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AcuNetx, Inc.
Form 10QSB
August 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

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

For the quarterly period ended June 30, 2007

COMMISSION FILE NO. 0-27857

ACUNETX, INC.

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

Nevada

88-0249812

(State or other jurisdiction
of incorporation or organization)

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

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

(Address of principal executive offices)

310-328-0477

(Issuer's telephone number)

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

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

As of June 30, 2007, the issuer had 62,716,714 shares of common stock outstanding.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE) [] YES [X] NO.

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

We desire to take advantage of the "SAFE HARBOR" provisions of the Private Securities Litigation Reform Act of 1995. This Report on Form 10-QSB contains a number of forward-looking statements that reflect management's current views and expectations with respect to our business, strategies, products, future results

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and events and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, acquisitions, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward-looking statements. In particular, the words "BELIEVE," "EXPECT," "INTEND," "ANTICIPATE," "ESTIMATE," "MAY," "WILL," variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ACUNETX, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)
JUNE 30, 2007

ASSETS

Current Assets		
Cash	\$	66,681
Accounts receivable, net		120,476
Inventory		214,326
Prepaid expenses and other current assets		118,912

Total Current Assets		520,395

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Property and equipment, net	22,028
Other intangible assets	140,506
Deferred tax assets	220,635
Other assets	1,772
TOTAL ASSETS	\$ 905,335 =====

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities	
Accounts payable	\$ 505,988
Accrued liabilities	472,700
Current portion of long-term debt	38,466
Total Current Liabilities	1,017,154
Long-Term Debt	228,301 -----
Total Liabilities	1,245,455 -----
Stockholders' Deficit	
Common stock, \$0.001 par value; 100,000,000 shares authorized; 62,492,879 shares issued and outstanding	62,493
Common stock to be issued	5,000
Paid-in capital	10,939,288
Accumulated deficit	(11,346,901) -----
Total Stockholders' Deficit	(340,120) -----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 905,335 =====

See notes to interim unaudited consolidated financial statements.

ACUNETX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	FOR THREE MONTHS ENDED JUNE 30,		F E
 2007	2006 2007
Sales - Products	\$ 678,474	\$ 371,730	\$ 1,802,4
Cost of sales - products	128,280	148,675	356,7
	-----	-----	-----

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Gross profit	550,194	223,055	1,445,6
Operating Expenses:			
Selling, general and administrative expenses	717,952	1,141,583	1,757,3
Stock option expense	19,441	136,846	158,5
Impairment of goodwill	--	--	3
Research and development	--	146,022	
Total Operating Expenses	737,393	1,424,451	1,916,2
Operating loss	(187,199)	(1,201,396)	(470,5
Other income (expenses)			
Interest and other income	8,002	11,021	12,2
Loss on equity-method investments	--	(10,804)	
Interest and other expenses	(13,344)	(8,445)	(23,0
Total other income (expenses)	(5,342)	(8,228)	(10,7
Net loss before income taxes	(192,541)	(1,209,624)	(481,2
Provision for income taxes	--	--	8
Net loss	\$ (192,541)	\$ (1,209,624)	\$ (482,0
Net Loss per share-Basic and Diluted	\$ (0.00)	\$ (0.02)	\$ (0.
Weighted average number of common shares	62,448,443	56,918,605	62,743,6

See notes to interim unaudited consolidated financial statements

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

FOR SIX MONTHS ENDED JUNE 30,	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$ (482,096)	\$ (2,052,154)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7,564	6,297
Issuance of stocks and stock equity awards for services	158,518	577,178
Provision for bad debt	14,707	6,512
Impairment of goodwill	362	--
Gain on recovery from loan loss	(12,000)	--
Deferred income tax	--	366
Loss on investment accounted for under equity method	--	28,690

