SANUWAVE Health, Inc.
Form 10-Q
May 14, 2012
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

¨ 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. x 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). x 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 ¨ (Do not check if a smaller reporting company) Smaller reporting company x

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

As of May 11, 2012, there were issued and outstanding 20,907,536 shares of the registrant's common stock, $.001 par value.

SANUWAVE Health, Inc.

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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,” “pla “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, 2011, filed on March 14, 2012 and in the Company’s Quarterly Reports on Form 10-Q. 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, 2011, filed on March 14, 2012.

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.

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$2,421,809	$3,909,383
Accounts receivable - trade, net of allowance for doubtful accounts of $72,332 in 2012 and $74,852 in 2011	126,131	81,565
Inventory (Note 6)	358,341	396,284
Prepaid expenses	171,705	162,975
Due from Pulse Veterinary Technologies, LLC	-	27,837
TOTAL CURRENT ASSETS	3,077,986	4,578,044
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 7)	46,941	51,206
OTHER ASSETS	3,321	3,192
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 8)	1,457,093	1,533,782
TOTAL ASSETS	$4,585,341	$6,166,224
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$604,104	$756,657
Accrued employee compensation	790,892	632,333
Accrued expenses (Note 9)	174,810	190,583
Interest payable, related parties (Note 11)	80,071	81,864
Capital lease payable, current portion (Note 13)	4,663	4,576
Liabilities related to discontinued operations	655,061	655,061
TOTAL CURRENT LIABILITIES	2,309,601	2,321,074
NON-CURRENT LIABILITIES		
Notes payable, related parties (Note 11)	5,372,743	5,372,743
Capital lease payable, non-current portion (Note 13)	7,685	8,884
TOTAL NON-CURRENT LIABILITIES	5,380,428	5,381,627
TOTAL LIABILITIES	7,690,029	7,702,701
COMMITMENTS AND CONTINGENCIES (Note 13)	-	-
STOCKHOLDERS' 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; 20,907,536 issued and outstanding in 2012 and 2011 (Note 4)	20,908	20,908
ADDITIONAL PAID-IN CAPITAL	63,203,153	62,940,977
ACCUMULATED OTHER COMPREHENSIVE INCOME	15,394	10,466
RETAINED DEFICIT	(66,344,143)	(64,508,828)
TOTAL STOCKHOLDERS' DEFICIT	(3,104,688)	(1,536,477)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$4,585,341	$6,166,224

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
REVENUES	$ 238,540	$ 251,753
COST OF REVENUES	71,772	93,298
GROSS PROFIT	166,768	158,455
OPERATING EXPENSES		
Research and development	603,797	749,299
General and administrative	1,237,540	1,382,185
Depreciation	5,210	6,237
Amortization	76,689	76,689
TOTAL OPERATING EXPENSES	1,923,236	2,214,410
OPERATING LOSS	(1,756,468)	(2,055,955)
OTHER INCOME (EXPENSE)		
Interest expense, net	(78,856)	(236,280)
Income (loss) on foreign currency exchange	9	(3,591)
Transitional services provided to Pulse Veterinary Technologies, LLC	-	112,500
TOTAL OTHER INCOME (EXPENSE)	(78,847)	(127,371)
LOSS BEFORE INCOME TAXES	(1,835,315)	(2,183,326)
INCOME TAX EXPENSE	-	-
NET LOSS	(1,835,315)	(2,183,326)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	4,928	10,998
TOTAL COMPREHENSIVE LOSS	$ (1,830,387)	$ (2,172,328)
LOSS PER SHARE:		
Net loss - basic	$ (0.09)	$ (0.14)
Net loss - diluted	$ (0.09)	$ (0.14)
Weighted average shares outstanding - basic	20,907,536	16,143,655
Weighted average shares outstanding - diluted	20,907,536	16,143,655

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,835,315)	$ (2,183,326)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization	76,689	76,689
Depreciation	5,210	6,237
Change in allowance for doubtful accounts	(2,520)	44,302
Stock-based compensation	262,176	152,448
Accrued interest	-	159,273
Changes in assets - (increase)/decrease		
Accounts receivable - trade	(42,046)	(100,803)
Inventory	37,943	40,838
Prepaid expenses	(8,730)	(37,467)
Due from Pulse Veterinary Technologies, LLC	27,837	(126,479)
Other	(129)	(45)
Changes in liabilities - increase/(decrease)		
Accounts payable	(152,553)	(267,968)
Accrued employee compensation	158,559	151,686
Accrued expenses	(15,773)	64,832
Interest payable, related parties	(1,793)	(2,906)
NET CASH USED BY OPERATING ACTIVITIES	(1,490,445)	(2,022,689)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(945)	-
NET CASH USED BY INVESTING ACTIVITIES	(945)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from unit options exercised, related parties	-	2,463,008
Proceeds from unit options exercised	-	1,437,326
Payment of principal on capital lease	(1,112)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,112)	3,900,334
EFFECT OF EXCHANGE RATES ON CASH	4,928	10,998
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,487,574)	1,888,643
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,909,383	417,457
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,421,809	$ 2,306,100

