's financial condition or results of operations.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "INTERIM DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS." This FSP essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the FSP requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. These additional disclosures will be required beginning with the quarter ending June 30, 2009. The company is currently evaluation the requirements of these additional disclosures.

9

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

ACCOUNTS RECEIVABLE, NET	MARCH 31, 2009	DECEMBER 31, 2008
Accounts Receivable	\$ 126,030	\$ 84,331
Allowance for Bad Debt	(12,164)	(5,164)
	-----	-----
Total Accounts Receivable, Net	\$ 113,866	\$ 79,167
	=====	=====
INVENTORY		
Finished Goods	\$ 46,376	\$ 46,316
Demo units	67,409	72,754
Allowance for loss in inventory	(20,050)	(20,050)

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

Total Inventory	\$ 93,735	\$ 99,020
	=====	=====
PREPAID EXPENSES AND OTHER CURRENT ASSETS		

Prepaid Insurance	\$ 10,427	\$ 4,042
Prepaid rent and deposit	--	--
Employee Advance	7,058	6,058
Other Prepaid Expenses	16,717	41,716
	-----	-----
Total Prepaids and Others	\$ 34,202	\$ 51,816
	=====	=====
PROPERTY AND EQUIPMENT, NET		

Furniture and Fixtures	\$ 9,531	\$ 9,531
Equipment	40,530	40,530
Software	5,757	5,757
	-----	-----
Accumulated Depreciation	55,818 (47,338)	55,818 (45,463)
	-----	-----
Total Property and Equipment, Net	\$ 8,480	\$ 10,355
	=====	=====
ACCRUED LIABILITIES		

Warranty reserve	\$ 3,741	\$ 3,045
Accrued payroll and related taxes	130,123	67,081
Accrued consulting fees	271,192	259,692
Commissions payable	2,508	7,596
Deferred Revenues	--	14,016
Accrued vacation	60,849	58,502
Accrued professional fees	158,637	171,136
Related party payable	(10)	(10)
Other accrued liabilities	352,782	328,450
	-----	-----
Total Accrued Liabilities	\$ 979,821	\$ 909,508
	=====	=====

10

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - OTHER INTANGIBLE ASSET

The Company's intangible assets consisted of the following at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
	-----	-----
Pending Intellectual Property	\$ 94,140	\$ 94,140
Awarded patents	21,954	21,954
Accumulated amortization	(1,372)	(1,098)
	-----	-----
Other Intangible Assets, Net	\$ 114,722	\$ 114,996

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

=====

=====

Amortization of intangibles was \$275 for each of the three-month period ended March 31, 2009 and 2008.

Based on the carrying amount of the intangibles as of March 31, 2009, and assuming no impairment of the underlying assets, the estimated future amortization is as follows:

Years ended December 31,	

2009 (From April 1, 2009)	\$ 823
2010	1,098
2011	1,098
2012	1,098
2013 and over	16,465

Total	\$ 20,582
=====	

NOTE 5 - OTHER INVESTMENT

The Company's other investment consisted of 1,000,000 shares of preferred stock in a public-traded company with carrying values of \$15,000 and \$15,000 as of March 31, 2009 and December 31, 2008, respectively. The shares are classified as trading securities, of which the shares were reported in the balance sheet at fair value with realized and unrealized gains and losses included in current period operations. As of March 31, 2009, there was no gross unrealized gain or loss for these securities. An unrealized gain of \$14,100 was recorded at December 31, 2008.

11

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - BORROWINGS

Long-Term Debt

	March 31, 2009	December 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.	\$ 783	\$ 783
Reconstructed note payable to related party. Monthly interest payment only at 13% through January 31, 2008. Effective February 1, 2008, principal and interest payment based on a 36-month amortization. Matures August 1, 2009 (a)	204,220	210,985
Secured note payable to a customer. Monthly interest payment only at 10%. A balloon payment due on April 1, 2011. (b)	150,000	150,000

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

Less: Current Maturities	355,003 (205,003)	361,768 (211,768)
Long-term debt	\$ 150,000	\$ 150,000

- (a) On June 30, 2007, the Company entered into an Agreement for Extension and Amendment of a Note ("Agreement") with a related party. Under the Agreement, the Company's subsidiary, OrthoNetx, Inc. executed an Amended and Extended Promissory Note in favor of a related party, in the principal amount of \$268,551. The new note replaces a promissory note issued by 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, 2009, the Company was in arrear of four monthly payments, aggregated to \$36,194. 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.
- (b) The Note provides that if, on the second anniversary of the date of the Note, AcuNetx has not set aside at least \$100,000 for repayment of the Note upon maturity, the principal of S&S has the right to compel AcuNetx to conduct a private offering to raise the funds necessary to repay the Note. The Note also provides that if AcuNetx is unable to pay the balance at maturity, S&S is entitled to a penalty equal to 10% of the principal balance of the Note, payable monthly until fully paid. As of March 31, 2009, no fund was set aside.