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(Increase) Decrease in:		
Accounts Receivable	(38,782)	(14,821)
Inventory	37,110	(18,900)
Prepaid and Others	(23,602)	(40,318)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	172,153	162,562
	-----	-----
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(166,066)	(1,344,588)
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Closing of Certificate of Deposits	--	305,274
Capitalize of patent costs	(4,319)	(20,945)
Capitalize of trademark	--	(6,567)
Purchase of Equipment	--	(5,283)
Repayment from Notes Receivable	12,000	--
	-----	-----
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	7,681	272,479
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Net proceeds from sale of common stocks	30,000	1,036,529
Repurchase of common stocks	(7,262)	--
Net proceeds from exercising of stock warrants	--	20,000
Repayments on notes payable	(242)	(56,269)
	-----	-----
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	22,496	1,000,260
	-----	-----
NET DECREASE IN CASH	(135,889)	(71,849)
CASH BALANCE AT BEGINNING OF PERIOD	202,570	171,340
	-----	-----
CASH BALANCE AT END OF PERIOD	\$ 66,681	\$ 99,491
	=====	=====
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 236	\$ 19,069
Taxes Paid	\$ 800	\$ 800
Schedule of noncash investing and financing activities:		
Retirement of common stocks for an equity-method investment	\$ 14,007	\$ --
Conversion of accrued interest into debt principal	\$ 21,451	\$ --
Issuance of common stocks for merger adjustment	\$ --	\$ 362

See notes to interim unaudited consolidated financial statements

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS AND GOING CONCERN

NATURE OF BUSINESS

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AcuNetx, Inc., a Nevada corporation, (the "Company" or "AcuNetx", formerly known as Eye Dynamics, Inc. or "EDI") combines 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 wholly-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 persons.

AcuNetx products include the followings: (a) Neurological diagnostic equipment that measures, tracks and records human eye movements, utilizing the company's proprietary technology and computer software, as a method to diagnose problems of the vestibular (balance) system and other balance disorders; (b) Devices designed to test individuals for impaired performance resulting from the influences of alcohol, drugs, illness, stress and other factors that affect eye and pupil performance. These products target the occupational safety and law enforcement markets; (c) Orthopedic and craniomaxillofacial (skull and jaw) surgery products, which generate new bone through the process of distraction osteogenesis; and (d) A proprietary information technology system called SmartDevice-Connect(TM) ("SDC") that establishes product registry to individual patients and tracks device behavior for post-market surveillance, adverse event and outcomes reporting, and creates "smart devices" that gather and transmit physiological data concerning the device and its interaction with the patient.

GOING CONCERN

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred operating losses totaling \$482,096 and \$2,052,154 for the six months ended June 30, 2007 and 2006 respectively. In addition, the Company has a working capital deficit of \$496,759 and an accumulated deficit of \$11,346,901 as of June 30, 2007. In the near term, the Company expects the operating cash flows will not be sufficient to cover all the old debt and payables although it expects its sales will continue to grow and is 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

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

Management's plans to spin off VisioNetx, Inc., to begin a process raising additional working capital through equity financing, to fully close the Colorado

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facility in order to reduce expenditures and to increase the IntelliNetx division's marketing efforts to increase revenues have all been accomplished during the second quarter. These efforts now enable the Company to focus in efforts on selling its neurological diagnostic products that has historically been its primary business. VisioNetx, Inc. has recruited senior management and is seeking funding that will allow it to move forward with its marketing and sales plans to companies that wish to screen for impairment of their employees.

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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRESENTATION OF INTERIM INFORMATION: The financial information at June 30, 2007 and for the three and six months ended June 30, 2007 and 2006 is unaudited but includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of the financial information set forth herein, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and with the instructions to Form 10-QSB. Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information refer to the Consolidated Financial Statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006.

The results for the three and six months ended June 30, 2007 may not be indicative of results for the year ending December 31, 2007 or any future periods.

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

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

OTHER INTANGIBLE ASSETS: Other intangible assets consist primarily of intellectual property and trademarks. The Company capitalizes intellectual property costs as incurred, excluding costs associated with Company personnel, relating to patenting its technology. The majority of capitalized costs represent legal fees related to a patent application. If the Company elects to stop pursuing a particular patent application or determines that a patent application is not likely to be awarded or elects to discontinue payment of required maintenance fees for a particular patent, the Company, at that time, records as expense the capitalized amount of such patent application or patent. Awarded patents will be amortized over the shorter of the economic or legal life of the patent. Trademarks are not amortized, but rather are tested for impairment at least annually. There was no impairment of other intangible assets for the six months ended June 30, 2007 and 2006. The Company had no other intangible assets in 2007.

