SANUWAVE Health, Inc.
Form 10-Q
August 13, 2010

Table of Contents

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

(Mark One)

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

For the quarterly period ended June 30, 2010

o **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	**20-1176000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11680 Great Oaks Way, Suite 350 Alpharetta, GA	**30022**
(Address of principal executive offices)	(Zip Code)

(678) 581-6843

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o 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).

o Yes o 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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of August 13, 2010, there were issued and outstanding 12,509,657 shares of the registrant s common stock.

SANUWAVE Health, Inc.
Table of Contents

	Page
PART I FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009	3
Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2010 and 2009	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Item 4. Controls and Procedures	28
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	28
Item 6. Exhibits	29

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

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, 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, 2009, filed on March 31, 2010. Other risks and uncertainties are and will be disclosed in the Company s prior and future Securities and Exchange Commission filings. These and many other factors could affect the Company s future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by the Company or on its behalf. The Company undertakes no obligation to revise or update any forward-looking statements. The following information should be read in conjunction with the financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 31, 2010.

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

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 277,258	$ 1,786,369
Accounts receivable trade, net of allowance for doubtful accounts of $29,769 in 2010 and $20,762 in 2009	69,683	47,966
Inventory (Note 8)	547,544	592,589
Prepaid expenses	132,842	121,157
Due from Pulse Veterinary Technologies, LLC	151,102	127,878
TOTAL CURRENT ASSETS	1,178,429	2,675,959
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 9)	37,342	88,706
OTHER ASSETS	31,820	32,169
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 10)	1,993,916	2,147,295
ASSETS HELD FOR SALE (Note 7)	591,435	922,956
TOTAL ASSETS	$ 3,832,942	$ 5,867,085
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 1,816,924	$ 1,069,423
Payroll and related	809,171	509,905
Accrued expenses (Note 11)	376,360	629,029
Promissory notes (Note 13)	1,518,428	
Liabilities related to discontinued operations (Note 6)	655,061	655,061
TOTAL CURRENT LIABILITIES	5,175,944	2,863,418
NOTES PAYABLE, RELATED PARTIES (Note 14)	9,329,678	8,887,981
TOTAL LIABILITIES	14,505,622	11,751,399
COMMITMENTS AND CONTINGENCIES (Note 16)		
GOING CONCERN (Note 3)		

STOCKHOLDERS DEFICIT		
COMMON STOCK, par value $0.001, 50,000,000 shares authorized, 12,509,657 issued and outstanding	12,510	12,510
ADDITIONAL PAID-IN CAPITAL	33,679,293	32,741,593
ACCUMULATED OTHER COMPREHENSIVE LOSS	17,703	21,864
RETAINED DEFICIT	(44,382,186)	(38,660,281)
TOTAL STOCKHOLDERS DEFICIT	(10,672,680)	(5,884,314)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	$ 3,832,942	$ 5,867,085

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
REVENUES	$ 117,226	$ 141,965	$ 260,328	$ 404,047
COST OF REVENUES	40,936	38,381	88,580	98,663
GROSS PROFIT	76,290	103,584	171,748	305,384
OPERATING EXPENSES				
Research and development	895,651	808,774	1,981,625	1,622,285
General and administrative	1,498,236	653,590	3,096,760	1,903,167
Depreciation	185,202	43,378	379,934	103,846
Amortization	76,690	76,689	153,379	153,378
TOTAL OPERATING EXPENSES	2,655,779	1,582,431	5,611,698	3,782,676
OPERATING LOSS	(2,579,489)	(1,478,847)	(5,439,950)	(3,477,292)
OTHER INCOME (EXPENSE)				
Gain/(loss) on sale of assets	2,065	(13,651)	2,065	(13,651)
Transitional services provided to Pulse Veterinary Technologies, LLC	90,125	33,750	180,125	33,750
Interest expense, net	(240,243)	(191,017)	(457,524)	(329,075)
Gain (loss) on foreign currency exchange	392	(28,325)	(6,621)	(37,773)
TOTAL OTHER INCOME (EXPENSE)	(147,661)	(199,243)	(281,955)	(346,749)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,727,150)	(1,678,090)	(5,721,905)	(3,824,041)
INCOME TAX EXPENSE				

LOSS FROM CONTINUING OPERATIONS	(2,727,150)	(1,678,090)	(5,721,905)	(3,824,041)
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of tax		258,821		581,306
Gain on sale of veterinary division, net of tax		2,492,273		2,492,273
INCOME FROM DISCONTINUED OPERATIONS		2,751,094		3,073,579
NET INCOME (LOSS)	(2,727,150)	1,073,004	(5,721,905)	(750,462)
OTHER COMPREHENSIVE INCOME (LOSS), net of tax				
Foreign currency translation adjustments	(3,593)	1,906	(4,161)	(47,226)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ (2,730,743)	$ 1,074,910	$ (5,726,066)	$ (797,688)
EARNINGS (LOSS) PER SHARE:				
Loss from continuing operations basic	$ (0.22)	$ (0.15)	$ (0.46)	$ (0.35)
Loss from continuing operations diluted	$ (0.22)	$ (0.15)	$ (0.46)	$ (0.35)
Income from discontinued operations basic	$	$ 0.25	$	$ 0.28
Income from discontinued operations diluted	$	$ 0.25	$	$ 0.28
Net earnings (loss) basic	$ (0.22)	$ 0.10	$ (0.46)	$ (0.07)
Net earnings (loss) diluted	$ (0.22)	$ 0.10	$ (0.46)	$ (0.07)
Weighted average shares outstanding basic	12,509,657	11,009,657	12,509,657	11,009,657
Weighted average shares outstanding diluted	12,509,657	11,009,657	12,509,657	11,009,657

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss from continuing operations	$ (5,721,905)	$ (3,824,041)
Adjustments to reconcile net loss to net cash used by operating activities		
Amortization	153,379	153,378
Accrued interest	460,125	330,642
Depreciation	379,934	103,846
Change in allowance for doubtful accounts	9,007	(33,400)
(Gain) loss on sale of property and equipment	(2,065)	13,651
Stock-based compensation	937,700	267,392
Changes in assets (increase)/decrease		
Accounts receivable trade	(30,724)	(3,509)
Inventory	45,045	104,943
Prepaid expenses	(11,685)	(18,959)
Due from Pulse Veterinary Technologies, LLC	(23,224)	(157,009)
Other assets	349	(430)
Assets held for sale	2,516	
Changes in liabilities increase/(decrease)		
Accounts payable	747,501	(698,787)
Payroll and related	299,266	(160,100)
Accrued expenses	(252,669)	(98,255)
NET CASH USED BY CONTINUING OPERATIONS	(3,007,450)	(4,020,638)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		1,018,505
NET CASH USED BY OPERATING ACTIVITIES	(3,007,450)	(3,002,133)
CASH FLOWS FROM INVESTING ACTIVITIES		
Continuing operations		
Proceeds from sale of property and equipment	2,500	
Purchase of property and equipment		(21,147)
NET CASH PROVIDED (USED) BY CONTINUING OPERATIONS	2,500	(21,147)
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		3,540,948
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,500	3,519,801
CASH FLOWS FROM FINANCING ACTIVITIES		
Continuing operations		

Proceeds from promissory notes	1,500,000	
Proceeds from notes payable, related parties		2,125,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,500,000	2,125,000
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	(4,161)	(47,226)
NET INCREASE (DECREASE) IN CASH	(1,509,111)	2,595,442
CASH, BEGINNING OF PERIOD	1,786,369	543,626
CASH, END OF PERIOD	$ 277,258	$ 3,139,068

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

1. Nature of the Business

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

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, these financial statements do not include all the information and footnotes required by United States generally accepted accounting principles for complete financial statements. The financial information as of June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2010.

