

SANUWAVE Health, Inc.  
Form 10-Q  
May 16, 2011

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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, 2011**

☐ **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)

**(770) 419-7525**

(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 9, 2011, there were issued and outstanding 20,907,536 shares of the registrant's common stock, \$.001 par value.



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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 for the year ended December 31, 2010, filed on March 28, 2011. 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 for the year ended December 31, 2010, filed on March 28, 2011.

*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**

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,306,100	\$ 417,457
Accounts receivable trade, net of allowance for doubtful accounts of \$81,205 in 2011 and \$36,903 in 2010	152,050	95,549
Inventory (Note 7)	422,805	463,643
Prepaid expenses	158,551	121,084
Due from Pulse Veterinary Technologies, LLC	171,868	45,389
<b>TOTAL CURRENT ASSETS</b>	<b>3,211,374</b>	<b>1,143,122</b>
<b>PROPERTY AND EQUIPMENT</b> , at cost, less accumulated depreciation (Note 8)	7,149	13,386
<b>OTHER ASSETS</b>	32,298	32,253
<b>INTANGIBLE ASSETS</b> , at cost, less accumulated amortization (Note 9)	1,763,849	1,840,538
<b>TOTAL ASSETS</b>	<b>\$ 5,014,670</b>	<b>\$ 3,029,299</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,561,847	\$ 1,829,815
Accrued employee compensation	1,253,096	1,101,410
Accrued expenses (Note 10)	321,036	256,204
Notes payable, related parties (Note 12)	4,406,563	4,247,290
Interest payable, related parties (Note 12)	80,071	82,977
Liabilities related to discontinued operations	655,061	655,061
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,277,674</b>	<b>8,172,757</b>
<b>NOTES PAYABLE, RELATED PARTIES</b> (Note 12)	<b>5,372,743</b>	<b>5,372,743</b>
<b>TOTAL LIABILITIES</b>	<b>13,650,417</b>	<b>13,545,500</b>

COMMITMENTS AND CONTINGENCIES (Note 14)

GOING CONCERN (Note 3)

STOCKHOLDERS EQUITY (DEFICIT)		
PREFERRED STOCK, par value \$0.001, 5,000,000 shares authorized; no shares issued and outstanding		
COMMON STOCK, par value \$0.001, 50,000,000 shares authorized; 16,744,817 in 2011 and 14,794,650 in 2010 issued and outstanding (Note 5)	16,745	14,795
ADDITIONAL PAID-IN CAPITAL	47,778,965	43,728,133
ACCUMULATED OTHER COMPREHENSIVE INCOME	21,900	10,902
RETAINED DEFICIT	(56,453,357)	(54,270,031)
TOTAL STOCKHOLDERS EQUITY (DEFICIT)	(8,635,747)	(10,516,201)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	\$ 5,014,670	\$ 3,029,299

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, 2011	Three Months Ended March 31, 2010
REVENUES	\$ 251,753	\$ 143,102
COST OF REVENUES	93,298	47,644
GROSS PROFIT	158,455	95,458
OPERATING EXPENSES		
Research and development	749,299	1,085,974
General and administrative	1,382,185	1,598,524
Depreciation	6,237	194,732
Amortization	76,689	76,689
TOTAL OPERATING EXPENSES	2,214,410	2,955,919
OPERATING LOSS	(2,055,955)	(2,860,461)
OTHER INCOME (EXPENSE)		
Transitional services provided to Pulse Veterinary Technologies, LLC	112,500	90,000
Interest expense, net	(236,280)	(217,281)
Loss on foreign currency exchange	(3,591)	(7,013)
TOTAL OTHER INCOME (EXPENSE)	(127,371)	(134,294)
LOSS BEFORE INCOME TAXES	(2,183,326)	(2,994,755)
INCOME TAX EXPENSE		
NET LOSS	(2,183,326)	(2,994,755)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	10,998	(568)
TOTAL COMPREHENSIVE LOSS	\$ (2,172,328)	\$ (2,995,323)



