

SANUWAVE Health, Inc.
Form 10-Q
May 14, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

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 000-52985

SANUWAVE Health, Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-1176000

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

11680 Great Oaks Way, Suite 350

Alpharetta, GA

(Address of principal executive offices)

30022

(Zip Code)

(678) 581-6843

(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 No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 7, 2010, there were issued and outstanding 12,509,657 shares of the registrant's common stock.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q of SANUWAVE Health, Inc. and its subsidiaries ("SANUWAVE" or the Company) contains forward-looking statements. All statements in this Quarterly Report on Form 10-Q, including those made by the management of the Company, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding the Company's future financial results, operating results, business strategies, projected costs, products, competitive positions, management's plans and objectives for future operations, and industry trends. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as may, will, should, could, would, expect, anticipate, believe, estimate, predict, potential and continue, the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the reports we file with the Securities and Exchange Commission, specifically the sections titled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K filed on March 31, 2010. Other risks and uncertainties are and will be disclosed in the Company's prior and future Securities and Exchange Commission filings. These and many other factors could affect the Company's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf. The Company undertakes no obligation to revise or update any forward-looking statements. The following information should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K filed on March 31, 2010.

Except as otherwise indicated by the context, references in this Quarterly Report on Form 10-Q to we, us and our are to the consolidated business of the Company.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,065,691	\$ 1,786,369
Accounts receivable trade, net of allowance for doubtful accounts of \$31,383 in 2010 and \$20,762 in 2009	71,361	47,966
Inventory (Note 8)	561,169	592,589
Prepaid expenses	121,613	121,157
Due from Pulse Veterinary Technologies, LLC	200,399	127,878
TOTAL CURRENT ASSETS	2,020,233	2,675,959
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 9)	62,191	88,706
OTHER ASSETS	31,893	32,169
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 10)	2,070,606	2,147,295
ASSETS HELD FOR SALE (Note 7)	765,531	922,956
TOTAL ASSETS	\$ 4,950,454	\$ 5,867,085
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,454,161	\$ 1,069,423
Payroll and related	661,203	509,905
Accrued expenses (Note 11)	469,679	629,029
Promissory notes (Note 13)	1,001,556	
Liabilities related to discontinued operations (Note 6)	655,061	655,061
TOTAL CURRENT LIABILITIES	4,241,660	2,863,418
NOTES PAYABLE, RELATED PARTIES (Note 14)	9,105,161	8,887,981
TOTAL LIABILITIES	13,346,821	11,751,399
COMMITMENTS AND CONTINGENCIES (Note 16)		

GOING CONCERN (Note 3)

	STOCKHOLDERS EQUITY (DEFICIT)	
COMMON STOCK, par value \$0.001, 50,000,000 shares authorized, 12,509,657 issued and outstanding	12,510	12,510
ADDITIONAL PAID-IN CAPITAL	33,224,863	32,741,593
ACCUMULATED OTHER COMPREHENSIVE INCOME	21,296	21,864
RETAINED DEFICIT	(41,655,036)	(38,660,281)
TOTAL STOCKHOLDERS EQUITY (DEFICIT)	(8,396,367)	(5,884,314)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	\$ 4,950,454	\$ 5,867,085

See accompanying notes to unaudited condensed consolidated financial statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
 (UNAUDITED)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
REVENUES	\$ 143,102	\$ 262,082
COST OF REVENUES	47,644	60,282
GROSS PROFIT	95,458	201,800
OPERATING EXPENSES		
Research and development	1,085,974	813,510
General and administrative	1,598,524	1,249,577
Depreciation	194,732	60,468
Amortization	76,689	76,689
TOTAL OPERATING EXPENSES	2,955,919	2,200,244
OPERATING LOSS	(2,860,461)	(1,998,444)
OTHER INCOME (EXPENSE)		
Transitional services provided to Pulse Veterinary Technologies, LLC	90,000	
Interest expense, net	(217,281)	(138,059)
Loss on foreign currency exchange	(7,013)	(9,448)
TOTAL OTHER INCOME (EXPENSE)	(134,294)	(147,507)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,994,755)	(2,145,951)
INCOME TAX EXPENSE		
LOSS FROM CONTINUING OPERATIONS	(2,994,755)	(2,145,951)
DISCONTINUED OPERATIONS		
Income from discontinued operations, net of tax		322,485