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

For further information and a summary of significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 31, 2010. Please refer also to Note 5 of this Form 10-Q regarding the Company s adoption of recent accounting pronouncements.

3. Going concern

As shown in the accompanying condensed consolidated financial statements, the Company incurred a net loss of $5,721,905 and $750,462 for the six months ended June 30, 2010 and 2009, respectively. The Company incurred a net loss from continuing operations of $5,721,905 and $3,824,041 for the six months ended June 30, 2010 and 2009, respectively. These operating losses create an uncertainty about the Company s ability to continue as a going concern. Management of the Company believes potential additional investors, convertible promissory notes or other potential financing will provide the necessary funding for the Company. The condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company is economically dependent upon future financing to fund ongoing operations. During the six months ended June 30, 2010, the Company issued seven promissory notes totaling $1,500,000. In addition, subsequent to quarter end, on July 13, 2010, the Company issued a convertible promissory note for $500,000.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

4. Reverse Merger Transaction

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

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

5. Recently Issued Accounting Standards

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

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

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

6. Discontinued operations

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

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

Accordingly, the Company s condensed consolidated financial statements have been prepared with the net assets, results of operations, and cash flows of these businesses displayed separately as discontinued operations. The Ossatron devices and related parts inventory were subsequently reclassified, on October 1, 2009, to assets held for sale (see Note 7 Assets held for sale).

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue	$	$ 675,292	$	$ 1,458,107
Cost of revenues		198,562		372,547
Gross profit		476,730		1,085,560
Operating expenses		223,480		506,790
Operating income		253,250		578,770
Other income		5,571		2,536
Income from discontinued operations before income taxes		258,821		581,306
Income tax expense				
Income from discontinued operations, net of income tax	$	$ 258,821	$	$ 581,306

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

	June 30, 2010	December 31, 2009
Accounts payable and accrued expenses	$ (655,061)	$ (655,061)
Net assets (liabilities) of discontinued operations	$ (655,061)	$ (655,061)

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

7. Assets held for sale

On October 31, 2008, the Company discontinued its Ossatron mobile service business and accordingly displayed the related assets of this business as discontinued operations (Note 6). In accordance with FASB ASC 205-20, *Presentation of Financial Statements Discontinued Operations,* a quarterly review of the discontinued assets was performed to determine if they should continue to be recorded as discontinued operations. As of October 1, 2009, management determined that the Ossatron device fixed assets and related parts inventory should be reclassified to continuing operations, and depreciation on the Ossatron device fixed assets was restarted at October 1, 2009.
Assets held for sale consist of the following:

	June 30, 2010	December 31, 2009
Ossatron devices	$ 4,837,165	$ 4,837,165
Accumulated depreciation	(4,411,479)	(4,082,474)
Net property and equipment	425,686	754,691
Inventory Ossatron device parts	220,949	210,169
Provision for losses and obsolescence	(55,200)	(41,904)
Net inventory	165,749	168,265
Total assets held for sale	$ 591,435	$ 922,956

The aggregate depreciation charged to operations was $160,781 for the three months ended June 30, 2010, and $329,005 for the six months ended June 30, 2010. There was no depreciation expense charged to operations for the three and six months ended June 30, 2009.

8. Inventory

Inventory consists of the following:

	June 30, 2010	December 31, 2009
Inventory finished goods	$ 648,687	$ 667,998
Inventory parts	81,522	108,068
	730,209	776,066
Provision for losses and obsolescence	(182,665)	(183,477)
Net inventory	$ 547,544	$ 592,589

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

9. Property and equipment

Property and equipment consists of the following:

	June 30, 2010	December 31, 2009
Machines and equipment	$ 199,520	$ 199,520
Office and computer equipment	296,120	311,791
Leasehold improvements	67,421	67,421
Furniture and fixtures	24,613	24,613
Vehicles	38,897	38,897
Software	40,233	40,233
Other assets	4,585	4,585
Total	671,389	687,060
Accumulated depreciation	(634,047)	(598,354)
Net property and equipment	$ 37,342	$ 88,706

The aggregate depreciation charged to operations was $24,421 and $43,378 for the three months ended June 30, 2010 and 2009, respectively, and $50,929 and $103,846 for the six months ended June 30, 2010 and 2009, respectively.

10. Intangible assets

Intangible assets consist of the following:

	June 30, 2010	December 31, 2009
Patents, at cost	$ 3,502,135	$ 3,502,135
Less accumulated amortization	(1,508,219)	(1,354,840)
Net intangible assets	$ 1,993,916	$ 2,147,295

The aggregate amortization charged to operations was $76,690 and $76,689 for the three months ended June 30, 2010 and 2009, respectively, and $153,379 and $153,378 for the six months ended June 30, 2010 and 2009, respectively.

11. Accrued expenses

Accrued expenses consist of the following:

	June 30, 2010	December 31, 2009
Accrued legal professional fees	$ 73,628	$ 249,418
Accrued clinical site payments	115,000	192,023
Accrued audit and tax preparation	75,232	77,771
Accrued other	112,500	109,817
	$ 376,360	$ 629,029

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

12. Income taxes

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 June 30, 2010, the Company had federal net operating loss (NOL) carryforwards of $32,753,067 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 on ASC 740, *Income Taxes* (formerly SFAS No. 109), the Company s management believes that there is not sufficient evidence at June 30, 2010, indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2010. As a result, a valuation allowance was provided for the entire net deferred tax asset related to future years, including loss carryforwards.

The Company s ability to use it 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 would further limit its ability to use its NOL carryforwards accumulated to date to reduce future taxable income and tax liabilities. Additionally, because U.S. 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 carryfowards for federal income tax purposes.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

13. Promissory notes

The promissory notes consist of the following:

	June 30, 2010
Promissory note, unsecured, bearing interest at 5% issued to David N. Nemelka on March 1, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal was due on June 1, 2010. The principal was not repaid at the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 1, 2010. Accrued interest totaled $4,198 at June 30, 2010.	$ 204,198
Promissory note, unsecured, bearing interest at 5% issued to Kevin and Margaret Richardson on March 4, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal was due on June 4, 2010. The principal was not repaid at the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 4, 2010. Accrued interest totaled $3,973 at June 30, 2010.	203,973
Promissory note, unsecured, bearing interest at 5% issued to David N. Nemelka on March 31, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal was due on June 30, 2010. The principal was not repaid at the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 30, 2010. Accrued interest totaled $3,766 at June 30, 2010.	303,766
Promissory note, unsecured, bearing interest at 5% issued to Kevin and Margaret Richardson on March 31, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal was due on June 30, 2010. The principal was not repaid at the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 30, 2010. Accrued interest totaled $3,766 at June 30, 2010.	303,766
Sub-total promissory notes	1,015,703