LOSS PER SHARE:

Net loss	basic	\$	(0.14)	\$	(0.24)
Net loss	diluted	\$	(0.14)	\$	(0.24)

Weighted average shares outstanding	basic	16,143,655	12,509,657
Weighted average shares outstanding	diluted	16,143,655	12,509,657

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, 2011	Three Months Ended March 31, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (2,183,326)	\$ (2,994,755)
Adjustments to reconcile net loss to net cash used by operating activities		
Amortization	76,689	76,689
Accrued interest	159,273	218,736
Depreciation	6,237	194,732
Change in allowance for doubtful accounts	44,302	10,621
Stock-based compensation	152,448	483,270
Changes in assets (increase)/decrease		
Accounts receivable trade	(100,803)	(34,016)
Inventory	40,838	31,420
Prepaid expenses	(37,467)	(456)
Due from Pulse Veterinary Technologies, LLC	(126,479)	(72,521)
Other assets	(45)	276
Assets held for sale		(10,792)
Changes in liabilities increase/(decrease)		
Accounts payable	(267,968)	384,738
Accrued employee compensation	151,686	151,298
Accrued expenses	64,832	(159,350)
Interest payable, related parties	(2,906)	
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(2,022,689)</b>	<b>(1,720,110)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from promissory notes, related parties		1,000,000
Proceeds from unit options exercised, related parties	2,463,008	
Proceeds from unit options exercised	1,437,326	
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,900,334</b>	<b>1,000,000</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS</b>	<b>10,998</b>	<b>(568)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,888,643</b>	<b>(720,678)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>417,457</b>	<b>1,786,369</b>

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	2,306,100	\$	1,065,691
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SUPPLEMENTAL INFORMATION

Cash paid for interest	\$	81,864	\$	
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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, 2011**

**1. Nature of the Business**

SANUWAVE Health, Inc. and subsidiaries (the Company) is an emerging global regenerative medicine company focused on the development and commercialization of non-invasive, biological response activating devices for the repair and regeneration of tissue, musculoskeletal and vascular structures. The Company's 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. The Company intends to apply its Pulsed Acoustic Cellular Expression (PACE) technology in wound healing, orthopedic/spine, plastic/cosmetic and cardiac conditions. The Company currently does not have any commercial products in the United States. Revenues are from sales of CE Marked devices and accessories in Europe.

**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 condensed consolidated 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, 2011 and for the three months ended March 31, 2011 and 2010 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, 2011 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2011.

The condensed consolidated balance sheet at December 31, 2010 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 for the year ended December 31, 2010, filed on March 28, 2011. Please also refer to Note 6 to the condensed consolidated financial statements in 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 \$2,183,326 and \$2,994,755 during the three months ended March 31, 2011 and 2010, respectively. We had a working capital deficiency of \$5,066,300 and \$7,029,635 at March 31, 2011 and December 31, 2010, respectively. These operating losses and working capital deficiency create an uncertainty about the Company's ability to continue as a going concern. Although no assurances can be given, management of the Company believes that potential additional issuances of equity or other potential financing will provide the necessary funding for the Company to continue as a going concern. 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 capital contributions or financing to fund ongoing operations. See "Liquidity and Capital Resources" elsewhere in this report.

On April 8, 2011 the Company raised gross proceeds of \$9,114,927 in a private placement of the Company's common stock and warrants to certain institutional and accredited investors. The net proceeds received by the Company were \$8,467,121, net of offering costs of \$647,806 (see Note 18).

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011**

**4. Promissory notes**

During the year ended December 31, 2010, the Company issued ten promissory notes totaling \$2,450,000. On October 12, 2010, in conjunction with an offering of securities (the "Offering") of the Company pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Act"), the Company amended the terms of the ten outstanding promissory notes such that the unpaid principal and interest on each note was exchanged into the number of Units (as described below) equal to (i) the unpaid principal and interest on each such note, divided by (ii) 2. In accordance with ASC 470, "Debt", in October 2010 the Company recorded a loss from extinguishment of debt of \$2,693,896 which was the difference between the estimated fair value of the Units on the date of exchange of \$5,211,556 as compared to the carrying value of the promissory notes of \$2,517,660.

