

AcuNetx, Inc.
Form 10-Q
June 24, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended March 31, 2010

or

Transition Report Pursuant to Section 13 or 15 (d) of
the Securities Exchange Act of 1934

Commission file number: 0-27857

ACUNETX, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of incorporation)

88-0249812

(I.R.S. Employer Identification
Number)

2301 W. 205th Street, #102

Torrance, CA 90501

(Address of principal executive offices)

(310) 328-0477

(Issuer's telephone number)

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

YES 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 (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such file).

YES NO

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

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of June 24, 2010 the Company had 65,429,309 shares of its \$0.001 par value common stock issued and outstanding.

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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 in "Management's Discussion and Analysis of 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.

Part I FINANCIAL INFORMATION

Item 1 – CONSOLIDATED INTERIM FINANCIAL STATEMENTS

ACUNETX INC.
CONSOLIDATED BALANCE SHEETS

| | March 31, 2010 (unaudited) | December 31, 2009 (audited) |
|---|-------------------------------|-----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 1,876 | \$ 7,698 |
| Accounts receivable, net | 3,783 | 12,165 |
| Inventory | 67,230 | 66,213 |
| Prepaid expense and other current assets | 2,250 | 8,499 |
| Total Current Assets | 75,139 | 94,575 |
| Property and equipment, net | 1,313 | 1,600 |
| Other intangible assets | 115,169 | 113,716 |
| Deferred tax assets | 220,635 | 220,635 |
| Other investments | 1,500 | 1,500 |
| Other assets | 2,020 | 2,020 |
| TOTAL ASSETS | \$ 415,776 | \$ 434,046 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts payable | \$ 456,458 | \$ 458,524 |
| Accrued liabilities | 1,038,535 | 1,001,525 |
| Current portion of convertible debt | 25,000 | 24,876 |
| Current portion of long-term debt | 204,220 | 204,220 |
| Total Current Liabilities | 1,724,213 | 1,689,145 |
| Long-term debt | 150,000 | 150,000 |
| Total Liabilities | 1,874,213 | 1,839,145 |
| Stockholders' Deficit | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 66,729,309 and 65,429,309 shares issued and outstanding, respectively | 66,729 | 65,429 |
| Paid-in-capital | 11,313,346 | 11,338,699 |
| Accumulated deficit | (12,838,512) | (12,774,041) |
| Total AcuNetx Inc. Stockholders' Deficit | (1,458,437) | (1,369,913) |
| Noncontrolling deficit in subsidiary | - | (35,186) |
| Total Stockholders' Deficit | (1,458,437) | (1,405,099) |

| | | | | |
|---|----|---------|----|---------|
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ | 415,776 | \$ | 434,046 |
|---|----|---------|----|---------|

See notes to interim unaudited consolidated financial statements

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ACUNETX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months ended March 31, 2010 | Three Months ended March 31, 2009 |
|--|---|---|
| Sales - products | \$ 244,237 | \$ 292,118 |
| Cost of sales - products | 66,191 | 74,532 |
| Gross profit | 178,046 | 217,586 |
| Operating expenses | | |
| Selling, general and administrative expenses | 223,093 | 263,776 |
| Stock option expense | 633 | 7,973 |
| Total operating expenses | 223,726 | 271,749 |
| Operating loss | (45,680) | (54,163) |
| Other income (expense) | | |
| Interest and other income | - | 31 |
| Interest and other expense | (18,791) | (29,168) |
| Total other income (expense) | (18,791) | (29,137) |
| Net loss before income taxes and minority interest | (64,471) | (83,300) |
| Provision for income taxes | - | 800 |
| Net loss before noncontrolling interest | (64,471) | (84,100) |
| Noncontrolling interest in losses of subsidiary | - | (6,569) |
| Net loss | \$ (64,471) | \$ (77,531) |
| Net loss per share - basic and diluted | \$ (0.00) | \$ (0.00) |
| Weighted average number of common shares | 66,679,309 | 65,429,309 |