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

13. Promissory notes (continued)

	June 30, 2010
Convertible promissory note, unsecured, bearing interest at 5% issued to Kevin and Margaret Richardson on May 12, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal is due August 12, 2010. If the convertible promissory note is not paid or converted prior to the maturity date, the Company shall issue to the holder a warrant to purchase shares of the Company s common stock, par value $0.001 per share, at a purchase price of $4.00 per share. The number of shares issuable upon the exercise of the warrant shall be determined by dividing the sum of the principal and interest payable under the convertible promissory note by 20. Accrued interest totaled $2,003 at June 30, 2010.	302,003
Convertible promissory note, unsecured, bearing interest at 5% issued to Durk V. Irwin on June 4, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal is due September 4, 2010. If the convertible promissory note is not paid or converted prior to the maturity date, the Company shall issue to the holder a warrant to purchase shares of the Company s common stock, par value $0.001 per share, at a purchase price of $4.00 per share. The number of shares issuable upon the exercise of the warrant shall be determined by dividing the sum of the principal and interest payable under the convertible promissory note by 20. Accrued interest totaled $361 at June 30, 2010.	100,361
Convertible promissory note, unsecured, bearing interest at 5% issued to Todd R. Pedersen on June 4, 2010. Interest is accrued and added to the principal balance. All accrued interest and principal is due September 4, 2010. If the convertible promissory note is not paid or converted prior to the maturity date, the Company shall issue to the holder a warrant to purchase shares of the Company s common stock, par value $0.001 per share, at a purchase price of $4.00 per share. The number of shares issuable upon the exercise of the warrant shall be determined by dividing the sum of the principal and interest payable under the convertible promissory note by 20. Accrued interest totaled $361 at June 30, 2010.	100,361
Sub-total convertible promissory notes	502,725
Total promissory notes	$ 1,518,428

Upon the consummation of a qualified financing on or prior to the prepayment of the convertible promissory notes or the maturity date, the Company shall cause the conversion of the unpaid principal and interest on the convertible promissory notes into (A) shares of common stock (the number of shares to be determined by dividing the unpaid principal and interest on the convertible promissory note by the conversion price), (B) a warrant to purchase the same number of shares of common stock that the holder would have received if the holder had invested an amount equal to the unpaid principal and interest on the convertible promissory notes in the qualified financing, and (C) any other securities to be issued pursuant to the qualified financing in the same amounts and under the same terms that the holder would have received if the holder had invested an amount equal to the unpaid principal and interest on the convertible promissory notes in the qualified financing. Pursuant to the terms of the convertible promissory notes, a qualified financing means the consummation, on or prior to the prepayment of the convertible promissory notes or the maturity date, of a private placement of not less than $3,000,000, in the aggregate, of common stock. The conversion price of any securities issued to the holder shall be equal to the per share purchase price of the common stock issued in the qualified financing.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

13. Promissory notes (continued)

Kevin Richardson is a member of the Board of Directors of the Company and is the managing partner of Prides Capital LLC, a shareholder of the Company. David N. Nemelka, Durk V. Irwin, and Todd R. Pedersen are shareholders of the Company.

Interest expense on promissory notes totaled $16,872 for the three months ended June 30, 2010 and $18,428 for the six months ended June 30, 2010.

There were no promissory notes outstanding during fiscal year 2009.

14. Notes payable, related parties

The notes payable, related parties consist of the following:

	June 30, 2010	December 31, 2009
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 is 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 totaled $1,372,743 and $1,215,253 at June 30, 2010 and December 31, 2009, respectively.	$ 5,372,743	$ 5,215,253
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 June 30, 2010 is accrued and added to the principal balance. Interest is paid quarterly in arrears if elected by the holder. As of June 30, 2010, the holder has not elected to have interest paid. All remaining unpaid accrued interest and principal is due September 30, 2011. Accrued interest totaled $756,935 and $472,728 at June 30, 2010 and December 31, 2009, respectively. At the option of the holder, all of any portion of the unpaid principal can be converted into common stock with a conversion price of $2.92 per share.	3,956,935	3,672,728
Total	9,329,678	8,887,981
Less current portion		
Non-current portion	$ 9,329,678	$ 8,887,981

Interest expense on notes payable, related parties totaled $224,517 and $192,288 for the three months ended June 30, 2010 and 2009, respectively, and $441,697 and $330,642 for the six months ended June 30, 2010 and 2009, respectively.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

15. 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 from continuing operations for the six months ended June 30, 2010 and 2009, all potentially dilutive shares were anti-dilutive and therefore excluded from the computation of diluted net income (loss) per share. The anti-dilutive common shares totaled 1,767,259 shares and 948,913 shares for the three months ended June 30, 2010 and 2009, respectively, and 1,728,021 shares and 854,383 shares for the six months ended June 30, 2010 and 2009, respectively.

16. Commitments and Contingencies

The Company leases office and warehouse space. Rent expense was $83,193 and $128,792 for the three months ended June 30, 2010 and 2009, respectively, and $170,282 and $248,038 for the six months ended June 30, 2010 and 2009, respectively.

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 consolidated financial position or results of operations of the Company.

17. 401(k) plan

The Company sponsors a 401(k) 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 $18,089 and $17,108 to the plan for the three months ended June 30, 2010 and 2009, respectively, and $34,784 and $34,360 to the plan for the six months ended June 30, 2010 and 2009, respectively.

18. Stock-based compensation

During 2006, SANUWAVE, Inc. approved the 2006 Stock Incentive Plan (the Plan) and certain Nonstatutory Stock Option Agreements with key employees. The Nonstatutory Stock Option Agreements have terms substantially the same as the Plan. As of June 30, 2010, the Plan reserved approximately 684,666 shares of common stock for grant. The Plan permits granting of awards to selected employees and directors of the Company in the form of restricted stock or options to purchase shares of common stock. Options granted may include nonstatutory options as well as qualified incentive stock options. The Plan is currently administered by the board of directors of SANUWAVE, Inc. The Plan gives broad powers to the board of directors of SANUWAVE, Inc. to administer and interpret the particular form and conditions of each option. The stock options granted were nonstatutory options which, under the Plan, vest equally over a four-year period, and have a ten-year term. The options were granted to employees at an exercise price deemed to be the fair market value of the common stock on the date of the grant. The Company adopted and assumed the Plan pursuant to the Merger.

On January 29, 2010, the Company granted 112,500 options to employees and directors at an exercise price of $4.05 per share. Using the Black-Scholes option pricing model, management has determined that the options granted in 2010 had a weighted average fair value per share of $2.06 resulting in total compensation cost of $455,625. Compensation cost will be recognized over the applicable service period.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

18. Stock-based compensation (continued)

The Company recognized as compensation cost for all outstanding stock options, restricted stock and warrants granted to employees and directors, $454,430 and $133,696 for the three months ended June 30, 2010 and 2009, respectively, and $937,700 and $267,392 for the six months ended June 30, 2010 and 2009, respectively.

The assumptions used are as follows:

	Six Months Ended June 30, 2010
Expected life in years	6.0
Risk free interest rate	2.41%
Weighted average volatility	65.00%
Expected dividend yield (1)	

(1) The Company has not paid dividends on its common stock and does not expect to pay dividends on its common stock in the near future.

