SANUWAVE Health, Inc.
Form 10-Q
August 08, 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 June 30, 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 August 5, 2012, there were issued and outstanding 20,907,536 shares of the registrant's common stock, $.001 par value.

SANUWAVE Health, Inc.

Table of Contents

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

	June 30, 2012 (Unaudited)	December 31, 2011 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,400,875	$ 3,909,383
Accounts receivable - trade, net of allowance for doubtful accounts of $40,318 in 2012 and $74,852 in 2011	58,545	81,565
Inventory (Note 6)	315,979	396,284
Prepaid expenses	204,415	162,975
Due from Pulse Veterinary Technologies, LLC	-	27,837
TOTAL CURRENT ASSETS	1,979,814	4,578,044
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 7)	41,811	51,206
OTHER ASSETS	3,140	3,192
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 8)	1,380,404	1,533,782
TOTAL ASSETS	$ 3,405,169	$ 6,166,224
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 449,894	$ 756,657
Accrued employee compensation	951,854	632,333
Accrued expenses (Note 10)	178,840	190,583
Interest payable, related parties (Note 12)	80,968	81,864
Capital lease payable, current portion (Note 14)	4,751	4,576
Liabilities related to discontinued operations	655,061	655,061
TOTAL CURRENT LIABILITIES	2,321,368	2,321,074
NON-CURRENT LIABILITIES		
Notes payable, related parties (Note 12)	5,372,743	5,372,743
Capital lease payable, non-current portion (Note 14)	6,464	8,884
TOTAL NON-CURRENT LIABILITIES	5,379,207	5,381,627
TOTAL LIABILITIES	7,700,575	7,702,701
COMMITMENTS AND CONTINGENCIES (Note 14)	-	-
STOCKHOLDERS' DEFICIT		

PREFERRED STOCK, par value $0.001, 5,000,000 shares authorized; no shares issued and outstanding		-		-
COMMON STOCK, par value $0.001, 150,000,000 shares and 50,000,000 shares authorized in 2012 and 2011, respectively; 20,907,536 issued and outstanding in 2012 and 2011 (Note 4)		20,908		20,908
ADDITIONAL PAID-IN CAPITAL		63,443,023		62,940,977
ACCUMULATED OTHER COMPREHENSIVE INCOME		9,432		10,466
RETAINED DEFICIT		(67,768,769)		(64,508,828)
TOTAL STOCKHOLDERS' DEFICIT		(4,295,406)		(1,536,477)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	3,405,169	$	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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
REVENUES	$ 210,357	$ 163,749	$ 448,897	$ 415,502
COST OF REVENUES	82,161	47,233	153,933	140,531
GROSS PROFIT	128,196	116,516	294,964	274,971
OPERATING EXPENSES				
Research and development	347,644	795,118	951,441	1,544,417
General and administrative	1,036,728	1,510,390	2,274,268	2,892,575
Depreciation	5,130	6,244	10,340	12,481
Amortization	76,689	76,689	153,378	153,378
TOTAL OPERATING EXPENSES	1,466,191	2,388,441	3,389,427	4,602,851
OPERATING LOSS	(1,337,995)	(2,271,925)	(3,094,463)	(4,327,880)
OTHER INCOME (EXPENSE)				
Extinguishment of debt	-	(1,318,781)	-	(1,318,781)
Interest expense, net	(80,446)	(79,794)	(159,302)	(316,074)
Loss on foreign currency exchange	(6,185)	(14,207)	(6,176)	(17,798)
Transitional services provided to Pulse Veterinary Technologies, LLC	-	112,500	-	225,000
TOTAL OTHER INCOME (EXPENSE)	(86,631)	(1,300,282)	(165,478)	(1,427,653)
LOSS BEFORE INCOME TAXES	(1,424,626)	(3,572,207)	(3,259,941)	(5,755,533)
INCOME TAX EXPENSE	-	-	-	-
NET LOSS	(1,424,626)	(3,572,207)	(3,259,941)	(5,755,533)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	(5,962)	2,290	(1,034)	13,288
TOTAL COMPREHENSIVE LOSS	$ (1,430,588)	$ (3,569,917)	$ (3,260,975)	$ (5,742,245)
LOSS PER SHARE:				
Net loss - basic	$ (0.07)	$ (0.17)	$ (0.16)	$ (0.31)
Net loss - diluted	$ (0.07)	$ (0.17)	$ (0.16)	$ (0.31)

Weighted average shares outstanding - basic	20,907,536	20,537,517	20,907,536	18,340,586
Weighted average shares outstanding - diluted	20,907,536	20,537,517	20,907,536	18,340,586

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(3,259,941)	$(5,755,533)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization	153,378	153,378
Depreciation	10,340	12,481
Change in allowance for doubtful accounts	(34,534)	19,751
Stock-based compensation	502,046	300,210
Accrued interest	-	166,618
Extinguishment of debt	-	1,318,781
Changes in assets - (increase)/decrease		
Accounts receivable - trade	57,554	(25,045)
Inventory	80,305	15,366
Prepaid expenses	(41,440)	(28,035)
Due from Pulse Veterinary Technologies, LLC	27,837	(53,619)
Other	52	(391)
Changes in liabilities - increase/(decrease)		
Accounts payable	(306,763)	(221,520)
Accrued employee compensation	319,521	(786,173)
Accrued expenses	(11,743)	(117,316)
Interest payable, related parties	(896)	(2,009)
NET CASH USED BY OPERATING ACTIVITIES	(2,504,284)	(5,003,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(945)	(21,425)
NET CASH USED BY INVESTING ACTIVITIES	(945)	(21,425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement	-	8,467,121
Proceeds from unit options exercised, related parties	-	2,463,008
Proceeds from unit options exercised	-	1,437,326
Payment of principal on capital lease	(2,245)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(2,245)	12,367,455
EFFECT OF EXCHANGE RATES ON CASH	(1,034)	13,288
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,508,508)	7,356,262
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,909,383	417,457
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,400,875	$7,773,719