Each "Unit" in the Offering consisted of: (i) one share of common stock, par value \$0.001 per share (the "Common Stock"); (ii) a two-year common stock purchase warrant (the "Class D Warrant") to purchase one share of Common Stock, at an exercise price of \$2.00; and (iii) an option (the "Option"), which, as amended, expired on January 31, 2011, to purchase the same number of Units as granted pursuant to the transaction, at the purchase price of \$2.00 per Unit. The unpaid principal and interest on the notes totaled \$2,517,660, and this sum was exchanged into a total of 1,258,830 Units which consisted of 1,258,830 shares of Common Stock, 1,258,830 Class D Warrants and 1,258,830 Options.

The chairman of the board of directors of the Company exchanged promissory notes totaling \$1,790,504 and the brother of a member of the board of directors of the Company exchanged promissory notes totaling \$522,504 in the Offering.

**5. Common stock**

On September 30, 2010, in conjunction with an offering of securities of the Company under the Act, the Company issued 150,000 Units to certain "accredited investors," as that term is defined in the Securities and Exchange Commission's (the "SEC") Rule 501 under the Act, for an aggregate total purchase price of \$300,000. On October 1, 2010, November 19, 2010, and December 7, 2010 in conjunction with offerings of securities of the Company under the Act, the Company issued 250,000, 142,500 and 382,500 Units to "accredited investors" for \$500,000, \$285,000 and \$765,000, respectively. Each Unit was sold to the new investors at a purchase price of \$2.00 per Unit. As a result of the offerings, the Company sold 925,000 Units which consisted of 925,000 shares of Common Stock, 925,000 Class D Warrants and 925,000 Options. This includes 175,000 Units purchased by the brother of a member of the board of directors of the Company for a total purchase price of \$350,000.

As of December 31, 2010, the Option holders exercised 101,163 Options for total gross proceeds of \$202,326 to the Company. In connection with the exercise of the Options, the Company issued 101,163 shares of Common Stock and 101,163 Class D Warrants.

Between January 1 and January 31, 2011, Option holders exercised 1,950,167 Options for total gross proceeds of \$3,900,334 to the Company. In connection with the exercise of Options in January 2011, the Company issued 1,950,167 shares of Common Stock and 1,950,167 Class D Warrants. The Option holders included the chairman of the board of directors of the Company who exercised 545,252 Options and the brother of a member of the board of directors of the Company who exercised 686,252 Options. The 132,500 Options that remained unexercised at January 31, 2011 expired by their terms.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011**

**6. Recently Issued Accounting Standards**

There have been no recently issued accounting standards that have an impact on our condensed consolidated financial statements.

**7. Inventory**

Inventory consists of the following:

	March 31, 2011	December 31, 2010
Inventory finished goods	\$ 478,879	\$ 539,141
Inventory parts	84,126	78,202
Gross inventory	563,005	617,343
Provision for losses and obsolescence	(140,200)	(153,700)
Net inventory	\$ 422,805	\$ 463,643

**8. Property and equipment**

Property and equipment consists of the following:

	March 31, 2011	December 31, 2010
Machines and equipment	\$ 199,520	\$ 199,520
Office and computer equipment	296,120	296,120
Leasehold improvements	67,421	67,421
Furniture and fixtures	24,613	24,613
Vehicles	22,531	22,531
Software	40,233	40,233
Other assets	5,080	5,080
Total	655,518	655,518
Accumulated depreciation	(648,369)	(642,132)
Net property and equipment	\$ 7,149	\$ 13,386

The aggregate depreciation related to property and equipment charged to operations was \$6,237 and \$26,508 for the three months ended March 31, 2011 and 2010, respectively.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011**

**9. Intangible assets**

Intangible assets consist of the following:

	March 31, 2011	December 31, 2010
Patents, at cost	\$ 3,502,135	\$ 3,502,135
Less accumulated amortization	(1,738,286)	(1,661,597)
Net intangible assets	\$ 1,763,849	\$ 1,840,538

The aggregate amortization charged to operations was \$76,689 for each of the three months ended March 31, 2011 and 2010.