A summary of option activity as of June 30, 2010 and December 31, 2009, and the changes during the three and six months ended June 30, 2010, is presented as follows:

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2009	1,979,546	$ 3.70
Granted	112,500	$ 4.05
Exercised		$
Forfeited or expired	(2,500)	$ 2.92
Outstanding as of March 31, 2010	2,089,546	$ 3.72
Granted		$
Exercised		$
Forfeited or expired	(3,750)	$ 3.30
Outstanding as of June 30, 2010	2,085,796	$ 3.72
Exercisable	1,857,986	$ 3.68

The weighted average remaining contractual term for outstanding and exercisable stock options is 5.8 years as of June 30, 2010 and 6.3 years as of December 31, 2009.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

18. Stock-based compensation (continued)

A summary of the Company s nonvested options as of June 30, 2010 and December 31, 2009, and changes during the three and six months ended June 30, 2010, is presented as follows:

	Options	Weighted Average Grant-Date Fair Value
Nonvested as of December 31, 2009	273,471	$ 997,589
Granted	112,500	455,625
Vested	(20,911)	(61,060)
Forfeited or expired	(2,500)	(7,300)
Nonvested as of March 31, 2010	362,560	1,384,854
Granted		
Vested	(131,000)	(453,422)
Forfeited or expired	(3,750)	(12,363)
Nonvested as of June 30, 2010	227,810	$ 919,069

A summary of the Company s restricted stock as of June 30, 2010 and December 31, 2009, and changes during the six months ended June 30, 2010, is presented as follows:

	Restricted Stock
Outstanding as of December 31, 2009	403,030
Granted	
Vested	
Forfeited or expired	
Outstanding as of June 30, 2010	403,030

19. Warrants

As of June 30, 2010, the Company had (1) Class A Warrants to purchase up to 1,106,627 shares of common stock outstanding, (2) Class B Warrants to purchase up to 1,106,627 shares of common stock outstanding, and (3) Class C Warrants to purchase up to 1,500,000 shares of common stock outstanding. The Class A Warrants and Class B Warrants expire on September 25, 2014, and the Class C Warrants expire on September 25, 2011. The Class C Warrants are not exercisable until September 25, 2010. The Class A Warrants and Class C Warrants have an exercise price of $4.00 per share, and the Class B Warrants have an exercise price of $8.00 per share.

The exercise price and the number of shares covered by the Class A, B and C 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 corporation. The Class C Warrants may be redeemed by the Company if the closing price of the Company s common stock on the trading market is $5.00 per share or more, with 15,000 shares of average daily volume, for 20 consecutive trading days, or if the Company consummates a private offering of the Company s common stock. In both cases, the redemption price will be $0.01 per warrant.

Table of Contents

SANUWAVE HEALTH, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

19. Warrants (continued)

On July 17, 2010, by mutual agreement with the warrant holder, the Company cancelled 900,000 Class C Warrants.

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, 2009 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 31, 2010.

Overview

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

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 FDA Class III PMA approved Ossatron® device, and in the stimulation of bone and chronic tendonitis regeneration in the musculoskeletal environment through the utilization of our Ossatron and Evotron® devices in Europe. Our lead product candidate for the global wound care market, dermaPACE , has received the European Conformity Marking (CE Mark) allowing for commercial use on acute and chronic defects of the skin and subcutaneous soft tissue.

With the divestiture of our worldwide Versatron® veterinary product line in June 2009, 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 procedures for removing plaque due to atherosclerosis and improving heart muscle performance.

Recent Developments

We have completed enrolling patients for our first IDE wound care clinical study focused on the healing of diabetic foot ulcers utilizing our lead product candidate, dermaPACE. The primary study goal is to establish superiority in diabetic foot ulcer healing rates using the dermaPACE treatment compared to sham control, when both are combined with the current standard of care. The standard of care includes wet-to-dry dressings, the most widely used primary dressing material in the United States, and offloading with a walking boot. A total of 206 patients have entered the dermaPACE study at 24 sites. The patients in the study must be followed for a total of 24 weeks. The study s primary endpoint, wound closure, is defined as successful if the skin is reepithelialized without drainage or dressing requirements confirmed at two consecutive study visits. We expect to complete the patient follow-up phase of this

trial in early September 2010, to report top-line results in the fourth quarter of 2010, to file our Premarket Approval Application (PMA) with the FDA no later than the first quarter of 2011, and, pending a favorable response from the FDA, to launch dermaPACE in the United States in 2011.

Table of Contents

We launched in Europe the orthoPACE device intended for use in orthopedic, trauma and sports medicine indications following CE Mark approval in June 2010. The device features a new, unique applicator that is less painful for some indications and may reduce or completely eliminate anesthesia for some patients. In the orthopedic setting, the orthoPACE will initially be used to treat tendinopathies and acute and nonunion fractures, including the soft tissue surrounding the fracture to accelerate healing and prevent secondary complications and their associated treatment costs. The orthoPACE can also be used as an adjunctive treatment to fixation, fusion costs. The first shipments of the new orthoPACE device were made in July 2010, and the corresponding revenue and cost of goods sold will be recorded in the third quarter of 2010.

We believe our experience from preclinical research and the clinical use of our predecessor devices in Europe and Asia, as well as our Ossatron device in the United States for the last nine years, demonstrates the safety, clinical utility and efficacy of our product candidates. In addition, we have preclinical programs focused on the development and better understanding of treatments specific to our target applications, as well as toward the development of next generation devices utilizing our PACE technology to maximize healing response and intervention.

We believe that these studies suggest that our platform technology will be effective in our target applications. If successful, we expect these clinical studies should lead to regulatory approval of our regenerative product candidates in the United States, Europe and Asia. If approved by the appropriate regulatory authorities, we believe that our product candidates will offer new, effective and non-invasive treatment options in wound healing, orthopedic/spine injuries, plastic/cosmetic uses and cardiac procedures, improving the quality of life for millions of patients suffering from injuries or deterioration of tissue, bones and vascular structures.

Financial Overview

Since our inception in 2005, we have funded our operations from the sale of capital stock, the issuance of notes payable to related parties, the issuance of promissory notes, the sale of our veterinary division in June 2009, and product sales. At June 30, 2010, the balance of cash and cash equivalents totaled $0.3 million. Subsequent to quarter end, we issued a $0.5 million convertible promissory note on July 13, 2010.

We continue to incur research and development expenses for clinical trials and the development of products for additional indications. We expect that research and development expenses will continue to increase as a result of new and ongoing clinical and pre-clinical studies in the United States and in Europe, as well as expenses associated with regulatory filings. In addition, we anticipate that our general and administrative expenses will continue to increase as we expand our operations, facilities and other administrative activities related to our efforts to bring our product candidates to commercialization.

Since our inception, we have incurred losses from operations each year. As of June 30, 2010, we had an accumulated deficit of $44.4 million. Although the size and timing of our future operating losses are subject to significant uncertainty, we expect that operating losses will continue over the next few years as we continue to fund our research and development activities and clinical trials, and as we prepare for a future sales network to represent our products. In addition, given the sale of our veterinary division in 2009 and the discontinuation of the Ossatron mobile service business in 2008, we do not currently have an FDA approved product in commercialization in the United States.