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NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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. An impairment of goodwill of \$362 was recorded during the six months ended June 30, 2007. No impairment of goodwill was recorded for six months ended June 30, 2006.

INVESTMENT: The Company held 20% of the issued and outstanding common stock of a privately-held Colorado company. The Company accounts for the investment using the equity method of accounting. Under the equity method, the carrying amount of the investment is increased for its proportionate share of the investee's earnings or decreased for its proportionate share of the investee's losses. The Company monitors the investment for impairment and makes appropriate reductions in carrying value if the Company determines that an impairment charge is required based primarily on the financial condition and near-term prospects of this company.

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 has adopted the fair value recognition provisions of FASB Statement No.123(R), "SHARE-BASED PAYMENT" (SFAS 123R), using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2007 based on the grant date fair value calculated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). For the six months ended June 30, 2007 and 2006, the Company recognized pre-tax stock option compensation expense of \$158,518 and \$244,876, 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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NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS: In February 2007, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards ("FAS") No. 159, THE FAIR VALUE OPTION FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES - INCLUDING AN AMENDMENT OF FASB STATEMENT NO. 115, which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is expected to expand the use of fair value measurement. FAS No.159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

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

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

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

In September 2006, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 108 ("SAB 108"), "CONSIDERING THE EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING MISSTATEMENTS IN CURRENT YEAR FINANCIAL STATEMENTS." The stated purpose of SAB 108 is to provide consistency between how registrants quantify financial statement misstatements. Prior to the issuance of SAB 108, there have been two widely-used methods, known as the "roll-over" and "iron curtain" methods, of quantifying the effects of financial statement misstatements. The roll-over method quantifies the amount by which the current year income statement is misstated while the iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is

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misstated. Neither of these methods considers the impact of misstatements on the financial statements as a whole.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

NOTE 3 - BALANCE SHEET DETAILS

The following tables provide details of selected balance sheet items:

ACCOUNTS RECEIVABLE, NET

Accounts Receivable	\$ 136,128	\$ --	\$ 4,400	\$ 140,5
Allowance for Bad Debt	(20,052)	--	--	(20,0
Total Accounts Receivable, Net	\$ 116,076	\$ --	\$ 4,400	\$ 120,4
	=====	=====	=====	=====

PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Insurance	\$ 18,353	\$ 4,035	\$ --	\$ 22,3
Prepaid rent and deposit	2,464	--	--	2,4
Employee advance	2,000	--	--	2,0
Other Prepaid Expenses	91,979	--	81	92,0
Total Prepays and Others	\$ 114,796	\$ 4,035	\$ 81	\$ 118,9
	=====	=====	=====	=====

PROPERTY AND EQUIPMENT, NET

Furniture and Fixtures	\$ 1,113	\$ 8,418	\$ --	\$ 9,5
Equipment	16,037	24,493	--	40,5

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Software	--	5,757	--	5,757
	-----	-----	-----	-----
	17,150	38,668	--	55,818
Accumulated Depreciation	(14,750)	(19,040)	--	(33,790)
	-----	-----	-----	-----
Total Property and Equipment, Net	\$ 2,400	\$ 19,628	\$ --	\$ 22,028
	=====	=====	=====	=====

ACCRUED LIABILITIES

Commission payable	\$ 21,917	\$ --	\$ --	\$ 21,917
Warranty reserve	8,988	--	--	8,988
Accrued payroll and related taxes	20,488	11,662	41,046	73,196
Accrued consulting fees	145,750	--	--	145,750
Accrued vacation	18,578	--	--	18,578
Other accrued liabilities	182,682	3,574	18,015	204,271
	-----	-----	-----	-----
Total Accrued Liabilities	\$ 398,403	\$ 15,236	\$ 59,061	\$ 472,700
	=====	=====	=====	=====

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - SALES OF INVESTMENTS

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

NOTE 5 - SETTLEMENT ON NOTES RECEIVABLE

In March 2007, the Company entered into a settlement agreement with a former employee who created indebtedness to the Company of \$49,489 in 2001 - 2004 and had agreed to a Note Receivable (Receivable). The employee had been in default on payments on this Receivable, which was fully reserved in 2004. The agreement calls for the former employee to repay the Company \$55,000 at a rate of \$4,000 per month beginning in March 2007. The former employee has made all scheduled payments to date.