See notes to interim unaudited consolidated financial statements

ACUNETX INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Three Months ended March 31, 2010 | Three Months ended March 31, 2009 |
|--|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (64,471) | \$ (77,531) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Minority interest | 35,186 | |
| Noncontrolling interest in loss of subsidiary | - | (6,569) |
| Depreciation and amortization | 630 | 2,149 |
| Issuance of stock and stock equity awards for service | (24,053) | 7,973 |
| Provision for bad debt | 8,335 | 7,000 |
| Amortization of debt discount | 124 | 750 |
| (Increase) decrease in: | | |
| Accounts receivable | 47 | (41,699) |
| Inventory | (1,017) | 5,285 |
| Prepaid and other assets | 6,249 | 17,614 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 34,944 | 80,958 |
| Net cash used in operating activities | (4,026) | (4,070) |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Increase in restricted cash | - | (31) |
| Capitalization of intellectual property | (1,796) | - |
| Net cash used in investing activities | (1,796) | (31) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Repayments on note payable | - | (6,765) |
| Net cash provided by (used in) financing activities | - | (6,765) |
| NET DECREASE IN CASH | (5,822) | (10,866) |
| CASH BALANCE AT BEGINNING OF PERIOD | 7,698 | 12,715 |
| CASH BALANCE AT END OF PERIOD | \$ 1,876 | \$ 1,849 |
| Supplemental disclosure of cash flow information | | |
| Taxes paid | \$ - | \$ - |
| Interest paid | \$ - | \$ 4,784 |
| Schedule of noncash investing and financing activities | | |
| Issuance of common stock for services | \$ 10,500 | \$ - |

See notes to interim unaudited consolidated financial statements

ACUNETX INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

AcuNetx is organized around a dedicated medical division (i) IntelliNetx, a medical division with neurological diagnostic equipment, and two separate subsidiary companies: (ii) OrthoNetx, Inc., a wholly-owned medical subsidiary company with devices that create new bone, and (iii) VisioNetx, Inc., a majority-owned subsidiary company with products for occupational safety and law enforcement. For all its devices, AcuNetx is integrating an information technology (IT) platform that allows the device to capture data about the physiological condition of a human being. The company’s IT platform is designed to gather data and connect the device-related data with users and support personnel.

AcuNetx products include the followings: (a) Neurological diagnostic equipment that measures, tracks and records human eye movements, utilizing the company’s proprietary technology and computer software, as a method to diagnose problems of the vestibular (balance) system and other balance disorders; (b) Devices designed to test individuals for impaired performance resulting from the influences of alcohol, drugs, illness, stress and other factors that affect eye and pupil performance. These products target the occupational safety and law enforcement markets; (c) Orthopedic and craniomaxillofacial (skull and jaw) surgery products, which generate new bone through the process of distraction osteogenesis; and (d) A proprietary information technology system called SmartDevice-Connect™ (“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.

Presentation of Interim Information

The consolidated interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been consolidated or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. The consolidated interim financial statements and notes thereto should be read in conjunction with the financial statements and the notes thereto, included in the Company’s Annual Report to the Securities and Exchange Commission on Form 10-K for the fiscal year ended December 31, 2009, filed on April 12, 2010.

In the opinion of management, all adjustments necessary to summarize fairly the financial position and results of operations for such periods in accordance with accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature. The results of operations for the most recent interim period are not necessarily indicative of the results to be expected for the full year.

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 amounts have been reclassified to conform to current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates utilized in the preparation of financial statements are prudent and reasonable. Actual results could 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 patent applications. If the Company elects to stop pursuing a particular patent application or determines that a patent application is not likely to be awarded or elects to discontinue payment of required maintenance fees for a particular patent, the Company, at that time, records as expense the capitalized amount of such patent application or patent. Awarded patents will be amortized over the shorter of the economic or legal life of the patent. Trademarks are not amortized, but rather are tested for impairment at least annually.

There was no impairment of other intangible assets for the three months ended March 31, 2010 and 2009.

Goodwill

The Company accounts for Goodwill and Intangible Assets in accordance with ASC 805-10 (formerly SFAS No. 141), "Business Combinations" and ASC 350-10 (formerly SFAS No. 142), "Goodwill And Other Intangible Assets." Under ASC 350-10, goodwill and intangibles that are deemed to have indefinite lives are no longer amortized but, instead, are to be reviewed at least annually for impairment. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of the fair value and/or goodwill impairment for each reporting unit.