12

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - BORROWINGS (CONTINUED)

Convertible Debt, net

	March 31, 2009	December 2008
10% Series A Convertible Promissory Note, matures on December 31, 2010	\$ 25,000	\$ 25,000
8% Convertible Promissory Notes, matures commencing May 18, 2009	15,000	15,000
Less: Unamortized debt discount	(2,374)	(3,000)
Convertible debt, net	\$ 37,626	\$ 37,000

NOTE 7 - INCOME TAXE

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

Provision for income taxes consisted of a minimum state franchise tax of \$800 for three months ended March 31, 2009 and 2008.

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, 2008, the Company has net operating loss carryforwards of approximately \$7,500,000 and \$5,800,000 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 8 - STOCK OPTIONS

AcuNetx, Inc.

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

13

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCK OPTIONS (CONTINUED)

A summary of the status of stock options issued by the Company as of March 31, 2009 and 2008 is presented in the following table.

	2009		2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	9,818,168	\$0.11	5,525,768	\$0.11
Granted	-	\$0.00	3,830,000	\$0.00
Expired/Cancelled	(65,000)	\$0.22	-	\$0.00
	9,753,168	\$0.10	9,355,768	\$0.10
	9,753,168	\$0.10	9,355,768	\$0.10

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

Exercisable at end of period	8,461,501	\$0.12	7,855,768	\$0.1
	=====		=====	

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.

	2009	2008
	-----	-----
Weighted average fair value per option granted	N/A	\$0.06
Risk-free interest rate	N/A	3.28%
Expected dividend yield	N/A	0.00%
Expected lives	N/A	5.00
Expected volatility	N/A	134.64%

As of March 31, 2009 there was \$23,137 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 15 months.

The following table sets forth additional information about stock options outstanding at March 31, 2009:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
-----	-----	-----	-----	-----
\$0.01-\$0.30	9,753,168	3.26 years	\$ 0.10	8,461,501

14

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCK OPTIONS (CONTINUED)

VisioNetx, Inc.

On August 16, 2007, the shareholders of VisioNetx, Inc. approved the adoption of the 2007 Stock Incentive Plan to provide for the issuance of incentive stock options and/or 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 March 31, 2009 and 2008 is presented in the following table.

2009	2008
-----	-----

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

	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	425,500	\$0.10	479,500	
Granted	-	\$0.00	96,000	
Outstanding at end of period	425,500	\$0.10	575,500	
Exercisable at end of period	329,678	\$0.10	229,486	

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.

	2009	2008
Weighted average fair value per option granted	N/A	\$0.04
Risk-free interest rate	N/A	3.45%
Expected dividend yield	N/A	0.00%
Expected lives	N/A	5.00
Expected volatility	N/A	134.64%

As of March 31, 2009 there was \$5,167 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 1.5 years.

The following table sets forth additional information about stock options outstanding at March 31, 2009:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable
\$ 0.10	425,500	6.05 years	\$ 0.10	329,678

15

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - NET LOSS PER SHARE

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

For the Three Months Ended

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

	2009	March 31, 2008

Numerator:		
Net loss	\$ (77,531)	\$ (405,439)

Denominator:		
Weighted average of common shares	65,429,309	65,286,213

Net loss per share-basic and diluted	\$ (0.00)	\$ (0.01)

As a result of our net loss for the three months ended March 31, 2009 and 2008, all common share equivalents would have been anti-dilutive and therefore, have been excluded from the diluted net loss per share calculation. The weighted average securities, consisting of stock options and warrants, that were either out of the money or anti-dilutive from our calculation of diluted net loss per share were approximately 17,973,169 and 10,058,956 for three months ended March 31, 2009 and 2008, respectively.

NOTE 10 - MAJOR CUSTOMERS

During the three months ended March 31, 2009 and 2008, major distributors accounted for \$153,103 and \$82,500 or 49% and 42% of IntelliNetx division revenues, respectively.