NET LOSS		(2,994,755)		(1,823,466)	
OTHER COMPREHENSIVE LOSS, net of tax					
Foreign currency translation adjustments		(568)		(49,132)	
TOTAL COMPREHENSIVE LOSS	\$	(2,995,323)	\$	(1,872,598)	
EARNINGS (LOSS) PER SHARE:					
Loss from continuing operations	basic	\$	(0.24)	\$	(0.20)
Loss from continuing operations	diluted	\$	(0.24)	\$	(0.20)
Income from discontinued operations	basic	\$		\$	0.03
Income from discontinued operations	diluted	\$		\$	0.03
Net loss	basic	\$	(0.24)	\$	(0.17)
Net loss	diluted	\$	(0.24)	\$	(0.17)
Weighted average shares outstanding	basic		12,509,657		11,009,657
Weighted average shares outstanding	diluted		12,509,657		11,009,657

See accompanying notes to unaudited condensed consolidated financial statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	\$ (2,994,755)	\$ (2,145,951)
Adjustments to reconcile loss from continuing operations to net cash used by operating activities		
Amortization	76,689	76,689
Accrued interest	218,736	138,354
Depreciation	194,732	60,468
Change in allowance for doubtful accounts	10,621	(4,825)
Stock-based compensation	483,270	133,696
Changes in assets (increase)/decrease		
Accounts receivable trade	(34,016)	(16,655)
Inventory	31,420	(14,656)
Prepaid expenses	(456)	(6,465)
Due from Pulse Veterinary Technologies, LLC	(72,521)	
Other assets	276	387
Assets held for sale	(10,792)	
Changes in liabilities increase/(decrease)		
Accounts payable	384,738	(358,572)
Payroll and related	151,298	97,634
Accrued expenses	(159,350)	(219,200)
NET CASH USED BY CONTINUING OPERATIONS	(1,720,110)	(2,259,096)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		722,663
NET CASH USED BY OPERATING ACTIVITIES	(1,720,110)	(1,536,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Continuing operations		
Proceeds from promissory notes	1,000,000	
Proceeds from notes payable, related parties		1,575,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,000,000	1,575,000
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(568)	(49,132)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(720,678)	(10,565)

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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,786,369	543,626
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,065,691	\$ 533,061

See accompanying notes to unaudited condensed consolidated financial statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010

1. Nature of the Business

SANUWAVE Health, Inc. and subsidiaries (the Company) is an emerging global medical technology company focused on the development and commercialization of noninvasive, biological response activating devices in the regenerative medicine area for the repair and regeneration of tissue, musculoskeletal and vascular structures. Our portfolio of products and product candidates activate biologic signaling and angiogenic responses, including new vascularization and microcirculatory improvement, helping to restore the body's normal healing processes and regeneration. We intend to apply our Pulsed Acoustic Cellular Expression (PACE) technology in wound healing, orthopedic/spine, plastic/cosmetic and cardiac conditions.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, these financial statements do not include all the information and footnotes required by United States generally accepted accounting principles for complete financial statements. The financial information as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 is unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2010.

The condensed consolidated balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

For further information and a summary of significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K filed on March 31, 2010. Please refer also to Note 5 of this Form 10-Q regarding the Company's adoption of recent accounting pronouncements.