Net Income Per Share

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

Stock-Based Compensation

The Company accounts for its stock options in accordance with FASB ASC 718-10 (formerly Statement No.123(R)), "Share-Based Payment". ASC 718-10 requires the recognition of the cost of services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. ASC 718-10 also requires the stock option compensation expense to be recognized over the period during which the

recipient is required to provide service in exchange for the award (the vesting period).

Stock-based employee compensation incurred for the three months ended March 31, 2010 and 2009, was \$633 and \$7,973, respectively.

The Company accounts for stock issued to non-employees in accordance with the provisions of ASC 505-50 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." ASC 505-50 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).

Fair Value Measurements

On January 1, 2008, the Company adopted the provision of ASC 820-10 (formerly 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

ASC 820-10 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 ASC 820-10 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

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, 2010 | | | |
|-----------------------|--|----------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Marketable securities | | | | |
| Trading | \$ 1,500 | \$ 1,500 | \$ 0 | \$ 0 |

The adoption of ASC 820-10 did not have a material effect on the Company's financial position or results of operations.

Recent Accounting Pronouncements

On January 1, 2009, the Company adopted ASC 810-10 (formerly SFAS No. 160), "NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS, AN AMENDMENT TO ARB NO. 51." ASC 810-10 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 ASC 810-10 did not have a material impact on the Company's financial condition or results of operations.

In April 2009, the FASB issued ASC 825-10-65 (formerly 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 September 30, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

In May 2009, the FASB issued ASC 855-10 (formerly SFAS No. 165), "Subsequent Events." The statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This new standard is effective for fiscal years or

interim periods after June 15, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued ASC 860-10 (formerly SFAS No. 166), "ACCOUNTING FOR TRANSFERS OF FINANCIAL ASSETS, AN AMENDMENT OF FASB STATEMENT NO. 140." The statement improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This new standard is effective for fiscal years beginning after November 15, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued ASC 810-10 (formerly SFAS No 167), "AMENDMENTS TO FASB INTERPRETATION NO. 46(R)." The statement changes the approach to determining the primary beneficiary of a variable interest entity (VIE) and requires companies to more frequently assess whether they must consolidate VIEs. This new standard is effective for fiscal years beginning after November 15, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

NOTE 2 –GOING CONCERN

Going Concern

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

As indicated in the accompanying consolidated financial statements, the Company incurred operating losses totaling \$64,471 and \$77,531 for the three months ended March 31, 2010 and 2009, respectively. In addition, the Company has a working capital deficit of \$1,649,074 and an accumulated deficit of \$12,838,512 as of March 31, 2010. Total liabilities exceeded total assets by \$1,458,437. In the near term, the Company expects the operating cash flows will not be sufficient to cover all the old debt and payables.

Management of the Company plans to cover current operating costs and to reduce the working capital deficit through sales growth, cost reduction and equity financing. In addition, VisioNetx, Inc. is recruiting senior management and is seeking funding that will allow it to move forward with its marketing and sales efforts.