NOTE 11 - 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 2006, the Company changed the structure of its internal organization to develop three market-oriented operating divisions: (i) IntelliNetx division, (ii) OrthoNetx division, and (iii) VisioNetx division. 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. The Company also has other subsidiaries that do not meet the quantitative thresholds of a reportable segment.

16

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - 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.

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

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:

	For three months ended March 31,	
	2009	2008
<hr style="border-top: 1px dashed black;"/>		
Net Revenue to external customers:		
INX	\$292,118	\$200,822
ONX	-	18,766
VNX	-	-
	<hr style="border-top: 1px dashed black;"/>	
Consolidated Net Revenue to external customers	\$292,118	\$219,588
<hr style="border-top: 1px dashed black;"/>		
Cost of Revenue:		
INX	\$ 74,532	\$ 90,750
ONX	-	39,312
VNX	-	-
	<hr style="border-top: 1px dashed black;"/>	
Consolidated Cost of Revenue	\$ 74,532	\$130,062
<hr style="border-top: 1px dashed black;"/>		
Gross Margin:		
INX	\$217,586	\$110,072
ONX	-	(20,546)
VNX	-	-
	<hr style="border-top: 1px dashed black;"/>	
Consolidated Gross Margin	\$217,586	\$ 89,526
<hr style="border-top: 1px dashed black;"/>		

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,	
	2009	2008
<hr style="border-top: 1px dashed black;"/>		
Total margin for reportable segments	\$ 217,586	\$ 89,526
Corporate and general and administrative expenses	(263,776)	(328,998)
Stock option expenses	(7,973)	(147,530)
Interest and Other Expense	(29,168)	(20,798)
Interest and Other Income	31	1,338
	<hr style="border-top: 1px dashed black;"/>	
Net loss before income taxes and noncontrolling interest	\$ (83,300)	\$ (406,462)
	<hr style="border-top: 1px dashed black;"/>	

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

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - 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 March 31, 2009.

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 2009 and 2008:

For three months ended March 31,	2009	2008
Beginning balance	\$ 3,045	\$ 11,339
Provision for warranty	696	(6,001)
Utilization of reserve	-	-
Ending balance	\$ 3,741	\$ 5,338

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

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-Q. Except for the historical information contained in this report, the following discussion contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The

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

cautionary statements made in this Quarterly Report on Form 10-Q should be read as being applicable to all related forward-looking statements wherever they appear in this Quarterly Report on Form 10-Q. The Company's actual results may differ materially from the results discussed in the forward-looking statements, as a result of certain factors including, but not limited to, those discussed elsewhere in this Quarterly Report on Form 10-Q.

AcuNetx has invested substantial funds in the last several years developing and validating its products. The Company is producing and marketing the Infrared/Video VNG System, both as a branded product for a distributor and under the IntelliNetx brand through independent distributors nationwide and internationally. In the first quarter of 2009, the VNG line of products accounted for 96.1% 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 the its distributors and partners.

Ongoing initiatives are important to our future success. In 2009, we have made several important changes to realign our resources.

We have accelerated marketing and sales of the HawkEye(TM) eye observation and recording system, and this should allow AcuNetx management to address this market and generate revenues from the product. We believe that we have sold to approximately half of the current, limited market for non-portable devices, and that our planned minor technological advancements to the Hawkeye line, rendering the devices fully portable, will open up to us a multi-billion dollar market in which we currently have established penetration.

We continue to pursue sales and marketing activities for our 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. For example, we have for the first time established an in-house sales group to sell to the recently untouched California market in our home state.

We believe that the OrthoNetx product line still has significant potential value in the marketplace, either for development or acquisition, and the relationship with Robinson Medsurge LLC is an important step to maximize this opportunity.

19

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2009 COMPARED TO THREE MONTHS ENDED MARCH 31, 2008

The first quarter of 2009 represents the combined results of AcuNetx, Inc. and its subsidiaries, OrthoNetx Inc. and VisioNetx Inc.

Revenues during the first quarter of 2009 totaled \$292,118, compared to \$219,588 for the corresponding period in 2008. System unit shipments dropped to 21 units, including 19 Video-Nystagmography (VNG) systems and 2 Hawkeye Field sobriety testers, in the first quarter from 32 units in the prior year. The average sales price per system sold, however, accounted for the improved sales and profit margins. Gross profit, as a percentage of sales, increased 33% from the previous first quarter, to 74% in the first quarter of 2009.

