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AcuNetx, Inc.
Form 10-Q
November 23, 2009

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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number 0-27857

ACUNETX INC.

(Exact name of registrant as specified in its charter)

NEVADA

88-0249812

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification
No.)

2301 W. 205TH STREET, #102, TORRANCE, CA 90501

(Address of principal executive offices) (Zip Code)

310-328-0477

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark whether the registrant 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 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.:

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Large accelerated filer []
Accelerated filer []
Non-accelerated filer [] (Do not check if a smaller reporting
company)
Smaller reporting company [X]

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

Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$0.001 par value

(Class)

65,429,309 shares

(Outstanding as at November 13, 2009)

AcuNetx Inc.

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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.

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

ACUNETX, INC.
CONSOLIDATED BALANCE SHEETS

| | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
|----------------|--------------------------------------|-----------------------------------|
| ASSETS | | |
| ----- | ----- | ----- |
| Current Assets | | |

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| | | |
|---|--------------|--------------|
| Cash | \$ 2,938 | \$ 12,715 |
| Restricted Cash | 421 | 15,636 |
| Accounts receivable, net | 32,378 | 79,167 |
| Inventory | 95,043 | 99,020 |
| Prepaid expenses and other current assets | 19,684 | 51,816 |
| | ----- | ----- |
| Total Current Assets | 150,464 | 258,354 |
| Property and equipment, net | 4,727 | 10,355 |
| Other intangible assets | 114,104 | 114,996 |
| Deferred tax assets | 220,635 | 220,635 |
| Other investments | 15,000 | 15,000 |
| Other assets | 2,020 | 2,020 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 506,950 | \$ 621,360 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts payable | \$ 445,945 | \$ 429,766 |
| Accrued liabilities | 934,842 | 909,508 |
| Current portion of long-term debt | 231,263 | 211,768 |
| | ----- | ----- |
| Total Current Liabilities | 1,612,050 | 1,551,042 |
| Convertible debt, net of debt discount of \$874 and \$3,874 for 2009 and 2008, respectively | 24,126 | 36,876 |
| Long-Term Debt | 150,000 | 150,000 |
| | ----- | ----- |
| Total Liabilities | 1,786,176 | 1,737,918 |
| | ----- | ----- |
| Stockholders' Deficit | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; 65,429,309 shares issued and outstanding | 65,429 | 65,429 |
| Paid-in capital | 11,338,230 | 11,288,208 |
| Accumulated deficit | (12,655,085) | (12,457,279) |
| | ----- | ----- |
| Total AcuNetx Inc. Stockholders' Deficit | (1,251,426) | (1,103,642) |
| Noncontrolling deficit in subsidiary | (27,800) | (12,916) |
| | ----- | ----- |
| Total Stockholders' Deficit | (1,279,226) | (1,116,558) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 506,950 | \$ 621,360 |
| | ===== | ===== |

SEE NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

For the three months ended
September 30,

For the nine
September

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| | 2009 | 2008 | 2009 |
|--|-------------|--------------|--------------|
| | ----- | ----- | ----- |
| Sales - Products | \$ 176,244 | \$ 213,936 | \$ 676,536 |
| Cost of sales - products | 45,171 | 110,373 | 178,649 |
| | ----- | ----- | ----- |
| Gross profit | 131,073 | 103,563 | 497,887 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Selling, general and administrative expenses | 208,465 | 306,805 | 828,998 |
| Stock option expense | 1,521 | 17,814 | 15,888 |
| | ----- | ----- | ----- |
| Total Operating Expenses | 209,986 | 324,619 | 844,886 |
| | ----- | ----- | ----- |
| Operating loss | (78,913) | (221,056) | (346,999) |
| | ----- | ----- | ----- |
| Other income (expenses) | | | |
| Interest and other income | 157 | 14,884 | 193,486 |
| Interest and other expenses | (18,869) | (19,643) | (61,993) |
| | ----- | ----- | ----- |
| Total other income (expenses) | (18,712) | (4,760) | 131,493 |
| | ----- | ----- | ----- |
| Net loss before income taxes and minority interest | (97,625) | (225,816) | (215,506) |
| Provision for income taxes | 0 | -- | 800 |
| | ----- | ----- | ----- |
| Net loss before noncontrolling interest | (97,625) | (225,816) | (216,306) |
| Noncontrolling interest in losses of subsidiary | (5,779) | (3,401) | (18,500) |
| | ----- | ----- | ----- |
| Net loss | \$ (91,846) | \$ (222,414) | \$ (197,806) |
| | ===== | ===== | ===== |
| Net Loss per share-Basic and Diluted | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| | ===== | ===== | ===== |
| Weighted average number of common shares | 65,429,309 | 65,429,309 | 65,429,309 |