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

NOTE 3 –BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

| | March 31, 2010 | December 31, 2009 |
|--|---------------------|----------------------|
| Accounts Receivable, Net | | |
| Accounts Receivable | \$ 13,782 | \$ 30,499 |
| Allowance for Bad Debt | (9,999) | (18,334) |
| Total Accounts Receivable, Net | \$ 3,783 | \$ 12,165 |
| Inventory | | |
| Finished Goods | \$ 67,230 | \$ 66,213 |
| Demo units | 46,682 | 46,682 |
| Allowance for loss in inventory | (46,682) | (46,682) |
| Total Inventory | \$ 67,230 | \$ 66,213 |
| Prepaid Expenses and Other Current Assets | | |
| Prepaid Insurance | \$ 2,250 | \$ 8,099 |
| Prepaid rent and deposit | - | - |
| Employee Advance | - | 400 |
| Other Prepaid Expenses | - | - |
| Total Prepays and Others | \$ 2,250 | \$ 8,499 |
| Property and Equipment, Net | | |
| Furniture and Fixtures | \$ 1,114 | \$ 1,114 |
| Equipment | 40,530 | 40,530 |
| Software | 5,757 | 5,757 |
| | 47,401 | 47,401 |
| Accumulated Depreciation | (46,087) | (45,801) |
| Total Property and Equipment, Net | \$ 1,313 | \$ 1,600 |
| Accrued Liabilities | | |
| Warranty Reserve | \$ 2,691 | \$ 2,664 |
| Accrued payroll and related taxes | 229,841 | 221,211 |
| Accrued consulting fees | 274,757 | 279,483 |
| Commissions payable | 43,474 | 19,264 |
| Deferred Revenues | 78,816 | 50,190 |
| Accrued vacation | 33,804 | 41,022 |
| Accrued professional fees | 192,871 | 209,547 |
| Related party payable | - | - |
| Accrued Interest | 28,326 | 27,701 |
| Other accrued liabilities | 153,956 | 150,444 |
| Total Accrued Liabilities | \$ 1,038,535 | \$ 1,001,525 |

NOTE 4 – OTHER INTANGIBLE ASSETS

The Company capitalizes intellectual property costs as incurred, excluding costs associated with Company personnel, relating to patenting its technology. The majority of capitalized costs represent legal fees related to patent applications. Awarded patents will be amortized over the shorter of the economic or legal life of the patent.

One patent was awarded in November 2009 and two patents were awarded in December 2007. These patents are being amortized using the straight-line method over a life of 20 years from the date of each respective award.

The Company's intangible assets consisted of the following at March 31, 2010 and December 31, 2009:

| | March 31, 2010 | December 31, 2009 |
|-------------------------------|----------------|----------------------|
| Pending Intellectual Property | \$ 90,418 | \$ 88,622 |
| Awarded Patents | 27,472 | 27,472 |
| Accumulated Amortization | (2,721) | (2,378) |
| Other Intangible Assets, Net | \$ 115,169 | \$ 113,716 |

Future amortization expense as of March 31, 2010 was as follows:

| | |
|---------------------------|-----------|
| Years ended December 31, | |
| 2010 (From April 1, 2010) | \$ 1,031 |
| 2011 | 1,374 |
| 2012 | 1,374 |
| 2013 | 1,374 |
| 2014 and over | 19,598 |
| Total | \$ 24,751 |

NOTE 5 – OTHER INVESTMENTS

The Company's other investment consisted of 1,000,000 shares of preferred stock in a public-traded company with carrying values of \$1,500 as of March 31, 2010 and December 31, 2009. 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. There was no gross unrealized gain or loss for these securities as of March 31, 2010. An unrealized loss of \$13,500 was recorded at December 31, 2009.

NOTE 6 – BORROWINGS

Long-Term Debt

| | March 31, 2010 | December 31, 2009 |
|--|-------------------|----------------------|
| 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 | 204,220 |
| 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 |

| | | |
|--------------------------|------------|------------|
| | 354,220 | 354,220 |
| Less: Current Maturities | (204,220) | (204,220) |
| Long-term debt | \$ 150,000 | \$ 150,000 |

(a) On June 30, 2008, 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. On July 14, 2009, the Company entered into an Agreement for Extension and Amendment of a Note ("Agreement") with the related party. Under the Agreement, the related party agrees to apply \$21,346 of interest in arrears to principal and convert the note into an interest only note commencing in August 2009.

(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 payee 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, the payee is entitled to a penalty equal to 10% of the principal balance of the Note, payable monthly until fully paid. As of March 31, 2010, no funds were set aside.

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

| | |
|-------------|------------|
| Years ended | |
| December | |
| 31, | |
| 2010 | 204,220 |
| 2011 | 150,000 |
| | \$ 354,220 |

Convertible Promissory Notes

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

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

Through September 2008, the Company had received \$90,000 in proceeds from this offering and had deposited these funds in a restricted cash account. Under the terms of this offering, proceeds from the offering would have been available for use by the Company upon receipt of at least \$300,000. In October 2008, VisioNetx decided to close the offering and returned \$75,000 plus interest to two of the investors. In 2009, VisioNetx returned the remaining \$15,000 plus interest to the investor.