**10. Accrued expenses**

Accrued expenses consist of the following:

	March 31, 2011	December 31, 2010
Accrued legal professional fees	\$ 220,192	\$ 64,531
Accrued audit and tax preparation	53,771	89,173
Accrued clinical site payments		82,500
Accrued other	47,073	20,000
	\$ 321,036	\$ 256,204

**11. Income taxes**

The Company files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to United States federal and state and non-United States income tax examinations by tax authorities for years before 2006.

Deferred income taxes are provided for temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred taxes are classified as current or noncurrent based on the financial statement classification of the related asset or liability giving rise to the temporary difference. For those deferred tax assets or liabilities (such as the tax effect of the net operating loss carryforward) which do not relate to a financial statement asset or liability, the classification is based on the expected reversal date of the temporary difference.

At March 31, 2011, the Company had federal net operating loss ( NOL ) carryforwards of \$40,896,849 that will begin to expire in 2025. The use of deferred tax assets, including federal net operating losses, is limited to future taxable earnings. Based on the required analysis of future taxable income under the provisions of ASC 740, *Income Taxes* (formerly SFAS No. 109), the Company's management believes that there is not sufficient evidence at March 31, 2011, indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2011. As a result, a valuation allowance was provided for the entire net deferred tax asset related to future years, including NOL carryforwards.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011**

**11. Income taxes (continued)**

The Company's ability to use its NOL carryforwards could be limited and subject to annual limitations. In connection with future offerings, the Company may realize a more than 50% change in ownership which could further limit its ability to use its NOL carryforwards accumulated to date to reduce future taxable income and tax liabilities.

Additionally, because United States tax laws limit the time during which NOL carryforwards may be applied against future taxable income and tax liabilities, the Company may not be able to take advantage of all or portions of its NOL carryforwards for federal income tax purposes.

**12. Notes payable, related parties**

The notes payable consists of the following:

	March 31, 2011	December 31, 2010
Notes payable, unsecured, bearing interest at 6% to HealthTronics, Inc., a shareholder of the Company. The notes were issued in conjunction with the Company's purchase of the orthopedic division of HealthTronics, Inc. on August 1, 2005. Quarterly interest through June 30, 2010, was accrued and added to the principal balance. Interest is paid quarterly in arrears beginning September 30, 2010. All remaining unpaid accrued interest and principal is due August 1, 2015. Accrued interest currently payable totaled \$80,071 and \$82,977 at March 31, 2011 and December 31, 2010, respectively. Accrued interest not payable until August 1, 2015 totaled \$1,372,743 at March 31, 2011 and December 31, 2010.	\$ 5,372,743	\$ 5,372,743
Notes payable, unsecured, bearing interest at 15% to Prides Capital Fund I, LP and NightWatch Capital Partners II, LP, shareholders of the Company. Quarterly interest through March 31, 2011, is accrued and added to the principal balance. Unpaid accrued interest and principal is due September 30, 2011. Accrued interest totaled \$1,206,563 and \$1,047,290 at March 31, 2011 and December 31, 2010, respectively. All or any portion of the unpaid principal can be converted into common stock with a conversion price of \$2.92 per share.	4,406,563	4,247,290
Total	9,779,306	9,620,033
Less current portion	(4,406,563)	(4,247,290)
Non-current portion	\$ 5,372,743	\$ 5,372,743

Interest expense on notes payable, related parties totaled \$238,231 and \$217,180 for the three months ended March 31, 2011 and 2010, respectively.