3. Going concern

As shown in the accompanying condensed consolidated financial statements, the Company incurred a net loss of \$2,994,755 and \$1,823,466 for the three months ended March 31, 2010 and 2009, respectively. The Company incurred a net loss from continuing operations of \$2,994,755 and \$2,145,951 for the three months ended March 31, 2010 and 2009, respectively. These operating losses create an uncertainty about the Company's ability to continue as a going concern. Management of the Company believes potential additional investors, outstanding warrant exercises or other potential financing will provide the necessary funding for the Company. The condensed 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 is economically dependent upon future financing to fund ongoing operations. On June 3, 2009, the Company sold its veterinary business for a total cash consideration of \$3,500,000 (Note 6). In addition, in September 2009, the Company issued additional shares of stock to stockholders for total cash proceeds of \$1,819,844. In March 2010, the Company issued four promissory notes totaling \$1,000,000 to two stockholders. The notes bear interest at 5% per annum and are due in June 2010 (Note 13).

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
March 31, 2010

4. Reverse Merger Transaction

On September 25, 2009, the Company (formerly named Rub Music Enterprises, Inc.) and RME Delaware Merger Sub, Inc., a Nevada corporation and wholly-owned subsidiary of the Company (the Merger Sub) entered into a reverse merger agreement (the Merger Agreement) with SANUWAVE, Inc. Pursuant to the Merger Agreement, the Merger Sub merged with and into SANUWAVE, Inc., with SANUWAVE, Inc. as the surviving entity (the Merger). In connection with the Merger, the Company acquired 100% of the outstanding capital stock of SANUWAVE, Inc. and the stockholders of SANUWAVE, Inc. received 11,009,657 shares of the Company's common stock, warrants to purchase 1,106,627 shares of the Company's common stock at \$4.00 per share, and warrants to purchase an additional 1,106,627 shares of the Company's common stock at \$8.00 per share. In addition, in connection with the Merger, certain stockholders of the Company agreed to cancel all of their shares of common stock of the Company, except for 1,500,000 shares of common stock, for an aggregate price of \$180,000 (the Share Repurchase). At the time of the Merger, the Company had 1,500,000 warrants outstanding to purchase the Company's common stock at \$4.00 per share.

As a result of the Merger and the Share Repurchase, the stockholders of SANUWAVE, Inc. control approximately 88% of the Company's outstanding common stock, holding 11,009,657 of the 12,509,657 outstanding shares, and SANUWAVE, Inc. was considered the accounting acquirer in this Merger. The Company was a shell company as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the Exchange Act) immediately prior to the Merger. As a result of the Merger, the Company's operations are now focused in global medical technology and the Company is no longer a shell company.

5. Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures - Topic 855* (ASU 2010-06). ASU 2010-06 provides amendments to ASC 820-10, *Fair Value Measurements* (ASC 820-10). ASC 820-10 defines fair value, establishes a framework for measuring fair value hierarchy for assets and liabilities measured at fair value, and requires expanded disclosures about fair value measurements. The ASC 820-10 hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the three categories (level 1, level 2 or level 3). ASU 2010-06 provides amendments to ASC 820-10 to require new disclosures for transfers in and out of levels 1 and 2, as well as a reconciliation of activity within level 3. Furthermore, ASU 2010-06 provides amendments that clarify existing disclosures regarding levels of disaggregation and inputs and valuation techniques. The new disclosures and clarifications of existing disclosures required by ASU 2010-06 are effective for interim and annual reporting periods beginning after December 31, 2009 (except for disclosures in the reconciliation of activity within level 3, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years). The Company adopted ASU 2010-06 as of January 1, 2010, and the adoption did not have a material impact on the Company's condensed consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09), to amend ASC 855, *Subsequent Events* (ASC 855). ASC 855, which was originally issued by the FASB in May 2009 (as SFAS No. 165, *Subsequent Events*), provides guidance on events that occur after the balance sheet date but prior to the issuance of the financial statements. ASC 855 distinguishes events requiring recognition in the financial statements and those that may require disclosure in the financial statements. As a result of ASU 2010-09, companies are not required to disclose the date through which management evaluated subsequent events in the financial statements, either in originally issued financial statements or reissued financial statements. ASC 855 was effective for interim and annual periods ending after June 15, 2009, and ASU 2010-09 is effective immediately. The Company has evaluated subsequent events in accordance with ASU 2010-09, and the evaluation did not have a material impact on the Company's condensed consolidated financial statements.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
March 31, 2010

6. Discontinued operations

On October 31, 2008, the Company discontinued its Ossatron® mobile service business.