We cannot reasonably estimate the nature, timing and costs of the efforts necessary to complete the development and approval of, or the period in which material net cash flows are expected to be generated from, any of our products, due to the numerous risks and uncertainties associated with developing products, including the uncertainty of:

- the scope, rate of progress and cost of our clinical trials;
- future clinical trial results;
- the cost and timing of regulatory approvals;
- the establishment of successful marketing, sales and distribution;

Table of Contents

- the cost and timing associated with establishing reimbursement for our products;
- the timing and results of our pre-clinical research programs;
- the effects of competing technologies and market developments; and
- the industry demand and patient wellness behavior as businesses and individuals suffer from the current economic recession.

Any failure to complete the development of our product candidates in a timely manner, or any failure to successfully market and commercialize our product candidates, would have a material adverse effect on our operations, financial position and liquidity. A discussion of the risks and uncertainties associated with us and our business are set forth under the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 31, 2010.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our condensed consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses.

On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued expenses, fair valuation of inventory, fair valuation of stock related to stock-based compensation and income taxes. We base our estimates on authoritative literature and pronouncements, historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions. The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements. The results of our operations for any historical period are not necessarily indicative of the results of our operations for any other future period.

While our significant accounting policies are more fully described in Note 1 to our consolidated financial statements filed with our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 31, 2010, we believe that the following accounting policies relating to revenue recognition, research and development costs, inventory valuation, stock-based compensation and income taxes are significant and; therefore, they are important to aid you in fully understanding and evaluating our reported financial results.

Revenue Recognition

Sales of medical devices, including related applicators and applicator kits, are recognized when shipped to the customer. Shipments under agreements with distributors are invoiced at a fixed price, are not subject to return, and payment for these shipments is not contingent on sales by the distributor. The Company recognizes revenue on shipments to distributors in the same manner as with other customers. Fees from services performed are recognized when the service is performed.

Research and Development Costs

We expense costs associated with research and development activities as incurred. We evaluate payments made to suppliers and other vendors and determine the appropriate accounting treatment based on the nature of the services provided, the contractual terms, and the timing of the obligation. Research and development costs include payments to third parties that specifically relate to our products in clinical development, such as payments to contract research organizations, clinical investigators, clinical related consultants, contract manufacturer development costs and insurance premiums for clinical studies. In addition, employee costs (salaries, payroll taxes, benefits and travel) for employees of the regulatory affairs, clinical affairs, quality assurance, quality control, and research and development departments are classified as research and development costs.

Table of Contents

Inventory Valuation

We value our inventory at the lower of our actual cost or the current estimated market value. We regularly review existing inventory quantities and expiration dates of existing inventory to evaluate a provision for excess, expired, obsolete and scrapped inventory based primarily on our historical usage and anticipated future usage. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated change in demand or technological developments could have an impact on the value of our inventory and our reported operating results.

Stock-based Compensation

During 2006, SANUWAVE, Inc. s board of directors approved the adoption of the 2006 Stock Incentive Plan (the Plan), which was assumed by the Company following the Merger. The Plan provides that stock options, other equity interests or equity-based incentives may be granted to key personnel at an exercise price determined by the Company s board of directors, at the time the option is granted, taking into account the fair value of the common stock on the date of grant. The maximum term of any option granted pursuant to the Plan is ten years from the date of grant.

In accordance with ASC 718, *Compensation Stock Compensation* (formerly included in SFAS No. 123(R), Accounting for Stock-Based Compensation), the fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The expected terms of options granted represent the period of time that options granted are estimated to be outstanding and are derived from the contractual terms of the options granted. We amortize the fair value of each option over each option s vesting period.

Income Taxes

We account for income taxes utilizing the asset and liability method prescribed by the provisions of ASC 740, *Income Taxes* (formerly SFAS No. 109, Accounting for Income Taxes). Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided for the deferred tax assets related to future years, including loss carry-forwards, if there is not sufficient evidence to indicate that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in future years.

We have adopted a provision of ASC 740, *Income Taxes* (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48)). ASC 740 specifies the way public companies are to account for uncertainties in income tax reporting, and prescribes a methodology for recognizing, reversing, and measuring the tax benefits of a tax position taken, or expected to be taken, in a tax return. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company s tax returns to determine whether the tax positions would more-likely-than-not be sustained if challenged by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year.

Results of Operations for the Three Months ended June 30, 2010 and 2009 (Unaudited)

Revenues and Cost of Revenues

Revenues for the three months ended June 30, 2010 were $117,226, compared to $141,965 for the same period in 2009, a decrease of $24,739, or 17%. These revenues result primarily from sales of devices and applicators in Europe of our legacy Evotron device for orthopedic conditions and our dermaPACE device for advanced wound care. Revenues decreased for the three months ended June 30, 2010 compared to 2009 primarily because of declining sales of the legacy Evotron device due to the elimination in 2009 of our European sales and marketing staff to focus our resources in the United States.

Cost of revenues for the three months ended June 30, 2010 was $40,936, compared to $38,381 for the same period in 2009. Gross profit as a percentage of revenues was 65% for the three months ended June 30, 2010, as compared to 73% for the same period in 2009. The decrease in gross profit in 2010 was primarily due to higher freight costs in 2010 associated with the Company assembling its products in the United States for sale in Europe instead of assembling in Europe as it did in 2009.

Table of Contents

Research and Development Expenses

Research and development expenses for the three months ended June 30, 2010 were $895,651, compared to $808,774 for the same period in 2009, an increase of $86,877, or 11%. Research and development costs include payments to third parties that specifically relate to our products in clinical development, such as payments to contract research organizations, clinical investigators, clinical related consultants, contract manufacturer development costs and insurance premiums for clinical studies. In addition, employee costs (salaries, payroll taxes, benefits, and travel) for employees of the regulatory affairs, clinical affairs, quality assurance, quality control, and research and development departments are classified as research and development costs. Research and development costs increased in 2010 as compared to the same period in 2009 due to higher costs of the ongoing clinical trial of dermaPACE for diabetic foot ulcers in the United States as enrollment ended during the first quarter of 2010 and new consultants were engaged to assist in the patient follow-up phase of the clinical trial.

We expect that research and development expenses will continue to increase as a result of next generation technology development, the ongoing clinical trial of dermaPACE for diabetic foot ulcers in the United States and other new product candidates, as well as continuing expenses associated with pre-clinical studies and regulatory filings.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2010 were $1,498,236, compared to $653,590 for the same period in 2009, an increase of $844,646, or 129%. General and administrative expenses include the non-cash compensation costs for stock compensation of $454,430 for the three months ended June 30, 2010, compared to $133,696 for the same period in 2009, due to new grants of options and restricted stock to management and directors of the Company in September 2009 and January 2010.