NOTE 7 – INCOME TAXES

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

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

the Company's net deferred tax assets.

As of December 31, 2009, the Company has net operating loss carryforwards of approximately, \$4,719,264 and \$3,780,895 to reduce future federal and state taxable income, respectively. To the extent not utilized, the federal net operating loss carryforwards began to expire in fiscal 2009 and the state net operating loss carryforwards will begin to expire in fiscal 2012.

NOTE 8 – STOCKHOLDERS' EQUITY

Stock Compensation

On July 17, 2008, the Compensation Committee approved the issuance of 1,000,000 shares of common stock to the interim Chief Executive Officer as a signing bonus. The shares are vested ratably over the remaining periods in 2008. The shares were valued at quoted market price on the grant date and are amortized over the vesting period. The stocks will be issued in 2010.

On January 15, 2010, the Compensation Committee and Board approved the issuance of 1,000,000 shares of common stock to the Chief Executive Officer. The shares are fully vested and were valued at quoted market price on the grant date.

On January 15, 2010, the Compensation and Board approved the issuance to each of the Company's independent directors 400,000 shares of common stock. The shares fully vest in four equal amounts during 2010 and Shares were valued at quoted market price on the grant date.

NOTE 9 – STOCK OPTIONS AND WARRANTS

ACUNETX, INC.

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

A summary of the status of stock options issued by the Company as of March 31, 2010 and 2009 is presented in the following table.

| | March 31, 2010 | | March 31, 2009 | |
|----------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 5,424,066 | \$ 0.11 | 9,818,168 | \$ 0.11 |
| Granted | - | - | - | - |
| Expired/Cancelled | - | - | (65,000) | \$ 0.22 |
| Outstanding at end of period | 5,424,066 | \$ 0.11 | 9,753,168 | \$ 0.10 |
| Exercisable at end of year | 5,424,066 | \$ 0.11 | 8,461,501 | \$ 0.12 |

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.

| | 2010 | 2009 |
|--|------|------|
| Weighted average fair value per option granted | N/A | N/A |
| Risk-free interest rate | N/A | N/A |
| Expected dividend yield | N/A | N/A |
| Expected lives | N/A | N/A |
| Expected volatility | N/A | N/A |

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The following table sets forth additional information about stock options outstanding at March 31, 2010:

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable |
|--------------------------------|------------------------|---|--|------------------------|
| \$0.03-\$0.30 | 5,424,066 | 4.42 years | \$ 0.11 | 5,424,066 |

Stock Warrants

As of March 31, 2010, the Company had 4,414,451 outstanding warrants. The warrants allow for the purchase of common stock at pricing ranging from \$0.001 to \$0.10 per share.

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, 2010 and 2009 is presented in the following table.

| | March 31, 2010 | | March 31, 2009 | |
|----------------------------------|------------------------|--|------------------------|--|
| | Number of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 313,000 | \$ 0.10 | 425,500 | \$ 0.10 |
| Granted | - | - | - | - |
| Expired/Cancelled | - | - | - | - |
| Outstanding at end of period | 313,000 | \$ 0.10 | 425,500 | \$ 0.10 |
| Exercisable at end of year | 293,370 | \$ 0.10 | 329,678 | \$ 0.10 |

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

| | 2010 | 2009 |
|--|------|------|
| Weighted average fair value per option granted | N/A | N/A |
| Risk-free interest rate | N/A | N/A |
| Expected dividend yield | N/A | N/A |
| Expected lives | N/A | N/A |
| Expected volatility | N/A | N/A |

The following table sets forth additional information about stock options outstanding at March 31, 2010:

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable |
|--------------------------------|------------------------|---|--|------------------------|
| \$0.10 | 313,000 | 5.55 years | \$ 0.10 | 293,370 |

NOTE 10 – NET LOSS PER SHARE

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

| | For the Three Month Ended March 31, | |
|--------------------------------------|--|--------------|
| | 2010 | 2009 |
| Numerator: | | |
| Net loss | \$ (64,471) | \$ (77,531) |
| Denominator: | | |
| Weighted average of common shares | 66,679,309 | 65,429,309 |
| Net loss per share-basic and diluted | \$ (0.001) | \$ (0.001) |

As a result of our net loss for the three months ended March 31, 2010 and 2009, all common share equivalents would have been anti-dilutive and therefore, have been excluded from the diluted net loss per share calculation.