SUPPLEMENTAL INFORMATION		
Cash paid for interest, related parties	$161,936	$161,935
Cash paid for capital lease interest	$472	$-
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Capital stock issued in exchange for notes payable, related parties	$-	$4,413,908

See accompanying notes to unaudited condensed consolidated financial statements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 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 June 30, 2012 and for the three and six months ended June 30, 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 and six month period ended June 30, 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 $3,259,941 for the six months ended June 30, 2012 and a net loss of $10,238,797 for the year ended December 31, 2011. The Company had cash and cash equivalents of $1,400,875 at June 30, 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 capital. Management's plans are to obtain additional capital 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; or selling all or a portion of the Company's assets. If these efforts are unsuccessful, we may be forced to seek 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
June 30, 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.

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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

4. Equity transactions (continued)

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.

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:

	June 30, 2012	December 31, 2011
Inventory - finished goods	$ 315,387	$ 412,291
Inventory - parts	105,892	113,593
Total	421,279	525,884
Provision for losses and obsolescence	(105,300)	(129,600)
Net inventory	$ 315,979	$ 396,284

-8-

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

7. Property and equipment

Property and equipment consists of the following:

	June 30, 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	(575,397)	(565,057)
Net property and equipment	$ 41,811	$ 51,206

The aggregate depreciation related to property and equipment charged to operations was $5,130 and $6,244 for the three months ended June 30, 2012 and 2011, respectively, and $10,340 and $12,481 for the six months ended June 30, 2012 and 2011, respectively.

8. Intangible assets

Intangible assets consist of the following:

	June 30, 2012	December 31, 2011
Patents, at cost	$ 3,502,135	$ 3,502,135
Less accumulated amortization	(2,121,731)	(1,968,353)
Net intangible assets	$ 1,380,404	$ 1,533,782

The aggregate amortization charged to operations was $76,689 and $76,689 for the three months ended June 30, 2012 and 2011, respectively, and $153,378 and $153,378 for the six months ended June 30, 2012 and 2011, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

9. Fair value measurements

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, accounts receivable - trade, accounts payable and accrued expenses approximate fair value due to the short-term nature of these instruments.

The Company has adopted ASC 820-10, Fair Value Measurements (formerly SFAS No. 157), which 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 following three categories:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Unobservable inputs that are not corroborated by market data, therefore requiring the Company to develop its own assumptions.

The Company's notes payable, related parties consist of $5,372,743 of principal at June 30, 2012 and December 31, 2011. Interest accrues on the notes at a rate of six percent (6%) per annum. The fair value was determined using estimated future cash flows discounted at current rates, which is a Level 3 measurement. The estimated fair value of the Company's notes payable, related parties was $4,279,385 and $4,253,362 at June 30, 2012 and December 31, 2011, respectively.

10. Accrued expenses

Accrued expenses consist of the following:

		June 30, 2012		December 31, 2011
Accrued legal professional fees	$	74,080	$	61,000
Accrued audit and tax preparation		60,684		75,516
Accrued other		44,076		54,067
	$	178,840	$	190,583

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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

11. Income taxes (continued)

At June 30, 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 June 30, 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.

12. Notes payable, related parties

The notes payable consist of the following:

		June 30, 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 $80,968 and $81,864 at June 30, 2012 and December 31, 2011, respectively. Accrued interest not payable until August 1, 2015 totaled $1,372,743 at June 30, 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

12. Notes payable, related parties (continued)

Interest expense on notes payable to related parties totaled $80,968 and $88,312 for the three months ended June 30, 2012 and 2011, respectively, and $161,040 and $326,544 for the six months ended June 30, 2012 and 2011, respectively.

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 and six months ended June 30, 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 14,339,481 shares and 13,179,147 shares at June 30, 2012 and 2011, respectively.

14. Commitments and contingencies

Operating Leases

The Company leases office and warehouse space. Rent expense for the three months ended June 30, 2012 and 2011, was $83,452 and $88,448, respectively, and $170,250 and $174,882 for the six months ended June 30, 2012 and 2011, 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 June 30, 2012 and December 31, 2011 totaled $4,042 and $1,617, respectively. The net book value of such equipment at June 30, 2012 and December 31, 2011 totaled $10,510 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012

15. 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 $0 and $18,545 to the plan for the three months ended June 30, 2012 and 2011, respectively, and $9,664 and $36,402 for the six months ended June 30, 2012 and 2011, respectively.

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, 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, directors and advisors, $239,870 and $147,762 for the three months ended June 30, 2012 and 2011, respectively, and $502,046 and $300,210 for the six months ended June 30, 2012 and 2011, respectively.

A summary of option activity as of June 30, 2012 and December 31, 2011, and the changes during the three and six months ended June 30, 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
Granted	-	$	-
Exercised	-	$	-