Excluding the non-cash compensation costs for stock compensation, general and administrative expenses were $1,043,806 for the three months ended June 30, 2010, as compared to $519,894 for the same period in 2009, an increase of $523,912 or 101%. The Company recorded bonus expense for fiscal year 2010 of $147,288 for the three months ended June 30, 2010, as compared to a bonus expense credit of $303,285 for the three months ended June 30, 2009, which resulted in an increase in bonus expense of $450,573 for the three months ended June 30, 2010, as compared to the same period in 2009. The bonus expense credit for the three months ended June 30, 2009, was due to the reversal of the 2008 bonus accrual determined, at that time, not to be payable due to the capital constraints of the Company.

We expect that general and administrative expenses will continue to increase as we expand our operations and other administrative activities related to our efforts to bring our products to commercialization.

Depreciation and Amortization

Depreciation and amortization for the three months ended June 30, 2010 was $261,892, compared to $120,067 for the same period in 2009, an increase of $141,825, or 118%.

On October 31, 2008, the Company discontinued its Ossatron mobile service business and accordingly displayed the related assets of this business as discontinued operations. As of October 1, 2009, management determined that the Ossatron device fixed assets and related parts inventory should be reclassified to continuing operations and depreciation on the Ossatron device fixed assets was restarted at October 1, 2009. The depreciation expense related to these assets was $160,781 for the three months ended June 30, 2010. There was no depreciation expense recorded for these assets for the three months ended June 30, 2009.

Other Income

On June 3, 2009, we sold our veterinary division to Pulse Vet. Under terms of the asset purchase agreement, we will continue to provide production services at the direction of Pulse Vet for a fee until April 30, 2011, unless Pulse Vet elects to terminate the agreement at an earlier date. The revenue for these transitional services was $90,125 and $33,750 for the three months ended June 30, 2010 and 2009, respectively.

Table of Contents

Interest expense, net, for the three months ended June 30, 2010 was $240,243, compared to $191,017 for the same period in 2009, an increase of $49,226, or 26%. The increase was due to interest at 15% per annum on notes payable, related parties, totaling $1,575,000 issued during the three months ended March 31, 2009, and interest at 5% to 10% per annum on promissory notes totaling $1,500,000 issued during the six months ended June 30, 2010.

Provision for Income Taxes

At June 30, 2010, we had Federal net operating loss carryforwards of approximately $32.8 million that will begin to expire in 2025. Our ability to use these net operating loss carryforwards to reduce our future Federal income tax liabilities could be subject to annual limitations. Additionally, because United States tax laws limit the time during which net operating loss carryforwards may be applied against future taxable income and tax liabilities, we may not be able to take advantage of our net operating loss carryforwards for Federal income tax purposes.

Income from Discontinued Operations

On June 3, 2009, we sold our veterinary division for $3,500,000 in cash to Pulse Vet and recognized a gain, net of taxes, of $2,492,273. The income from discontinued operations was $258,821 for the three months ended June 30, 2009.

Net Income (Loss)

Net loss for the three months ended June 30, 2010 was $2,727,150, or $(0.22) per basic and diluted share, compared to net income of $1,073,004, or $0.10 per basic and diluted share, for the three months ended June 30, 2009. The net income for the three months ended June 30, 2009, included a gain, net of taxes, of $2,492,273 attributable to the sale of our veterinary division. The loss from continuing operations was $2,727,150, or $(0.22) per basic and diluted share, for the three months ended June 30, 2010, compared to a loss of $1,678,090, or $(0.15) per basic and diluted share, for the three months ended June 30, 2009. We anticipate that our operating losses will continue over the next few years as we continue to fund our research and development activities and clinical trials, and as we prepare for a future sales network to represent our products.

Results of Operations for the Six Months ended June 30, 2010 and 2009 (Unaudited)

Revenues and Cost of Revenues

Revenues for the six months ended June 30, 2010 were $260,328, compared to $404,047 for the same period in 2009, a decrease of $143,719, or 36%. These revenues result primarily from sales of devices and applicators in Europe of our legacy Evotron device for orthopedic conditions and our dermaPACE device for advanced wound care. Revenues decreased for the six months ended June 30, 2010 compared to 2009 primarily because of declining sales of the legacy Evotron device due to the elimination in 2009 of our European sales and marketing staff to focus our resources in the United States.

Cost of revenues for the six months ended June 30, 2010 was $88,580, compared to $98,663 for the same period in 2009. Gross profit as a percentage of revenues was 66% for the six months ended June 30, 2010, as compared to 76% for the same period in 2009. The decrease in gross profit in 2010 was primarily due to higher freight cost in 2010 associated with the Company assembling its products in the United States for sale in Europe instead of assembling in Europe as it did in 2009.

Research and Development Expenses

Research and development expenses for the six months ended June 30, 2010 were $1,981,625, compared to $1,622,285 for the same period in 2009, an increase of $359,340, or 22%. Research and development costs include payments to third parties that specifically relate to our products in clinical development, such as payments to contract research organizations, clinical investigators, clinical related consultants, contract manufacturer development costs and insurance premiums for clinical studies. In addition, employee costs (salaries, payroll taxes, benefits, and travel) for employees of the regulatory affairs, clinical affairs, quality assurance, quality control, and research and development departments are classified as research and development costs. Research and development costs increased in 2010 as compared to the same period in 2009 due to higher costs of the ongoing clinical trial of dermaPACE for diabetic foot ulcers in the United States as enrollment ended during the first quarter of 2010 and new consultants were engaged to assist in the patient follow-up phase of the clinical trial.

Table of Contents

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2010 were $3,096,760, compared to $1,903,167 for the same period in 2009, an increase of $1,193,593, or 63%. General and administrative expenses include the non-cash compensation costs for stock compensation of $937,700 for the six months ended June 30, 2010, compared to $267,392 for the same period in 2009, due to new grants of options and restricted stock to management and directors of the Company in September 2009 and January 2010.

Excluding the non-cash compensation costs for stock compensation, general and administrative expenses were $2,159,060, for the six months ended June 30, 2010, as compared to $1,635,775 for the same period in 2009, an increase of $523,285 or 32%. The Company recorded bonus expense for fiscal year 2010 of $297,288 for the six months ended June 30, 2010, as compared to a bonus expense credit of $150,000 for the six months ended June 30, 2009, which resulted in an increase in bonus expense of $447,288 for the six months ended June 30, 2010, as compared to the same period in 2009. The bonus expense credit for the six months ended June 30, 2009, was due to the reversal of the 2008 bonus accrual determined, at that time, not to be payable due to the capital constraints of the Company.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2010 was $533,313, compared to $257,224 for the same period in 2009, an increase of $276,089, or 107%.

On October 31, 2008, the Company discontinued its Ossatron mobile service business and accordingly displayed the related assets of this business as discontinued operations. As of October 1, 2009, management determined that the Ossatron device fixed assets and related parts inventory should be reclassified to continuing operations and depreciation on the Ossatron device fixed assets was restarted at October 1, 2009. The depreciation expense related to these assets was $329,005 for the six months ended June 30, 2010. There was no depreciation expense recorded for these assets for the six months ended June 30, 2009.

Other Income

On June 3, 2009, we sold our veterinary division to Pulse Vet. Under terms of the asset purchase agreement, we will continue to provide production services at the direction of Pulse Vet for a fee until April 30, 2011, unless Pulse Vet elects to terminate the agreement at an earlier date. The revenue for these transitional services for the six months ended June 30, 2010 was $180,125, compared to $33,750 for the same period in 2009, an increase of $146,375, or 434%.