NOTE 11 – MAJOR CUSTOMERS

During the three months ended March 31, 2010 and 2009, sales to major customers (those exceeding 10% of the Company's net revenues) approximated 95% and 49%, respectively of the Company's consolidated net revenues.

NOTE 12 – SEGMENT INFORMATION

The Company evaluates its reporting segments in accordance with ASC 280-10 (formerly 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 ASC 280-10. The Chief Executive Officer allocates resources to each segment based on their business prospects, competitive factors, net sales and operating results.

In December 2006, the Company changed the structure of its internal organization to develop three market-oriented operations: (i) IntelliNetx (INX) division, (ii) OrthoNetx (ONX) Inc., a wholly-owned subsidiary, and (iii) VisioNetx (VNX) Inc, a majority-owned subsidiary. The IntelliNetx division markets patented medical devices that assist in the diagnosis of dizziness and vertigo, and rehabilitate those in danger of falling as a result of balance disorders. The OrthoNetx division markets patented medical devices that mechanically induce new bone formation in patients with skeletal deformities of the face, skull, jaws, extremities and dentition. The VisioNetx division markets patented products that track and analyze human eye movements for worker impairment screening. In addition, the Company licensed from its VisioNetx subsidiary the manufacturing and sales rights to VisioNetx's law enforcement systems.

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

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

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

| | For the Three Month Ended March 31, | |
|--|--|------------|
| | 2010 | 2009 |
| Net Revenue to external customers: | | |
| INX | \$ 244,237 | \$ 292,118 |
| ONX | | |
| VNX | | |
| Consolidated Net Revenue to external customers | \$ 244,237 | \$ 292,118 |
| Cost of Revenue: | | |
| INX | \$ 66,191 | \$ 74,532 |
| ONX | | |
| VNX | | |
| Consolidated Cost of Revenue | \$ 66,191 | \$ 74,532 |
| Gross Margin: | | |
| INX | \$ 178,046 | \$ 217,586 |
| ONX | | |
| VNX | | |
| Consolidated Gross Margin | \$ 178,046 | \$ 217,586 |

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 the Three Month Ended March 31, | |
|--|--|--------------|
| | 2010 | 2009 |
| Total margin for reportable segments | \$ 178,046 | \$ 217,586 |
| Corporate and general and administrative expenses | (212,593) | (263,776) |
| Stock option expenses | (633) | (7,973) |
| Interest and other expense | (18,791) | (29,168) |
| Interest and other income | - | 31 |
| Net loss before income taxes and minority interest | \$ (53,971) | \$ (83,300) |

NOTE 13 – 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, 2010.

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

The following table presents the changes in the Company's warranty reserve in the three months ended March 31, 2010 and 2009:

| | For the Three Month Ended | |
|------------------------|---------------------------|----------|
| | March 31, | |
| | 2010 | 2009 |
| Beginning balance | \$ 2,664 | \$ 3,045 |
| Provision for warranty | 27 | 696 |
| Utilization of reserve | - | - |
| Ending balance | \$ 2,691 | \$ 3,741 |

NOTE 14 – SUBSEQUENT EVENTS

The Company has evaluated all subsequent events through June 24, 2010, the date the financial statements were issued, and no additional items were noted that need to be disclosed.

Item 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Cautionary Note Regarding Forward-Looking Statements

Statements contained in this report include "forward-looking statements" within the meaning of such term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which could cause actual financial or operating results, performances or achievements expressed or implied by such forward-looking statements not to occur or be realized. Such forward-looking statements generally are based on our best estimates of future results, performances or achievements, predicated upon current conditions and the most recent results of the companies involved and their respective industries. Forward-looking statements may be identified by the use of forward-looking terminology such as "may," "can," "will," "could," "should," "project," "expect," "plan," "predict," "believe," "estimate," "aim," "anticipate," "intend," "continue," "potential," "opportunity" or similar terms, variations of those terms or the negative of those terms or other variations of those terms or comparable words or expressions.