SEE NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

| For Nine Months ended September 30, | 2009 | 2008 |
|--|--------------|--------------|
| ----- | ----- | ----- |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (197,806) | \$ (757,319) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Minority interest | (18,500) | (7,692) |
| Depreciation and amortization | 6,521 | 6,655 |

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| | | |
|---|-----------|-----------|
| Issuance of stock and stock equity awards for services | 53,638 | 190,063 |
| Provision for bad debt | 51,261 | 18,711 |
| Amortization of debt discount | 2,250 | 2,250 |
| Intellectual property write-down | -- | 47,249 |
| Gain on recovery from loan loss | -- | (900) |
| Unrealized gain on trading securities | -- | (14,100) |
| (Increase) Decrease in: | | |
| Accounts receivable | (4,472) | (1,408) |
| Inventory | 3,977 | 96,596 |
| Prepaid and other assets | 32,132 | (25,856) |
| Increase (Decrease) in: | | |
| Accounts payable and accrued expenses | 67,773 | 232,232 |
| | ----- | ----- |
| Net cash used in operating activities | (3,227) | (213,519) |
| | ----- | ----- |
| CASH FLOW FROM INVESTING ACTIVITIES: | | |
| Increase in restricted cash | 15,215 | (16,514) |
| Intellectual property write-down | -- | (12,871) |
| | ----- | ----- |
| Net cash used in investing activities | 15,215 | (29,385) |
| | ----- | ----- |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Net proceeds from sales of common stock | -- | 20,050 |
| Proceeds from issuance of long-term debt | -- | 150,000 |
| Net proceeds from (repayments to) convertible debt | (15,000) | 15,000 |
| Repayments on notes payable | (6,765) | (51,532) |
| | ----- | ----- |
| Net cash provided by (used in) financing activities | (21,765) | 133,518 |
| | ----- | ----- |
| NET DECREASE IN CASH | (9,777) | (109,386) |
| CASH BALANCE AT BEGINNING OF PERIOD | 12,715 | 205,162 |
| | ----- | ----- |
| CASH BALANCE AT END OF PERIOD | \$ 2,938 | \$ 95,776 |
| | ===== | ===== |
| Supplemental Disclosures of Cash Flow Information: | | |
| Taxes Paid | \$ 0 | \$ 800 |
| Interest paid | \$ 17,496 | \$ 34,689 |
| Schedule of Noncash Investing and Financing Activities: | | |
| Conversion of accrued interest into debt principal | \$ 26,260 | \$ 0 |
| Issuance of stock options for accrued expenses | \$ 0 | \$ 1,036 |

SEE NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 1 - NATURE OF BUSINESS AND GOING CONCERN

NATURE OF BUSINESS

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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) 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

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 should be able to cover current operating costs and to reduce the working capital deficit.

Management's plans include raising operating capital to take advantage of its IntelliNetx and HawkEye commercial opportunities.

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.

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 \$197,806 and \$757,319 for the nine months ended September 30, 2009 and 2008, respectively. The Company had a working capital deficit of \$1,461,586 and an accumulated deficit of \$12,655,085 as of September 30, 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.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION OF INTERIM INFORMATION: The financial information at September 30, 2009 and for the three and nine months ended September 30, 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 and nine months ended September 30, 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 may have been reclassified to conform to the current period presentation.

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

OTHER INTANGIBLE ASSETS: Other intangible assets consist primarily of intellectual property and trademarks. The Company capitalizes intellectual property costs as incurred, excluding costs associated with Company personnel, relating to patenting its technology. The majority of capitalized costs represent legal fees related to 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 nine months ended September 30, 2009 and 2008.

ACUNETX, INC.

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NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL: Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. Goodwill was fully impaired in 2007.