NOTE 6 - BORROWINGS

NOTE PAYABLE TO RELATED PARTY

The Company has an installment note payable to a related party with monthly payments of \$14,263, including interest at 13%. The original note amount was \$300,000 and matures on December 31, 2007. The Company is currently in arrears for payments.

The Company received a letter dated March 8, 2007 from the creditor. The letter declares that the note is in default and that the creditor has elected to

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accelerate the entire unpaid balance and interest.

On June 30, 2007, the Company entered into an Agreement for Extension and Amendment of Note ("Agreement") with the related party. Under the Agreement, the Company's subsidiary, OrthoNetx, Inc. executed an Amended and Extended Promissory Note in favor of the related party, in the principal amount of \$268,551.25. 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 only commencing August 1, 2007 until February 1, 2008, at which time payments of principal and interest will commence based on a 36-month amortization. All principal and interest is due on August 1, 2009.

Under the Agreement, the Company entered into a Commercial Guaranty under which it guaranteed payment of the note. Also, the related party entered into a termination of guaranty to release the former CEO from his guaranty of the original note.

In accordance with SFAS 15, "ACCOUNTING BY DEBTORS AND CREDITORS FOR TROUBLED DEBT RESTRUCTURING," the carrying amount of the old debt was not changed as it did not exceed the future cash payments specified by the new debt terms. The difference will be amortized over the life of the new debt using the effective interest method.

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - BORROWINGS (CONTINUED) Debt Carrying Value as of June 30, 2007:

Original carrying amount of old debt	\$ 243,731	
Accrued and unpaid interest balance	21,451	

Carrying value of debt		\$ 265,182
Future Cash Flows:		
New debt principal	\$ 268,551	
Interest to be paid on new principal amount	60,630	

Total future cash payments required		329,181

Future cash payments over carrying value of debt		\$ (63,999)
		=====

LONG-TERM DEBT

At June 30, 2007

 Installment note payable secured by computer equipment.
 Monthly payments total \$81, including interest at 18.99%.
 The original note amount was \$2,062. Matures July 21, 2009. 1,585

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

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36-month amortization. Matures August 1, 2009. 265,182

	266,767
Less: Current Maturities	(38,466)
Long-term debt	\$ 228,301

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INCOME TAXES

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

	For Three Months ended June 30,		For Six Months ended June 30,	
	2007	2006	2007	2006
Federal:				
Current	\$ --	\$ --	\$ --	\$ --
Deferred	--	--	--	377
	--	--	--	377
State:				
Current	--	--	800	800
Deferred	--	--	--	(11)
	--	--	800	789
Total	\$ 0,000	\$ 0,000	\$ 800	\$ 1,166

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, 2006, the Company has net operating loss carryforwards of approximately, \$6,300,000 and \$2,900,000 to reduce future federal and state taxable income, respectively. To the extent not utilized, the federal net operating loss carryforwards will begin to expire in fiscal 2009 and the state net operating loss carryforwards will begin to expire in fiscal 2012.

NOTE 8 - STOCKHOLDERS' EQUITY

COMMON STOCK RETIREMENT

On April 17, 2007, the Company repurchased and retired 580,978 shares of its

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common Stock. The shares were purchased from a single shareholder in a privately negotiated transaction at \$0.0125 per share for a total repurchase price of \$7,262.