Readers are urged to carefully review and consider the various disclosures made by us in this Quarterly Report on Form 10-Q and our Form 10-K for the fiscal year ended December 31, 2009 and our other filings with the U.S. Securities and Exchange Commission. These reports and filings attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this Form 10-Q speak only as of the date hereof and we disclaim any obligation to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

Business Overview

AcuNetx has invested substantial funds in the last several years, developing and validating its products. We produce and market the Infrared/Video VNG System, both as a branded product for our major distributor and under the IntelliNetx brand internationally and through independent distributors. For 2010 and 2009, the VNG line of medical products, and Hawkeye traffic sobriety testing devices, together accounted for virtually all of our revenue. While the VNG products are being sold into a relatively mature market, the Hawkeye market is in the beginning of its product life cycle.

Recent research has indicated that additional markets may be suitable for our VNG lines, and we will continue to explore those opportunities with our distributors and partners. Several ongoing initiatives are important to our future success. In 2009, we made several important changes to realign our resources.

First, we have accelerated marketing and sales of the HawkEye™ eye observation and recording system, now leased from VisioNetx, and this should allow AcuNetx management to address this market and generate revenues from the product. We believe that we have 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.

Second, 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.

Additionally, the company is exploring the sale of OrthoNetx to one of several potential buyers who have expressed interest.

Results of Operations

For the three months ended March 31, 2010 compared to the three months ended March 31, 2009

Revenues from sales of our products for the quarter ended March 31, 2010 were \$244,237 compared to \$292,118 for the corresponding period in 2009, a decrease of \$47,881 or 19.6%. The current economic climate and the uncertainty on health care reform as to how it affects Medicare reimbursements cutbacks have created a difficult marketplace. While the number of units was up from 21 units in the first quarter of 2009 to 24 units in the first quarter of 2010, we had to reduce the selling price. Gross profit as a percentage of sales was 73% and 74% for the quarter ended March 31, 2010 and 2009, respectively.

Total operating expenses were \$223,726 and \$271,749, respectively for the quarter ended March 31, 2010 and 2009, a decrease of 21%. The decrease can be attributed to lower stock option expense and other cost measurements that we have been vigorously implementing.

Liquidity and Capital Resources

As of March 31, 2010, we had \$1,876 in cash or cash equivalents, \$3,783 in net accounts receivable, and \$67,230 in inventory. Conversely, there was \$1,724,213 of current liabilities, which included accounts payable of \$456,458. We also had accrued liabilities of \$1,038,535, and notes payable of \$379,220, with an accumulated deficit of \$12,842,597. We have no plans for significant capital equipment expenditures for the foreseeable future.

Off-Balance Sheet Items

We have no off-balance sheet items as of March 31, 2010.

Item 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company,” we are not required to provide this information.

Item 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), 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 (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There have been no changes in the Company’s internal control over financial reporting during the latest 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

None.

Item 2. – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended March 31, 2010 the Company issued 1,000,000 shares of Common Stock to its Chief Executive Officer as a stock bonus. The shares are fully vested and were valued at quoted market price on the grant date.

During the quarter ended March 31, 2010 the Company issued 400,000 to each of the three independent members of the Board of Directors. The shares fully vest in four equal amounts during 2010 and Shares were valued at quoted market price on the grant date.

The Company believes the issuances were exempt from the registration requirements of the Securities Act of 1933, as amended by reason of Section 4(2) thereof.

Item 3. – DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. – (REMOVED AND RESERVED)

None.

Item 5. – OTHER INFORMATION

None.

Item 6. – EXHIBITS

ExhibitDescription

No

31.1 Certification of Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Company's Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Company's Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 24, 2010.

ACUNETX INC.

By: /s/ Robert S. Corrigan
Robert S. Corrigan
Chief Executive Officer