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

STOCK-BASED COMPENSATION: The Company has adopted the fair value recognition provisions of FASB Statement No.123(R), "SHARE-BASED PAYMENT" (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2008 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2008 based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). For the nine months ended September 30, 2009 and 2008, the Company recognized pre-tax stock option compensation expense of \$15,888 and \$160,063, 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).

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

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 trading securities.

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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 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 September 30, 2009 | | | |
|--------------------|--|----------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Marketable Trading | | | | |
| Securities | \$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 September 30, 2009. The company is currently evaluating the requirements of these additional disclosures.

ACUNETX, INC.
 NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." The statement establishes general standards of accounting for and disclosure of events that

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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 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 Company is currently assessing the potential impacts, if any, on its consolidated financial statements.

In June 2009, the FASB issued 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 Company is currently assessing the potential impacts, if any, on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statements No. 162". The statement establishes the Accounting Standards Codification TM (Codification) as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Under the Codification, all of its content will carry the same level of authority. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not, or are not believed by management to, have a material impact on the Company's present or future consolidated financial statements.

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ACUNETX, INC.
NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

| | SEPTEMBER 30, 2009 | DECEMBER 31, 2008 |
|--------------------------|-----------------------|----------------------|
| ACCOUNTS RECEIVABLE, NET | | |
| ----- | ----- | ----- |
| Accounts Receivable | \$ 41,793 | \$ 84,331 |
| Allowance for Bad Debt | (9,415) | (5,164) |

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| | | |
|---|--------------------|--------------------|
| Total Accounts Receivable, Net | \$ 32,378 | \$ 79,167 |
| <hr/> | | |
| INVENTORY | | |
| <hr/> | | |
| Finished Goods | \$ 52,025 | \$ 46,316 |
| Demo units | 46,682 | 72,754 |
| Allowance for loss in inventory | (3,664) | (20,050) |
| <hr/> | | |
| Total Inventory | \$ 95,043 | \$ 99,020 |
| <hr/> | | |
| PREPAID EXPENSES AND OTHER CURRENT ASSETS | | |
| <hr/> | | |
| Prepaid Insurance | \$ 19,684 | \$ 4,042 |
| Employee Advance | -- | 6,058 |
| Other Prepaid Expenses | -- | 41,716 |
| <hr/> | | |
| Total Prepaids and Others | \$ 19,684 | \$ 51,816 |
| <hr/> | | |
| PROPERTY AND EQUIPMENT, NET | | |
| <hr/> | | |
| Furniture and Fixtures | \$ 9,531 | \$ 9,531 |
| Equipment | 40,530 | 40,530 |
| Software | 5,757 | 5,757 |
| <hr/> | | |
| Accumulated Depreciation | 55,818 (51,091) | 55,818 (45,463) |
| <hr/> | | |
| Total Property and Equipment, Net | \$ 4,727 | \$ 10,355 |
| <hr/> | | |
| ACCRUED LIABILITIES | | |
| <hr/> | | |
| Warranty reserve | \$ 2,616 | \$ 3,045 |
| Accrued payroll and related taxes | 215,140 | 67,081 |
| Accrued consulting fees | 261,411 | 259,692 |
| Commissions payable | 8,358 | 7,596 |
| Deferred Revenues | 44,349 | 14,016 |
| Accrued vacation | 45,234 | 58,502 |
| Accrued professional fees | 193,792 | 171,136 |
| Related party payable | -- | (10) |
| Other accrued liabilities | 163,942 | 328,450 |
| <hr/> | | |
| Total Accrued Liabilities | \$ 934,842 | \$ 909,508 |
| <hr/> | | |

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 4 - OTHER INTANGIBLE ASSETS

The Company's intangible assets consisted of the following at September 30, 2009 and December 31, 2008:

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| | September 30, 2009 | December 31, 2008 |
|-------------------------------|-----------------------|----------------------|
| | ----- | ----- |
| Pending Intellectual Property | \$ 94,140 | \$ 94,140 |
| Awarded patents | 21,954 | 21,954 |
| Accumulated amortization | (1,990) | (1,098) |
| | ----- | ----- |
| Other Intangible Assets, Net | \$ 114,104 | \$ 114,996 |

Amortization of intangibles was \$892 and \$823 for the nine months ended September 30, 2009 and September 30, 2008, respectively.