SUPPLEMENTAL INFORMATION				
Cash paid for interest, related parties	$	81,864	$	81,864
Cash paid for capital lease interest	$	247	$	-

See accompanying notes to unaudited condensed consolidated financial statements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

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 noninvasive, 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 the European Conformity Marking ("CE Mark") devices and accessories in Europe, Canada and Asia.

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, 2012 and for the three months ended March 31, 2012 and 2011 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, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2012.

The condensed consolidated balance sheet at December 31, 2011 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, 2011, filed with the Securities and Exchange Commission (the "SEC") on March 14, 2012. Please also refer to Note 5 to the condensed consolidated financial statements in this Form 10-Q regarding the Company's adoption of recent accounting pronouncements.

3. Going concern

The Company incurred a net loss of $1,835,315 for the three months ended March 31, 2012 and a net loss of $10,238,797 for the year ended December 31, 2011. The Company had cash and cash equivalents of $2,421,809 at March 31, 2012. These operating losses create an uncertainty about the Company's ability to continue as a going concern. The continuation of the Company's business is dependent upon raising additional financial support. Management's plans are to obtain additional financial support which may include: raising additional capital through the issuance of common or preferred stock, securities convertible into common stock, or secured or unsecured debt, an investment by a strategic partner in a specific clinical indication or market opportunity; selling all or a portion of the Company's assets, liquidating assets, or seeking relief through a filing under the U.S. Bankruptcy Code. These possibilities, to the extent available, may be on terms that result in significant dilution to the Company's existing shareholders. Although no assurances can be given, management of the Company believes that potential additional issuances of equity or other potential financing transactions as discussed above should 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in this report.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

4. Equity transactions

Private placement and note exchange

On April 8, 2011, the Company completed a private placement to 28 institutional and individual “accredited investors” (as that term is defined in the Rule 501 under the Securities Act of 1933, as amended (the “Securities Act”)) of 2,804,593 shares of common stock, $0.001 par value per share (the “Common Stock”), at a purchase price of $3.25 per share, for gross proceeds of $9,114,927. The net proceeds received by the Company were $8,467,121, net of offering costs of $647,806. As part of the private placement, the investors were issued five-year warrants to purchase up to 2,804,593 shares of Common Stock at an exercise price of $4.00 per share. In addition, the placement agent for the private placement was issued a five-year warrant to purchase 93,080 shares of Common Stock at an exercise price of $4.00 per share. The warrants vested upon issuance and expire after five years.

For each of the warrants, the holder will be able to exercise the warrant on a so-called cashless basis at any time following the one-year anniversary of the closing of the private placement if a registration statement covering the shares of Common Stock underlying such warrants is not effective.

The Company filed a registration statement with respect to the resale of the shares of Common Stock sold to the investors and shares of Common Stock issuable upon exercise of the warrants with the SEC and kept the registration statement effective until all registrable securities were sold or may be sold pursuant to Rule 144 under the Securities Act. The registration statement is no longer effective as the shares have been held for over one year and the Company believes that the shares may be sold pursuant to Rule 144 under the Securities Act.

On April 4, 2011, Prides Capital Fund I, LP and NightWatch Capital Partners II, LP (the “Noteholders”), holders of certain notes payable (the “Notes”) and related parties of the Company, exchanged the unpaid principal and interest balance of the Notes, which totaled $4,413,908, in consideration for the issuance of 1,358,126 shares of Common Stock. In connection with this transaction, the Company issued to the Noteholders warrants to purchase an aggregate of 679,064 shares of Common Stock at an exercise price of $4.00 per share. Each warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire after five years. In accordance with ASC 470, “Debt”, in April 2011, the Company recorded a loss from extinguishment of debt of $1,318,781, which was the difference between the estimated fair value of the Common Stock and warrants on the date of exchange of $9,330,326 and the fair value of the Notes (assuming the conversion feature was exercised by the Noteholders) of $8,011,545.