PRIVATE OFFERING

In May 2007, the Company conducted a private offering to sell up to \$200,000 of its equity units, which consist of one share of the Company's common stock and one warrant to purchase an additional share of common stock. Each unit is offered for the sum of \$0.07. The exercise price for the warrant included in the unit is \$0.10 and expires two years from the date of purchase. As of June 30, 2007, the Company had raised \$30,000 from the offering and sold 428,571 units. Subsequent to June 30, 2007, the Company raised another \$25,000 in this offering

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDERS' EQUITY (CONTINUED)

EXERCISE OF WARRANTS

The Company received total proceeds of \$20,000 for stock warrants exercised during the first six months of 2006.

NON-EXECUTIVE DIRECTORS' STOCK PLAN

On January 18, 2007 the Board of Directors agreed to provide 500,000 stock options to each of the three nonemployee directors as compensation for 2007 services pursuant to the 2006 Stock Option Plan established on March 27, 2006. The stock options vested immediately and are exercisable at \$0.09 per share for a period of five years. For the three and six months ended June 30, 2007, the Company recognized directors' compensation of \$113,884 and \$0, respectively.

On February 27, 2006 the Board of Directors agreed to provide 300,000 shares of restricted stock to each of the four non-employee directors as compensation for 2006 services pursuant to the 2006 Non-Executive Stock Plan established on January 1, 2006. The shares were valued at \$0.18 per share, the closing market price on the effective date of the Plan, and were amortized on a straight-line basis over a twelve month period. For the three and six months ended June 30, 2006, the Company recognized directors' compensation of \$28,500 and \$103,500, respectively.

NOTE 9 - STOCK OPTIONS

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 June 30,

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2007 and 2006 is presented in the following table.

	2007		2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	7,309,102	\$ 0.21	415,000	\$ 0.15
Granted	1,500,000	0.09	6,894,102	0.21
Exercised/Expired/Cancelled	(3,360,001)	0.21	--	--
	-----		-----	
Outstanding at end of period	5,449,101	\$ 0.20	7,309,102	\$ 0.21
	=====		=====	
Exercisable at end of period	4,449,101	\$ 0.17	1,301,602	\$ 0.19
	=====		=====	

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - 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.

	2007	2006
Weighted average fair value per option granted	\$ 0.09	\$ 0.17
Risk-free interest rate	4.75%	4.41%
Expected dividend yield	0.00%	0.00%
Expected lives	5.00	9.80
Expected volatility	120.88%	155.69%

As of June 30, 2007 there was \$116,648 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the various plans. That cost is expected to be recognized over a weighted average period of 1.5 years.

NOTE 10 - NET LOSS PER SHARE

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

Three Months ended June 30, 2007	Six Months 2007
-------------------------------------	--------------------

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Numerator:			
Net loss	\$ (192,541)	\$ (1,209,624)	\$ (482,096)
Denominator:			
Weighted average number of common shares	62,448,443	56,918,605	62,743,612
Net loss per share-basic and diluted	\$ (0.00)	\$ (0.02)	\$ (0.01)

Stock options and warrants to purchase approximately 14,582,436 shares of the Company's common stocks were outstanding, but were not included in the computation of diluted net loss per share for the three and six months ended June 30, 2007 because the exercise price of the stock options and warrants was greater than the average share price of the common shares, and, therefore, the effect would have been antidilutive.

As the Company incurred net loss for the three and six months ended June 30, 2006, the effect of dilutive securities totaling 693,537 and 693,407 equivalent shares, respectively, have been excluded from the calculation of diluted loss per share because their effect was anti-dilutive.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - FORMATION OF NEW SUBSIDIARY

The Company formed a new subsidiary, VisioNetx, Inc. ("VisioNetx"), and transferred certain intangible assets and liabilities related to the Company's impairment detection devices. The carrying value of the assets (totaling \$30,160 at December 31, 2006) and the liabilities assumed (at date of transfer totaling \$198,572) were transferred at cost in accordance with SFAS 141. The Company's Chief Executive Officer (CEO) and President resigned from AcuNetx and assumed the role of CEO and President of VisioNetx. In addition, another officer resigned from the Company and assumed the role as Chief Operating Officer of the subsidiary.