Based on the carrying amount of the intangibles as of September 30, 2009, and assuming no impairment of the underlying assets, the estimated future amortization is as follows:

| Years ended December 31, | |
|-----------------------------|-----------|
| ----- | |
| 2009 (From October 1, 2009) | \$ 275 |
| 2010 | 1,098 |
| 2011 | 1,098 |
| 2012 | 1,098 |
| 2013 and over | 16,396 |
| | ----- |
| Total | \$ 19,964 |
| | ===== |

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 September 30, 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 September 30, 2009, there was no gross unrealized gain or loss for these securities. An unrealized gain of \$14,100 was recorded at December 31, 2008.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 6 - BORROWINGS

| | September 30, 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. Reconstructed note payable to related party. | | |

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| | | |
|---|------------|------------|
| Effective July 1, 2009, Monthly interest payment only at 13% (a) | 230,480 | 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 |
| | 381,263 | 361,768 |
| Less: Current Maturities | (231,263) | (211,768) |
| 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 \$26,260 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 September 30, 2009, no funds were set aside.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 6 - BORROWINGS (CONTINUED)

CONVERTIBLE PROMISSORY NOTES

| | September 30, 2009 | December 31, 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 |
| | 25,000 | 40,000 |
| Less: Unamortized debt discount | (874) | (3,124) |

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| | | |
|-----------------------|-----------|-----------|
| Convertible debt, net | \$ 24,126 | \$ 36,876 |
|-----------------------|-----------|-----------|

NOTE 7 - INCOME TAXES

Provision for income taxes consisted of a minimum state franchise tax of \$800 for the nine months ended September 30, 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, \$6,800,000 and \$4,300,000 to reduce future federal and state taxable income, respectively. To the extent not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2009 and the state net operating loss carryforwards will begin to expire in fiscal 2012.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

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.

A summary of the status of stock options issued by the Company as of September 30, 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 | \$ 0.15 |
| Granted | -- | -- | 6,472,088 | \$ 0.05 |
| Expired/Cancelled | (4,394,102) | \$ 0.10 | (1,750,000) | \$ 0.06 |

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| | | | | |
|------------------------------|-----------------------------|---------|------------------------------|---------|
| Outstanding at end of period | ----- 5,424,066 ===== | \$ 0.11 | ----- 10,247,856 ===== | \$ 0.10 |
| Exercisable at end of period | ----- 5,424,066 ===== | \$ 0.11 | ----- 8,204,443 ===== | \$ 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.

| | | |
|--|-------|---------|
| | 2009 | 2008 |
| | ----- | ----- |
| Weighted average fair value per option granted | N/A | \$ 0.04 |
| Risk-free interest rate | N/A | 3.26% |
| Expected dividend yield | N/A | 0.00% |
| Expected lives | N/A | 5.00 |
| Expected volatility | N/A | 129.73% |

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 8 - STOCK OPTIONS (CONTINUED)

The following table sets forth additional information about stock options outstanding at September 30, 2009:

| 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 |

VISIONETX, INC.

On August 16, 2007, the shareholders of VisioNetx, Inc. approved the adoption of the 2007 Stock Incentive Plan to provide for the issuance of incentive stock options and/or nonstatutory options to officers, directors, employees, and consultants who provide services to VisioNetx. All options have an exercise price equal to or higher than the fair market value of VisioNetx common stock on the date the options were granted. Options generally vest over three years and are exercisable from five to ten years from the date of grant. The plan reserves 1 million shares of common stock.

A summary of the status of stock options issued by VisioNetx as of September 30, 2009 and 2008 is presented in the following table.

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| | 2009 | | 2008 | |
|----------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | 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 | \$ 0.10 |
| Granted | -- | \$ 0.00 | 96,000 | \$ 0.10 |
| Outstanding at end of period | 425,500 | \$ 0.10 | 575,500 | \$ 0.10 |
| Exercisable at end of period | 365,685 | \$ 0.10 | 314,951 | \$ 0.10 |

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 8 - STOCK OPTIONS (CONTINUED)

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 | \$ 0.04 |
| 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 September 30, 2009 there was \$3,444 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 year.