Total operating expenses decreased from \$476,528 in the first quarter of 2008, to \$271,749 in the first quarter of 2009. Lean cost management reduced our operating loss to a near-breakeven \$54,163 for the current period, compared to

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

an operating loss of \$387,002 for the same period in the previous year.

The Company focused on two major issues during the first quarter of 2009, trimming expenses and increasing the productivity of sales representatives. Initial success in both of these tasks has begun to result in significant increases in operating efficiency. The Company's financial resources were directed to bolster the marketing and sales activities of its revenue producing IntelliNetx division. To that end, the Company has both added an internal sales force, and continued to add manufacturer's representatives as commission-based sellers. Other global opportunities are being evaluated for distribution, as are value-added products and services to supplement the IntelliNetx product line.

With regard to the subsidiary, VisioNetx, Inc., the Company is actively seeking a Chief Executive Officer capable of operating this complex business and an individual who has the ability to attract capital to finance what we believe to be a significant opportunity.

In relation to the wholly-owned subsidiary, OrthoNetx, Inc., the company continues its discussions with interested parties to secure either a distribution partner or other business relationship.

The Company is distributing VNG products under the IntelliNetx brand through a number of new channels, including its new in-house sales force commencing operations. These sales should result in an improvement to the bottom line as the company has negotiated a more favorable commission 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.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of March 31, 2009 will not allow for payment of all outstanding invoices until additional financing is completed. The Company has renegotiated its loan from the founder of OrthoNetx to benefit both the Company and the note holder.

20

The Company recognizes that the current liquidity situation raises the question of being able to continue as a going concern. It is addressing this issue in two ways:

First, the various divisions, including IntelliNetx, and the subsidiary VisioNetx, Inc. are seeking additional funding in the second quarter, which will allow the continuation of operations through the full implementation of the SafetyScan product.

Second, the Company has begun to demonstrate success in restructuring expense and overhead parameters in a manner that will allow it to continue to manufacture and sell its current product lines while paying current liabilities over time.

Inventory on March 31, 2009 was \$93,735, compared to \$146,961 on March 31, 2008. Purchasing for all VNG products has been adjusted to a level consistent with current sales volumes. OrthoNetx bone distraction product inventories, both the GenerOs CF and GenerOs SB, continue to be reduced, but still offset the management improvements in VNG inventory levels. Accounts receivable as of March 31, 2009 were \$113,866, as opposed to \$35,517 at the same time in 2008, explaining the reduced cash balance.

Accounts payable as of March 31 2009 were \$440,411, compared to \$377,973 as of

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

March 31, 2008. The change is primarily due to significant increases in 2008 in selling, general and administrative expense and an extending of payments due to liquidity issues, both discussed above. OrthoNetx had previously acquired a private firm, and has been carrying accounts payable at full value until a settlement is resolved.

Sales prospects for the balance of 2009 are on target to exceed last year's amount, both in units sold and dollar volume, as we supplement all distribution channels, domestically and internationally for the IntelliNetx medical products. With a focus on federal government opportunities, management confidence in its revenue projections increases. AcuNetx should benefit from the success of VisioNetx if a liquidity event occurs (such as a public offering or acquisition), because AcuNetx, as the manufacturer, would see increasing revenues from these activities. The company began exploring the possible sale of the OrthoNetx division and its products for bone distraction as a method to raise additional funds. To date, no substantial interest has been shown, but exploratory talks with other candidates will continue. AcuNetx is seeking to raise a minimal amount of additional capital (approximately \$500,000) to support its IntelliNetx marketing and sales efforts as well as to decrease pressure on its cash flow for forward-looking obligations. An active fund raising effort is also in place to secure funding for its subsidiary, VisioNetx, Inc.

ITEM 3. CONTROLS AND PROCEDURES.

At the end of the period covered by this Form 10-Q, the Company's management, including its Chief Executive and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive and Acting Chief Financial Officer determined that such controls and procedures are effective to ensure that information relating to the Company required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

21

There have been no changes in the Company's internal controls over financial reporting that were identified during the evaluation that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's 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

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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

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

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS

Exhibit

Number Description

31.1 Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)

31.2 Certification Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)

32.1 Certification of President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)

* Filed herewith.

22

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 20, 2009

By: /s/ Robert S. Corrigan

Robert S. Corrigan, Chief Executive Officer