Unit offerings and 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, 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”, 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; (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 this 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

4. Equity transactions (continued)

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.

On September 30, 2010, in conjunction with an offering of securities of the Company pursuant to an exemption from registration under the Securities Act, the Company issued 150,000 Units to certain accredited investors 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 exempt from registration under the Securities 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 included 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.

5. Recently Issued Accounting Standards

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

6. Inventory

Inventory consists of the following:

	March 31, 2012	December 31, 2011
Inventory - finished goods	$ 368,439	$ 412,291
Inventory - parts	109,402	113,593
Total	477,841	525,884
Provision for losses and obsolescence	(119,500)	(129,600)
Net inventory	$ 358,341	$ 396,284

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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7. Property and equipment

Property and equipment consists of the following:

	March 31, 2012	December 31, 2011
Machines and equipment	$ 233,793	$ 232,848
Office and computer equipment	224,600	224,600
Leasehold improvements	67,421	67,421
Furniture and fixtures	24,613	24,613
Vehicles	22,531	22,531
Software	41,872	41,872
Other assets	2,378	2,378
Total	617,208	616,263
Accumulated depreciation	(570,267)	(565,057)
Net property and equipment	$ 46,941	$ 51,206

The aggregate depreciation related to property and equipment charged to operations was $5,210 and $6,237 for the three months ended March 31, 2012 and 2011, respectively.

8. Intangible assets

Intangible assets consist of the following:

	March 31, 2012	December 31, 2011
Patents, at cost	$ 3,502,135	$ 3,502,135
Less accumulated amortization	(2,045,042)	(1,968,353)
Net intangible assets	$ 1,457,093	$ 1,533,782

The aggregate amortization charged to operations was $76,689 and $76,689 for the three months ended March 31, 2012 and 2011, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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9. Accrued expenses

Accrued expenses consist of the following:

	March 31, 2012	December 31, 2011
Accrued legal professional fees	$ 78,000	$ 61,000
Accrued audit and tax preparation	44,174	75,516
Accrued other	52,636	54,067
	$ 174,810	$ 190,583

10. 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.

At March 31, 2012, the Company had federal net operating loss ("NOL") carryforwards of $48,915,087 for tax years through the year ended December 31, 2011, 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, 2012 indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2012. As a result, a valuation allowance was provided for the entire net deferred tax asset related to future years, including NOL carryforwards.

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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

11. Notes payable, related parties

The notes payable consist of the following:

	March 31, 2012	December 31, 2011
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 $81,864 at March 31, 2012 and December 31, 2011, respectively. Accrued interest not payable until August 1, 2012 totaled $1,372,743 at March 31, 2012 and December 31, 2011.	$ 5,372,743	$ 5,372,743
Less current portion	-	-
Non-current portion	$ 5,372,743	$ 5,372,743

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 of 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 warrants to purchase an aggregate of 679,064 shares of Common Stock at an exercise price of $4.00 per share. In accordance with ASC 470, “Debt”, in April 2011, the Company recorded a loss from extinguishment of debt of $1,318,781, which was the difference between the estimated fair value of the Common Stock and warrants on the date of exchange of $9,330,326 and the fair value of the notes (assuming the conversion feature was exercised by the noteholders) of $8,011,545.

Interest expense on notes payable to related parties totaled $80,071 and $238,231 for the three months ended March 31, 2012 and 2011, respectively.

12. 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.

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2012

12. Earnings (loss) per share (continued)

As a result of the net loss for the three months ended March 31, 2012 and 2011, 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 14,436,697 shares and 10,950,307 shares at March 31, 2012 and 2011, respectively.

13. Commitments and contingencies

Operating Leases

The Company leases office and warehouse space. Rent expense for the three months ended March 31, 2012 and 2011, was $86,798 and $86,434, respectively.

Capital Leases

The Company leases certain office equipment under an agreement classified as a capital lease. The leased assets serve as security for the lease. The accumulated depreciation of such equipment at March 31, 2012 and December 31, 2011 totaled $2,830 and $1,617, respectively. The net book value of such equipment at March 31, 2012 and December 31, 2011 totaled $11,722 and $12,935, 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. The lawsuit went to trial and the Company received a summary judgment in its favor in December 2011. On January 5, 2012, the plaintiff filed an appeal of the summary judgment. 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.