NOTE 12 - MAJOR CUSTOMERS AND CREDIT CONCENTRATION

During the three months ended June 30, 2007, one sales representative accounted for \$362,762, or 54.2%, of revenues. During the six months ended June 30, 2006, this sales representative accounted for \$1,181,297, or 65.5%, of revenues.

During the three and six months ended June 30, 2006, the national distributor accounted for \$246,302 and \$445,552, or 67.8% and 68.9% of total revenues, respectively.

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

NOTE 13 - SEGMENT INFORMATION

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

In 2006, the Company changed the structure of its internal organization to develop three market-oriented operating divisions: (i) IntelliNetx division, (ii) OrthoNetx division, and (iii) VisioNetx division. The IntelliNetx division markets patented medical devices that assist in the diagnosis of dizziness and vertigo, and rehabilitate those in danger of falling as a result of balance disorders. The OrthoNetx division markets patented medical devices that mechanically induce new bone formation in patients with skeletal deformities of the face, skull, jaws, extremities and dentition. The VisioNetx division markets patented products that track and analyze human eye movements. The Company also has other subsidiaries that do not meet the quantitative thresholds of a reportable segment.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - SEGMENT INFORMATION (CONTINUED)

The Company reviews the operating companies' income to evaluate segment performance and allocate resources. Operating companies' income for the reportable segments excludes income taxes and amortization of goodwill. 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 June 30,		For Six Months ended June 30,	
	2007	2006	2007	2006
	-----	-----	-----	-----
IntelliNetx Division:				
Net revenue to external customers	\$ 669,519	\$ 363,130	\$1,789,065	\$ 646,7
Cost of revenue	127,122	144,972	353,707	265,7
	-----	-----	-----	-----
Margin	\$ 542,397	\$ 218,158	\$1,435,358	\$ 380,9
OrthoNetx Division:				
Net revenue to external customers	\$ --	\$ 8,600	\$ --	\$ 8,6
Cost of revenue				

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		--	3,703	--	3,7
		-----	-----	-----	-----
Margin	\$	--	\$ 4,897	\$ --	\$ 4,8
OrthoNetx Division:					
Net revenue to external customers	\$	8,955	\$ --	\$ 13,355	\$
Cost of revenue		1,158	--	3,027	
		-----	-----	-----	-----
Margin	\$	7,797	\$ --	\$ 10,328	\$
Total Net Revenue to External Customers	\$	678,474	\$ 371,730	\$1,802,420	\$ 655,3
Total Cost of Revenue		128,280	148,675	356,734	269,4
		-----	-----	-----	-----
Total Margin	\$	550,194	\$ 223,055	\$1,445,686	\$ 385,8
		=====	=====	=====	=====

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.

ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - SEGMENT INFORMATION (CONTINUED)

	For Three Months ended June 30,		For Si
	2007	2006	2007
	-----	-----	-----
Total margin for reportable segments	\$ 550,194	\$ 223,055	\$ 1,445,6
	=====	=====	=====
Corporate and general and administrative expenses	(717,952)	(1,141,583)	(1,757,3
Stock option expenses	(19,441)	(136,846)	(158,5
Impairment of goodwill	--	--	(3
Research and development	--	(146,022)	
Interest and Other Expense	(13,344)	(8,445)	(23,0
Loss on equity-method investments	--	(10,804)	
Interest and Other Income	8,002	11,021	12,2
	-----	-----	-----
Net loss before income taxes	\$ (192,541)	\$ (1,209,624)	\$ (481,2
	=====	=====	=====

NOTE 16 - 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

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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 June 30, 2007.

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.

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ACUNETX, INC.

NOTES TO INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - GUARANTEES AND PRODUCT WARRANTIES (CONTINUED)

The following table presents the changes in the Company's warranty reserve during the first three months of 2007 and 2006:

	2007 -----	2006 -----
Balance as of beginning of period	\$ 7,200	\$ 8,462
Provision for warranty	3,588	1,051
Utilization of reserve	(1,800)	(1,051)
	-----	-----
Balance as of end of period	\$ 8,988 =====	\$ 8,462 =====

NOTE 17 - DEPARTURE AND ELECTION OF NEW CHIEF EXECUTIVE OFFICER

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

NOTE 18 - SUBSEQUENT EVENT

In October 2006 investors were given the right to convert their investment terms to the terms of the first "New Financing" if the first new financing was for

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better terms than those in October of 2006. On July 12, 2007, in the first new financing subsequent to October 2006, investments were issued at \$0.07 per share with warrants convertible into common stock at \$0.10 per share. As a result, the Company is obligated to issue an additional 2,164,286 to these investors and restate their warrants exercisable price from \$0.20 per share to \$0.10 per share.