Interest expense, net, for the six months ended June 30, 2010 was $457,524, compared to $329,075 for the same period in 2009, an increase of $128,449, or 39%. The increase was due to interest at 15% per annum on notes payable, related parties, totaling $1,575,000 issued during the three months ended March 31, 2009, and interest at 5% to 10% per annum on promissory notes totaling $1,500,000 issued during the six months ended June 30, 2010.

Provision for Income Taxes

At June 30, 2010, we had Federal net operating loss carryforwards of approximately $32.8 million that will begin to expire in 2025. Our ability to use these net operating loss carryforwards to reduce our future Federal income tax liabilities could be subject to annual limitations. Additionally, because United States tax laws limit the time during which net operating loss carryforwards may be applied against future taxable income and tax liabilities, we may not be able to take advantage of our net operating loss carryforwards for Federal income tax purposes.

Income from Discontinued Operations

On June 3, 2009, we sold our veterinary division for $3,500,000 in cash to Pulse Vet and recognized a gain, net of taxes, of $2,492,273. The income from discontinued operations was $581,306 for the six months ended June 30, 2009.

Table of Contents

Net Income (Loss)

Net loss for the six months ended June 30, 2010 was $5,721,905, or $(0.46) per basic and diluted share, compared to net loss of $750,462, or $(0.07) per basic and diluted share, for the six months ended June 30, 2009. The net loss for the six months ended June 30, 2009, included a gain, net of taxes, of $2,492,273 attributable to the sale of our veterinary division. The loss from continuing operations was $5,721,905, or $(0.46) per basic and diluted share, for the six months ended June 30, 2010, compared to a loss of $3,824,041, or $(0.35) per basic and diluted share, for the six months ended June 30, 2009. We anticipate that our operating losses will continue over the next few years as we continue to fund our research and development activities and clinical trials, and as we prepare for a future sales network to represent our products.

Liquidity and Capital Resources

We incurred a net loss of $5,721,905 for the six months ended June 30, 2010, and a net loss of $6,153,040 for the year ended December 31, 2009. These operating losses create an uncertainty about our ability to continue as a going concern. Management believes we will raise additional capital through public or private equity offerings, issuance of convertible promissory notes or other potential financing sources. Our condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. We are economically dependent upon future capital contributions or financing to fund ongoing operations. On June 3, 2009, we sold our veterinary division for $3,500,000 in cash to Pulse Vet. During the year ended December 31, 2009, we obtained cash infusions totaling $2,125,000 in the form of notes payable from related parties. The notes payable, at the option of the holder, can be converted into additional shares of common stock, with all or any portion of the unpaid principal, at a conversion price of $2.92 per share. In addition, for the year ended December 31, 2009, additional shares of stock were issued to stockholders for total cash proceeds of $1,819,844. For the six months ended June 30, 2010, the Company issued seven promissory notes totaling $1,500,000. In addition, subsequent to quarter end, the Company issued a convertible promissory note for $500,000 on July 13, 2010.

At June 30, 2010, we had $277,258 in cash and cash equivalents held in three financial institutions. Our excess cash reserves are invested in money market accounts.

We expect to devote substantial resources to continue our research and development efforts, including clinical trials. Clinical study costs are comprised of payments for work performed by contract research organizations, universities and hospitals. Because of the significant time it will take for our products to complete the clinical trial process, and for us to obtain approval from regulatory authorities and successfully commercialize our products, we will require substantial additional capital resources. We may raise additional capital through public or private equity offerings, outstanding warrant exercises, debt financings, corporate collaborations or other means. We may also attempt to raise additional capital if there are favorable market conditions or other strategic considerations even if we have sufficient funds for planned operations. To the extent that we raise additional funds by issuance of equity securities, our stockholders will experience dilution, and debt financings, if available, may involve restrictive covenants or may otherwise constrain our financial flexibility. To the extent that we raise additional funds through collaborative arrangements, it may be necessary to relinquish some rights to our intellectual property or grant licenses on terms that are not favorable to us. In addition, payments made by potential collaborators or licensors generally will depend upon our achievement of negotiated development and regulatory milestones. Failure to achieve these milestones would harm our future capital position. Additional financing may not be available on acceptable terms, if at all. Capital may become difficult or impossible to obtain due to poor market or other conditions outside of our control. If at any time sufficient capital is not available, either through existing capital resources or through raising additional funds, we may be required to delay, reduce the scope of, eliminate or divest one or more of our research, pre-clinical or clinical programs.

For the six months ended June 30, 2010, net cash used by continuing operations for operating activities was $3,007,450, primarily consisting of salaries, clinical trials, research and development activities and general corporate operations. Net cash provided by continuing operations for financing activities for the six months ended June 30, 2010 was $1,500,000, which consisted of the proceeds from issuance of promissory notes. Cash and cash equivalents decreased by $1,509,111 for the six months ended June 30, 2010.

Table of Contents

For the six months ended June 30, 2009, net cash used by continuing operations for operating activities was $4,020,638, primarily consisting of salaries, clinical trials, research and development activities and general corporate operations. Net cash provided by continuing operations for financing activities for the six months ended June 30, 2009 was $2,125,000, which consisted of the proceeds from the issuance of notes payable to related parties. Net cash provided by discontinued operations for operating activities was $1,018,505 for the six months ended June 30, 2009. Net cash provided by discontinued operations for investing activities was $3,540,948 for the six months ended June 30, 2009 due to the sale of the veterinarian division. Cash and cash equivalents increased by $2,595,442 for the six months ended June 30, 2009.

Segment Information

We have determined that we are principally engaged in one operating segment. Our product candidates are primarily used for the repair and regeneration of tissue, musculoskeletal and vascular structures in wound healing, orthopedic/spine, plastic/cosmetic and cardiac conditions.

Other Comprehensive Income (Loss)

FASB ASC 220, *Comprehensive Income* (formerly SFAS No. 130, Reporting Comprehensive Income), establishes standards for reporting and display of comprehensive income (loss) and its components in the condensed consolidated financial statements. Our other comprehensive income (loss) as defined by ASC 220 is the total of net income (loss) and all other changes in equity resulting from non-owner sources, including unrealized gains (losses) on foreign currency translation adjustments.

Contractual Obligations

Our major outstanding contractual obligations relate to our operating leases for our facilities, purchase and supplier obligations for product component materials and equipment, and our notes payable.

In October 2006, we entered into a sublease agreement for our corporate office in Alpharetta, Georgia, which consists of 15,025 square feet of space. Under the terms of the sublease, we pay monthly rent of $18,468, as adjusted on an annual basis for additional proportionate operating and insurance costs associated with the building over the base amount. The initial term of the sublease expired September 30, 2009, and we have exercised the option to extend the term to October 31, 2012.

In April 2007, we entered into a lease agreement for our production and research and development office, which consists of 5,168 square feet of space. Under the terms of the lease, we pay monthly rent of $8,075, as adjusted on an annual basis for additional proportionate operating and insurance costs associated with the building over the base amount. The initial term of the lease expired on July 31, 2010, and we have extended the lease until July 31, 2011.