14. 401(k) plan

The Company sponsors a 401(k) plan that covers all employees who meet the eligibility requirements. The Company matched 50% of employee contributions up to 6% of their compensation effective until January 31, 2012. Effective February 1, 2012, the Company amended the 401(k) plan to make the Company matching contribution discretionary and discontinued the Company match. The Company contributed $9,664 and $17,857 to the plan for the three months ended March 31, 2012 and 2011, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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15. 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, directors and advisors 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, $262,176 and $152,448 for the three months ended March 31, 2012 and 2011, respectively.

A summary of option activity as of March 31, 2012 and December 31, 2011, and the changes during the three months ended March 31, 2012, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding as of December 31, 2011	4,365,546	$ 2.82
Granted	100,000	$ 0.44
Exercised	-	$ -
Forfeited or expired	(54,000)	$ 2.73
Outstanding as of March 31, 2012	4,411,546	$ 2.77
Exercisable	3,064,574	$ 2.96

The weighted average remaining contractual term for outstanding and exercisable stock options was 6.0 years as of March 31, 2012, and 6.3 years as of December 31, 2011.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
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15. Stock-based compensation (continued)

A summary of the Company's nonvested options as of March 31, 2012 and December 31, 2011, and changes during the three months ended March 31, 2012, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding as of December 31, 2011	1,314,722	$ 2.49
Granted	100,000	$ 0.44
Vested	(51,250)	$ 2.29
Forfeited or expired	(16,500)	$ 3.19
Outstanding as of March 31, 2012	1,346,972	$ 2.33

16. Warrants

A summary of the warrant activity as of March 31, 2012 and December 31, 2011, and the changes during the three months ended March 31, 2012, is presented as follows:

	Class A Warrants	Class B Warrants	Class D Warrants	Class E Warrants
Outstanding as of December 31, 2011	1,106,627	1,106,627	4,235,160	3,576,737
Issued	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
Outstanding as of March 31, 2012	1,106,627	1,106,627	4,235,160	3,576,737

The Class A, Class B and Class E Warrants expire five years from date of issuance and the Class D Warrants expire two years from date of issuance. The Class A and Class E Warrants have an exercise price of $4.00 per share, the Class B Warrants have an exercise price of $8.00 per share, and the Class D Warrants have an exercise price of $2.00 per share.

The exercise price and the number of shares covered by the warrants will be adjusted if the Company has a stock split, if there is a recapitalization of the Company's Common Stock, or if the Company consolidates with or merges into another company.

17. Subsequent events

The Company has evaluated subsequent events through the date of issuance of the condensed consolidated financial statements.

In April 2012, the shareholders of the Company approved increasing the number of authorized shares of Common Stock to 155,000,000. The Company filed a Definitive Schedule 14C with the SEC on April 16, 2012 and sent a copy to shareholders of record on that date. The Company expects to file its amended articles of incorporation with the state of Nevada in May 2012.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes appearing elsewhere in this report, and together with our audited consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as of and for the year ended December 31, 2011 included in our Annual Report on Form 10-K filed with the SEC on March 14, 2012.

Overview

We are an emerging global regenerative medicine company focused on the development and commercialization of noninvasive, biological response activating devices 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.

We believe we have demonstrated that our PACE technology is safe and effective in stimulating healing in chronic conditions of the foot and the elbow through our United States Food and Drug Administration ("FDA") Class III Premarket Approval ("PMA") Ossatron® device, and in the stimulation of bone and chronic tendonitis regeneration in the musculoskeletal environment through the utilization of our Ossatron, Evotron®, and orthoPACE® devices in Europe. Our lead product candidate for the global wound care market, dermaPACE®, has received the European CE Mark allowing for commercial use on acute and chronic defects of the skin and subcutaneous soft tissue. We currently do not have any commercial products in the United States. Revenues are from sales of CE Marked devices and accessories in Europe, Canada and Asia.

We are now entirely focused on developing our PACE technology to stimulate healing in:

- wound conditions, including diabetic foot ulcers, venous ulcers, pressure sores, burns and other skin eruption conditions;
- orthopedic/spine applications, such as speeding the healing of fractures (including nonunion or delayed-union conditions), improving bone density in osteoporosis, fusing bones in the extremities and spine, eliminating chronic pain in joints from trauma or arthritis, and other potential sports injury applications;
- plastic/cosmetic applications such as cellulite smoothing, graft and transplant acceptance, skin tightening, scarring and other potential aesthetic uses; and
- cardiac applications for removing plaque due to atherosclerosis and improving heart muscle performance.