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

BUSINESS OVERVIEW

AcuNetx is organized around a dedicated medical division and two separate subsidiary companies: (i) IntelliNetx, a medical division with neurological diagnostic equipment, (ii) OrthoNetx, Inc., a wholly-owned medical subsidiary company with devices that create new bone, and (iii) VisioNetx, Inc., an AcuNetx-controlled subsidiary company, formed subsequent to December 31, 2006, 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 persons. The Company's 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, stress and other factors that affect eye and pupil performance. These products target the occupational safety and law enforcement markets.

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

- o A proprietary information technology system called SmartDevice-Connect (TM) ("SDC") that establishes product registry to individual patients and tracks device behavior for post-market surveillance, adverse event and outcomes reporting, and creates "smart devices" that gather and transmit physiological data concerning the device and its interaction with the patient.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO SIX MONTHS ENDED JUNE 30, 2006

The first two quarters of 2007 represent the combined results of AcuNetx, Inc. and its subsidiaries, OrthoNetx Inc. and VisioNetx Inc. compared with the first two quarters of 2006, which included the combined results of AcuNetx, Inc. and its subsidiary, OrthoNetx Inc. VisioNetx was a division of AcuNetx for the first half of 2006.

One significant aspect in the comparison is a shift in revenue recognition. In the first quarter of 2006, AcuNetx products were purchased by a national distributor and revenues were credited at the previously agreed upon wholesale price. Since May of 2006, under a revised contract, shipments and title to the equipment moves directly from AcuNetx to the end customers, and AcuNetx

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recognizes the revenue at the retail price. This change results in higher revenues for the same unit volume of sales, along with higher gross profits, as costs do not change. An offsetting increase in selling expenses occurred as the distributor is paid commissions from retail proceeds.

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Revenues during the first half of 2007 were \$ 1,802,420, compared to \$655,305 for the corresponding period in 2006. System unit shipments increased to 49 units in the first half from 32 units in the first half of the prior year. The revenue increase was also driven primarily by the systems being booked at the retail level as described above. Gross profit, as a percentage of sales increased 21.3%. Total operating expenses decreased by \$489,477 from \$2,405,716 in the first half of 2006 to \$1,916,239 in the first half of 2007. Decreased selling, general and administrative expenses resulted in a loss of \$482,096 (\$0.008 per share) for the current period, compared to a loss of \$2,052,154 (\$0.037 per share) for the same period in the previous year.

Standard selling, general and administrative expenses for AcuNetx, OrthoNetx and VisioNetx increased primarily due to increased commission expenses from retail proceeds. The shift to recognizing revenue at the retail level for AcuNetx products mentioned earlier has resulted in increased selling expenses which offset the higher gross profit for units sold through a sales representative and will return higher contributions to net income for units sold through other new channels. This change was in effect for the entire half quarter of 2007.

The Company focused on two major issues during the first half of 2007, closing of the Superior, Colorado office and transitioning all of the corporate administrative and financial activities to the Torrance, California facility. Both of these tasks were completed which will result in further G&A savings in addition to a reduction of senior management positions. The company's financial resources were directed to bolster the marketing and sales activities of its revenue producing IntelliNetx division. To that end, the company exhibited its IntelliNetx product line at the American Academy of Audiology and continued to add manufacturer's representatives as commission-based sellers. It obtained approval from Health Canada to market its products in that county and has begun to ship product to customers. Other global opportunities are being evaluated for distribution, as are value-added products and services to supplement the IntelliNetx product line.