We have developed a network of suppliers, manufacturers, and contract service providers to provide sufficient quantities of product component materials for our products through the development, clinical testing and commercialization phases. We have contractual obligations under a supply agreement with Swisstronics Contract Manufacturing AG for the manufacture of our devices.

In August 2005, as part of the purchase of the orthopedic division assets of HealthTronics, we entered into two promissory notes with HealthTronics for $2,000,000 each. The promissory notes bear interest at 6% annually. Quarterly interest through June 30, 2010 is 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 on the promissory notes totaled $1,372,743 and $1,215,253 at June 30, 2010 and December 31, 2009, respectively.

During the years ended December 31, 2009 and 2008, we issued notes payable to Prides Capital Fund I, L.P. for $3,125,000 in total and one note payable to NightWatch Capital Partners II, L.P. for $75,000. The notes payable bear interest at 15% annually. Interest is paid quarterly in arrears if elected by the holders of the notes payable. As of June 30, 2010, the holders of the notes payable had not elected to receive interest quarterly. All remaining unpaid accrued interest and principal is due September 30, 2011. At the option of the holder, all or any portion of the unpaid principal can be converted into common stock with a conversion price of $2.92 per share. Accrued interest on the notes payable totaled $756,935 and $472,728 at June 30, 2010 and December 31, 2009, respectively.

Table of Contents

On March 1, 2010, we issued a promissory note to David N. Nemelka in the amount of $200,000. The promissory note bears interest at 5% annually. All accrued interest and principal was due June 1, 2010. The accrued interest and principal was not paid on the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 1, 2010. Accrued interest on the promissory note totaled $4,198 at June 30, 2010.
On March 4, 2010, we issued a promissory note to Kevin and Margaret Richardson in the amount of $200,000. The promissory note bears interest at 5% annually. All accrued interest and principal was due June 4, 2010. The accrued interest and principal was not paid on the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 4, 2010. Accrued interest on the promissory note totaled $3,973 at June 30, 2010.
On March 31, 2010, we issued a promissory note to David N. Nemelka in the amount of $300,000. The promissory note bears interest at 5% annually. All accrued interest and principal was due June 30, 2010. The accrued interest and principal was not paid on the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 30, 2010. Accrued interest on the promissory note totaled $3,766 at June 30, 2010.
On March 31, 2010, we issued a promissory note to Kevin and Margaret Richardson in the amount of $300,000. The promissory note bears interest at 5% annually. All accrued interest and principal was due June 30, 2010. The accrued interest and principal was not paid on the due date and therefore, in accordance with the terms of the promissory note, the interest rate increased to 10% effective June 30, 2010. Accrued interest on the promissory notes totaled $3,766 at June 30, 2010.
On May 12, 2010, we issued a convertible promissory note to Kevin and Margaret Richardson in the amount of $300,000. The promissory note bears interest at 5% annually. All accrued interest and principal is due August 12, 2010. If the convertible promissory note is not paid or converted prior to the maturity date, the Company shall issue to the holder a warrant to purchase shares of the Company s common stock, par value $0.001 per share, at a purchase price of $4.00 per share. The number of shares issuable upon the exercise of the warrant shall be determined by dividing the sum of the principal and interest payable under the convertible promissory note by 20. Accrued interest on the convertible promissory note totaled $2,003 at June 30, 2010.
On June 4, 2010, we issued a convertible promissory note to Durk V. Irwin in the amount of $100,000. The promissory note bears interest at 5% annually. All accrued interest and principal is due September 4, 2010. If the convertible promissory note is not paid or converted prior to the maturity date, the Company shall issue to the holder a warrant to purchase shares of the Company s common stock, par value $0.001 per share, at a purchase price of $4.00 per share. The number of shares issuable upon the exercise of the warrant shall be determined by dividing the sum of the principal and interest payable under the convertible promissory note by 20. Accrued interest on the convertible promissory note totaled $361 at June 30, 2010.
On June 4, 2010, we issued a convertible promissory note to Todd R. Pedersen in the amount of $100,000. The promissory note bears interest at 5% annually. All accrued interest and principal is due September 4, 2010. If the convertible promissory note is not paid or converted prior to the maturity date, the Company shall issue to the holder a warrant to purchase shares of the Company s common stock, par value $0.001 per share, at a purchase price of $4.00 per share. The number of shares issuable upon the exercise of the warrant shall be determined by dividing the sum of the principal and interest payable under the convertible promissory note by 20. Accrued interest on the convertible promissory note totaled $361 at June 30, 2010.

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet activities, including the use of structured finance, special purpose entities or variable interest entities.

Table of Contents

Effects of Inflation

Because our assets are, to an extent, liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation, office space leasing costs and research and development charges, which may not be readily recoverable during the period of time that we are bringing the product candidates to market. To the extent inflation results in rising interest rates and has other adverse effects on the market, it may adversely affect our consolidated financial condition and results of operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2010.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Other than legal proceedings described below and those relating to our intellectual property, there are no material pending legal proceedings to which we are a party or of which any of our properties are subject; nor are there material proceedings known to us to be contemplated by any governmental authority. We have several material pending legal proceedings relating to our patents. For information regarding these legal proceedings, please see the section entitled Intellectual Property Patents in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 31, 2010.

HealthTronics, 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. The plaintiff is seeking greater than $3 million. HealthTronics 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.

There are no material proceedings known to us, pending or contemplated, in which any of our directors, officers or affiliates or any of our principal security holders, or any associate of any of the foregoing, is a party or has an interest adverse to us.

Table of Contents

Item 6. EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of September 25, 2009, by and between Rub Music Enterprises, Inc., RME Delaware Merger Sub, Inc. and SANUWAVE, Inc. (Incorporated by reference to Form 8-K filed with the SEC on September 30, 2009).
3.1	Articles of Incorporation (Incorporated by reference to the Form 10-SB filed with the SEC on December 18, 2007).
3.2	Certificate of Amendment to the Articles of Incorporation (Incorporated by reference to Appendix A to the Definitive Schedule 14C filed with the SEC on October 16, 2009).
3.3	Bylaws (Incorporated by reference to the Form 10-SB filed with the SEC on December 18, 2007).
4.1	Convertible Promissory Note, dated May 12, 2010, issued by SANUWAVE Health, Inc. to Kevin and Margaret Richardson. (Incorporated by reference to the Form 8-K filed with the SEC on May 17, 2010).
4.2	Convertible Promissory Note, dated June 4, 2010, issued by SANUWAVE Health, Inc. to Durk V. Irwin. (Incorporated by reference to the Form 8-K filed with the SEC on June 9, 2010).
4.3	Convertible Promissory Note, dated June 4, 2010, issued by SANUWAVE Health, Inc. to Todd R. Pedersen. (Incorporated by reference to the Form 8-K filed with the SEC on June 9, 2010).
4.4	Convertible Promissory Note, dated July 13, 2010, issued by SANUWAVE Health, Inc. to Kevin and Margaret Richardson. (Incorporated by reference to the Form 8-K filed with the SEC on July 16, 2010).
31.1*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer.
32.2*	Section 1350 Certification of the Chief Financial Officer.

* Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 13, 2010

SANUWAVE HEALTH, INC.

By: /s/ Christopher M. Cashman
Christopher M. Cashman
Chief Executive Officer and President

-30-