The following table sets forth additional information about stock options outstanding at September 30, 2009:

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Options Exercisable |
|--------------------------|---------------------|---|---------------------------------|---------------------|
| \$ 0.10 | 425,500 | 5.55 years | \$ 0.10 | 365,685 |

NOTE 9 - OFFERING

On September 1, 2009, the Company began an offering to issue up to \$500,000 in

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8% convertible notes. As of September 30, 2009, no sales were made.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 10 - NET LOSS PER SHARE

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--------------------------------------|---|--------------|--|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| ----- | | | | |
| Numerator: | | | | |
| Net loss | \$ (91,846) | \$ (222,414) | \$ (197,806) | \$ (757,300) |
| ----- | | | | |
| Denominator: | | | | |
| Weighted average of common shares | 65,429,309 | 65,429,309 | 65,429,309 | 65,373,600 |
| ----- | | | | |
| Net loss per share-basic and diluted | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |

As a result of our net loss for the three and nine months ended September 30, 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 9,564,873 and 17,592,783 for three months ended September 30, 2009 and 2008, respectively. 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 15,224,635 and 16,728,869 for nine months ended September 30, 2009 and 2008, respectively.

NOTE 11 - MAJOR CUSTOMERS AND CREDIT CONCENTRATION

During the three months ended September 30, 2009 and 2008, sales to major customers (those exceeding 10% of the Company's net revenues) approximated 86.4% and 37%, respectively, of the Company's consolidated net revenues. In addition, accounts receivable balances of such major customers approximated 30.8% of the Company's total accounts receivable balance at September 30, 2009.

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

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

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 12 - SEGMENT INFORMATION

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

The Company has three market-oriented operating segments: (i) IntelliNetx division, (ii) OrthoNetx, Inc., and (iii) VisioNetx, Inc. The IntelliNetx division markets patented medical devices that assist in the diagnosis of dizziness and vertigo, and rehabilitate those in danger of falling as a result of balance disorders. The OrthoNetx division markets patented medical devices that mechanically induce new bone formation in patients with skeletal deformities of the face, skull, jaws, extremities and dentition. The VisioNetx division markets patented products that track and analyze human eye movements for impairment screening.

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

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

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

| | For three months ended September 30, | | For nine months ended September 30, | |
|--|---|------------|--|------------|
| | 2009 | 2008 | 2009 | 2008 |
| ----- | | | | |
| Net Revenue to external customers: | | | | |
| INX | \$ 176,244 | \$ 213,936 | \$ 676,536 | \$ 700,228 |
| ONX | -- | -- | -- | 18,766 |
| VNX | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Consolidated Net Revenue to external customers | \$ 176,244 | \$ 213,936 | \$ 676,536 | \$ 718,994 |
| ----- | | | | |
| Cost of Revenue: | | | | |
| INX | \$ 45,171 | \$ 110,373 | \$ 177,728 | \$ 257,978 |
| ONX | -- | -- | -- | 42,288 |
| VNX | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Consolidated Cost of Revenue | \$ 45,171 | \$ 110,373 | \$ 177,728 | \$ 300,266 |
| ----- | | | | |
| Gross Margin: | | | | |
| INX | \$ 131,073 | \$ 103,563 | \$ 498,808 | \$ 442,250 |

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| | | | | |
|---------------------------|------------|------------|------------|-----------|
| ONX | -- | -- | -- | (23,51 |
| VNX | -- | -- | -- | -- |
| Consolidated Gross Margin | \$ 131,073 | \$ 103,563 | \$ 498,808 | \$ 418,73 |

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 12 - SEGMENT INFORMATION (CONTINUED)

Intersegment 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 September 30, | | For nine mo Septembe |
|--|---|--------------|-------------------------|
| | 2009 | 2008 | 2009 |
| Total margin for reportable segments | \$ 131,073 | \$ 103,563 | \$ 497,887 |
| Corporate and general and administrative expenses | (208,465) | (306,805) | (828,998) |
| Stock option expenses | (1,521) | (17,814) | (15,888) |
| Interest and Other Expense | 157 | (19,643) | 193,486 |
| Interest and Other Income | (18,869) | 14,884 | (61,993) |
| Net loss before income taxes and noncontrolling interest | \$ (97,625) | \$ (225,815) | \$ (215,506) |

NOTE 13 - RELATED PARTY TRANSACTIONS

The Company's employees periodically pay business-related expenses using personal funds. Until reimbursed, these expenses are recorded in "Accrued Liabilities" and listed as "Related party payables" in the balance sheet details above.