On June 3, 2009, the Company sold its veterinary business to Pulse Veterinary Technologies, LLC (Pulse Vet) for a total cash consideration of \$3,500,000. As a result of the sale, the Company recorded a gain, before income taxes, of \$2,463,283.

Accordingly, the Company's condensed consolidated financial statements have been prepared with the net assets, results of operations, and cash flows of these businesses displayed separately as discontinued operations.

The operating results of the discontinued operations are summarized as follows:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenue	\$	\$ 782,815
Cost of revenues		173,985
Gross profit		608,830
Operating expenses		283,310
Operating income		325,520
Other expense		(3,035)
Income from discontinued operations before income taxes		322,485
Income tax expense		
Income from discontinued operations, net of income tax	\$	\$ 322,485

The Company's assets (liabilities) related to discontinued operations were as follows:

	March 31, 2010	December 31, 2009
Accounts payable and accrued expenses	\$ (655,061)	\$ (655,061)
Net assets (liabilities) of discontinued operations	\$ (655,061)	\$ (655,061)

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
March 31, 2010

7. Assets held for sale

On October 31, 2008, the Company discontinued its Ossatron mobile service business and accordingly displayed the related assets of this business as discontinued operations (Note 6). In accordance with FASB ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*, a quarterly review of the discontinued assets was performed to determine if they should continue to be recorded as discontinued operations. As of October 1, 2009, management determined that the Ossatron device fixed assets and related parts inventory were not likely to be sold within the next twelve months. Therefore, the Ossatron device fixed assets and related parts inventory were reclassified to continuing operations and depreciation on the Ossatron device fixed assets was restarted at October 1, 2009.

Assets held for sale consist of the following:

	March 31, 2010	December 31, 2009
Ossatron devices	\$ 4,837,165	\$ 4,837,165
Accumulated depreciation	(4,250,698)	(4,082,474)
Net property and equipment	586,467	754,691
Inventory Ossatron device parts	220,968	210,169
Provision for losses and obsolescence	(41,904)	(41,904)
Net inventory	179,064	168,265
Total assets held for sale	\$ 765,531	\$ 922,956

The aggregate depreciation charged to operations was \$168,224 for the three months ended March 31, 2010. There was no depreciation expense charged to operations for the three months ended March 31, 2009.

8. Inventory

Inventory consists of the following:

	March 31, 2010	December 31, 2009
Inventory finished goods	\$ 657,493	\$ 667,998
Inventory parts	90,733	108,068
Provision for losses and obsolescence	748,226 (187,057)	776,066 (183,477)
Net Inventory	\$ 561,169	\$ 592,589

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
March 31, 2010

9. Property and equipment

Property and equipment consists of the following:

	March 31, 2010	December 31, 2009
Machines and equipment	\$ 199,520	\$ 199,520
Office and computer equipment	311,791	311,791
Leasehold improvements	67,421	67,421
Furniture and fixtures	24,613	24,613
Vehicles	38,897	38,897
Software	40,233	40,233
Other assets	4,509	4,585
Total	686,984	687,060
Accumulated depreciation	(624,793)	(598,354)
Net property and equipment	\$ 62,191	\$ 88,706

The aggregate depreciation charged to operations was \$26,508 and \$60,468 for the three months ended March 31, 2010 and 2009, respectively.

10. Intangible assets

Intangible assets consist of the following:

	March 31, 2010	December 31, 2009
Patents, at cost	\$ 3,502,135	\$ 3,502,135
Less accumulated amortization	(1,431,529)	(1,354,840)
Net intangible assets	\$ 2,070,606	\$ 2,147,295

The aggregate amortization charged to amortization expense was \$76,689 for each of the three months ended March 31, 2010 and 2009.

11. Accrued expenses

Accrued expenses consist of the following:

March 31,