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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011**

**12. Notes payable, related parties (continued)**

On April 4, 2011, the Company amended the terms of outstanding notes with Prides Capital Fund I, LP and NightWatch Capital Partners II, LP such that the unpaid principal and interest balance on the notes totaling \$4,413,908 was cancelled in consideration for the issuance of 1,358,126 shares of common stock of the Company. In addition, the Company, in connection with this transaction, issued to the Noteholders (as defined in Note 18 below) an aggregate total of 679,064 warrants to purchase shares of common stock at an exercise price of \$4.00 per share. The Company is currently evaluating the accounting treatment for this transaction to be recorded in the second quarter of 2011 (see Note 18).

**13. Earnings (loss) per share**

The Company calculates net income (loss) per share in accordance with ASC 260, *Earnings Per Share* (formerly SFAS No. 128, *Earnings Per Share*). Under the provisions of ASC 260, basic net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders for the period by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock and dilutive common stock equivalents then outstanding. To the extent that securities are anti-dilutive, they are excluded from the calculation of diluted net income (loss) per share.

As a result of the net loss for the three months ended March 31, 2011 and 2010, respectively, all potentially dilutive shares were anti-dilutive and therefore excluded from the computation of diluted net loss per share. The anti-dilutive equity securities totaled 10,092,876 shares and 6,160,276 shares at March 31, 2011 and 2010, respectively.

**14. Commitments and contingencies**

***Operating Leases***

The Company leases office and warehouse space. Rent expense for the three months ended March 31, 2011 and 2010, was \$86,434 and \$87,089, respectively.

***Litigation***

The Company is involved in various legal matters that have arisen in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution will not have a material adverse effect on the financial position or results of operations of the Company. HealthTronics, Inc., along with the Company, are defendants in an alleged breach of contract lawsuit dated April 21, 2006 brought in the Miami-Dade County Circuit Court, Florida by a former limited partner of a former limited partnership of the Company, Bone & Joint Treatment Centers of America. Bone & Joint Treatment Centers of America, the plaintiff, is seeking greater than \$3 million. HealthTronics, Inc. has been responsible for the defense of the lawsuit on behalf of the Company and believes the case is unfounded and is contesting the claims vigorously.

**15. 401k plan**

The Company sponsors a 401k plan that covers all employees who meet the eligibility requirements. The Company matches 50% of employee contributions up to 6% of their compensation. The Company contributed \$17,857 and \$16,661 to the plan for the three months ended March 31, 2011 and 2010, respectively.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2011**

**16. Stock-based compensation**

On November 1, 2010, the Company approved the Amended and Restated 2006 Stock Incentive Plan of SANUWAVE Health, Inc. effective as of January 1, 2010 (the Amended Plan). The Amended Plan permits grants of awards to selected employees and directors of the Company in the form of restricted stock or options to purchase shares of common stock. The Amended Plan is currently administered by the board of directors of the Company. The Amended Plan gives broad powers to the board of directors of the Company to administer and interpret the particular form and conditions of each option. Stock options granted under the Amended Plan are non-statutory options which generally vest over a period of up to four years and have a ten year term. The options are granted at an exercise price determined by the board of directors of the Company to be the fair market value of the common stock on the date of the grant. The Amended Plan reserves 5,000,000 shares of common stock for grant.

The Company recognized as compensation cost for all outstanding stock options, restricted stock and warrants granted to employees and directors, \$152,448 and \$483,270 for the three months ended March 31, 2011 and 2010, respectively.

A summary of option activity as of March 31, 2011 and December 31, 2010, and the changes during the three months ended March 31, 2011, is presented as follows:

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2010	2,992,796	\$ 3.20
Granted		\$
Exercised		\$
Forfeited or expired		\$
Outstanding as of March 31, 2011	2,992,796	\$ 3.20
Exercisable	2,135,365	\$ 2.59