In June of 2008, the Company decided to discontinue maintenance fee payments related to its Limb Lengthener intellectual property petition. At that time, the Company entered into an assignment agreement with a related party. In exchange for consideration of \$1, the party agreed to maintain the patent at its discretion, without obligation, and at its expense. It further agreed that, upon patent approval, it would give AcuNetx Inc. first right of refusal to repurchase the assignment by reimbursing its expenses plus ten percent (10%) for a period of 90 days from the date of issuance.

NOTE 14 - GUARANTEES AND PRODUCT WARRANTIES

The Company from time to time enters into certain types of contracts that

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contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; and (iii) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities arising out of their employment relationship.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of September 30, 2009.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

NOTE 14 - GUARANTEES AND PRODUCT WARRANTIES (CONTINUED)

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 nine months of 2009 and 2008:

| For nine months ended September 30, | 2009 | 2008 |
|-------------------------------------|----------|-----------|
| ----- | | |
| Beginning balance | \$ 3,045 | \$ 11,339 |
| Provision for warranty | (429) | (7,554) |
| Utilization of reserve | -- | -- |
| | ----- | ----- |
| Ending balance | \$ 2,616 | \$ 3,795 |
| | ===== | ===== |

NOTE 15 - COMMITMENTS

In April 2009, the Company amended its April 2006 agreement with a key private label distributor to exchange an obligation to issue 4,194,451 of the Company's common stock to the distributor with the obligation to issue 4,194,451 warrants to purchase the Company's common stock for \$0.001 per share. In addition, the distributor agreed to waive future obligations to issue \$500,000 in stock and \$225,000 in consulting work over the next five years. The Company remains liable to the distributor for past consulting fees in the amount of \$132,000. Interest is being accrued at 4% on the balance until paid. The parties agreed on an early

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payment provision to reduce the payable to \$105,600 if paid on or before December 31, 2009. In addition, there is an extension of the distribution agreement of 10 years from the date of amendment.

As a result, the Company recognized other income of \$162,250 on these amendments.

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

INTRODUCTION

Management's discussion and analysis of financial condition and results of operations ("MD&A") supplements the accompanying consolidated financial statements and notes to help provide an understanding of AcuNetx Inc.'s financial condition, changes in financial condition and results of operations. MD&A is organized as follows:

- o Cautionary statement concerning forward-looking statements. This section provides a description of the use of forward-looking information contained in this report.
- o Business overview. This section provides a description of the Company's business and recent developments the Company believes are important in understanding the results of operations and financial condition.
- o Financial condition and liquidity. This section provides an analysis of the Company's financial condition as of September 30, 2009 and cash flows for the nine months ended September 30, 2009.
- o Results of operations. This section provides an analysis of the Company's results of operations for the nine months ended September 30, 2009.

CAUTIONARY STATEMENT

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Information in this Item 2, "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this 10-QSB that does not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing, words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements and, as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance on forward-looking statements as predictive of future results. The Company disclaims any obligation to release publicly any updates or revisions to the forward-looking statements herein to reflect any change in the Company's expectations with regard thereto, or any changes in events, conditions or circumstances on which any such statement is based.

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

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BUSINESS OVERVIEW

AcuNetx Inc. is an innovative medical, law enforcement, workplace safety and optical polygraph equipment manufacturer and retailer. During the first nine months of 2009, medical related products accounted for 95.7% of the Company's revenues. The balance of the revenues came from law enforcement. While the Company's medical product lines are being sold in a relatively mature market, recent research indicates additional markets may be suitable for the Company's newer product lines, and the company will continue to actively explore those opportunities with distributors and partners both in the United States and Internationally.

Historically, the Company's VNG product line was aimed at specialized physicians. While remaining in this market has proven that the Company's VNG systems have gained general acceptance among specialist, the market of primary care physicians is significantly larger. Therefore, the company believes that focusing on primary care physicians has the potential to develop into a substantially larger growth market. As a result, during the first half of 2008, the company introduced a new more affordable VNG medical device aimed at primary care physicians and will continue to pursue this market going forward.