In regards to the subsidiary, VisioNetx, Inc., demo units have been placed in beta sites located in Mexico and Germany as part of the on-going program of its impairment screening product introduction. VisioNetx has also seen a growing interest in its HawkEye law enforcement data capture system, with several municipalities having purchased and many more putting forth grants to local, state and governmental agencies for funding.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as of June 30, 2007 of \$66,681 will not allow for payment of all outstanding invoices until additional financing is completed. The Company has a loan from the founder of OrthoNetx, which the Company has

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renegotiated on June 30, 2007. Under the Agreement, the Company's subsidiary, OrthoNetx, Inc. executed an Amended and Extended Promissory Note in the principal amount of \$268,551.25. The new note replaces a Promissory Note issued by OrthoNetx, Inc., on January 30, 2005 in the original principal amount of \$300,000. The new note bears interest at 13% per annum, and provides for payments of interest only until February 1, 2008, at which time payments of principal and interest will commence based on a 36-month amortization. All principal and interest is due on August 1, 2009.

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

First, VisioNetx, Inc. is seeking additional funding in the as described below, which will allow the continuation of operations through the full implementation of the SafetyScan product. Second, the Company intends to restructure expense and overhead parameters in a manner that will allow it to continue to manufacture and sell its current product lines while paying current liabilities over time.

Inventory on June 30, 2007 was \$214,326, compared to \$340,160 on June 30, 2006. Purchasing for all VNG products has been adjusted to a level consistent with current sales volumes. OrthoNetx bone distraction product inventories, both the GenerOs CF and GenerOs SB, continue to be reduced through sales, but still offset the management improvements in VNG inventory levels. Accounts receivable as of June 30, 2007 were \$120,476, compared to \$124,408 on June 30, 2006.

Accounts payable as of June 30 2007 were \$505,988, compared to \$ 401,147 as of June 30, 2006. The change is primarily due to the extension of payments due to liquidity issues, both discussed above. OrthoNetx had previously acquired a private firm, and has been carrying accounts payable at full value until a settlement is resolved.

Sales prospects for the balance of 2007 are on target to exceed last year's amount, both in units sold and dollar volume, as we supplement all distribution channels, domestically and internationally for the IntelliNetx medical products. With Health Canada approval as well as a focus on federal government opportunities, management confidence in its revenue outlook increases. As our wholly-owned subsidiary, VisioNetx, Inc., requires HawkEye and worker impairment screening products, AcuNetx, as the manufacturer, should see increasing revenues from these activities. The Company is exploring the possible sale of the OrthoNetx division and its products for bone distraction as a method to raise additional funds. To date, no substantial interest has been shown, but exploratory talks with other candidates will continue. AcuNetx is seeking to raise a minimal amount of additional capital (approximately \$250,000) to support its IntelliNetx marketing and sales efforts as well as to decrease pressure on its cash flow for forward-looking obligations. An active fund raising effort is also in place to secure funding for its wholly-owned subsidiary, VisioNetx, Inc.

ITEM 3. CONTROLS AND PROCEDURES.

At the end of the period covered by this Form 10-QSB, the Company's management, including its Chief Executive and Acting Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive and Acting Chief Financial Officer determined that such controls and procedures are effective to ensure that information relating to the Company required to be disclosed in

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reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

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

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

During the quarter the Company conducted a private offering to sell up to \$200,000 of its equity units, which consist of one share of the Company's common stock and one warrant to purchase an additional share of common stock. Each unit is offered for the sum of \$0.07. The exercise price for the warrant included in the unit is \$0.10 and expires two years from the date of purchase. As of June 30, 2007, the Company had raised \$30,000 from the offering and sold 428,571 units.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company was in default under a loan from the founder of OrthoNetx, who is also a former director. The note has been fully renegotiated with revised payment schedules as explained in Note 6 of Financial Statements.

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

10.1 Assignment Agreement, dated April 16, 2007, between the Company and Cornell Capital Partners, L.P.

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

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

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

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

SIGNATURES

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

DATE: AUGUST 14, 2007

BY: /S/ RONALD A. WALDORF

RONALD A. WALDORF, CHIEF EXECUTIVE OFFICER