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

FINANCIAL CONDITION AND LIQUIDITY

GOING CONCERN

The Company's independent auditors have included an explanatory paragraph in their report on the December 31, 2008 consolidated financial statements discussing issues which raise substantial doubt about the Company's ability to continue as a "going concern." The going concern qualification is attributable to the Company's operating losses during the year and the amount of capital which the Company projects it needs to satisfy existing liabilities and achieve profitable operations.

Management understands the comments in the auditor's report relative to the Company as a going concern. In the current quarter, we have continued to see a softness in the overall economy, which translates into an uncertainty to purchase our medical devices on the part of our customers. We continue to see our customers or potential customers struggle to obtain lease financing for our devices. In some cases, we have helped arrange financing but

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many customers desiring to purchase our products have been unable to do so, based on the illiquidity in the marketplace. Recently, we have seen a slight improvement in this problematic situation and we certainly hope this improvement continues. We have taken a number of actions, described in the footnotes, to reduce expenses and conserve cash. All activities will be focused on maintaining our ability to ship our VNG medical equipment line of products, as well as the HawkEye (TM) law enforcement product lines, which continue to serve as our source of revenue.

These activities will include maintaining the excellent relationships already formed with our suppliers, distributors, and customers. Any future expenses not related to this core business will be examined in the light of our current liquidity position before approval. Management believes that the plan that has been implemented will allow continuing operations and improvements over time.

CURRENT ASSETS

Current assets decreased by 41.8%, down \$107,890 from December 31, 2008 to September 30, 2009 primarily due to lower accounts receivable, prepaid expense and cash balances.

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OTHER INTANGIBLE ASSETS

Other intangible assets decreased by \$892 from December 31, 2008 to September 30, 2009 due to amortization.

CURRENT LIABILITIES

Current liabilities increased 3.9%, up \$61,008 from December 31, 2008 to September 30, 2009 primarily due to increased accrued liabilities, accounts payable and the current portion of long-term debt.

LONG-TERM DEBT

Long-term debt remained the same at \$150,000 from December 31, 2008 to September 30, 2009.

STOCKHOLDERS' DEFICIT

Stockholders' deficit increased 13.4%, up \$147,784 from December 31, 2008 to September 30, 2009 due to a net loss for the period.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2009, the Company had \$150,464 in current assets. This includes \$2,938 in non-restricted cash and cash equivalents and \$421 in restricted cash. Net accounts receivable was \$32,378 and inventory was \$95,043.

The Company had \$1,612,050 in current liabilities, which included accounts payable of \$445,945. The Company also had accrued liabilities of \$934,842 and a current portion of long term debt of \$231,263. Long-term liabilities were \$174,126. As of September 30, 2009, AcuNetx had a stockholder deficit of \$1,251,426 which includes an accumulated deficit of \$12,655,085.

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

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MATERIAL COMMITMENTS

The Company has no material commitment to make capital equipment expenditures.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2008

The nine months ended September 30, 2009 and 2008 represent the combined results of AcuNetx, Inc. and its subsidiaries, OrthoNetx Inc. and VisioNetx Inc.

Revenues during the nine months ended September 30, 2009 were \$676,536 compared to \$718,988 for the corresponding period in 2008. System unit shipments increased to the to 53 units in the first nine months of 2009 from 45 units in the same period of the prior year. Gross profit, as a percentage of sales, increased from 58% to 74%. Total operating expenses decreased by 25.5%, down \$289,291, from \$1,134,177 in the first nine months of 2008 to \$844,886 in the first nine months of 2009. Selling, general and administrative expenses decreased 14.9%, down \$145,116 from \$974,114 during the first nine months of 2008 to \$828,998 during the first nine months of 2009. Net loss decreased 51.5%, down \$368,447 from \$715,446 in the first nine months of 2008 to \$346,999 in the first nine months of 2009.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company," the Company is not required to respond to this item.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, our CEO and CFO concluded that as of September 30, 2009 our disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company required to be included in the Company's periodic filings with the SEC, such that the information relating to the Company required to be disclosed in SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There has been no material change in our internal control over financial reporting during the three months ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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None.

ITEM 1A. RISK FACTORS

As a "smaller reporting company," the Company is not required to respond to this item.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| 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.

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: November 23, 2009

By: /s/ Robert S. Corrigan

Robert S. Corrigan,
Chief Executive Officer

