SANUWAVE Health, Inc.
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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.)
11475 Great Oaks Way, Suite 150 Alpharetta, GA	**30022**

(Address of principal executive offices) (Zip Code)

(770) 419-7525

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

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

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

As of May 4, 2016, there were issued and outstanding 104,178,421 shares of the registrant’s common stock, $0.001 par value.

SANUWAVE Health, Inc.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q of SANUWAVE Health, Inc. and its subsidiaries (“SANUWAVE” or the “Company”) contains forward-looking statements. All statements in this Quarterly Report on Form 10-Q, including those made by the management of the Company, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding the Company’s future financial results, clinical trial results, regulatory approvals, 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,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential” and “co 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 (the “SEC”), 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, 2015, filed on March 30, 2016 and in the Company’s Quarterly Reports on Form 10-Q. Other risks and uncertainties are and will be disclosed in the Company’s prior and future SEC 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, 2015, filed on March 30, 2016.

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

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$604,135	$152,930
Accounts receivable, net of allowance for doubtful accounts of $10,015 in 2016 and $8,963 in 2015	46,032	74,454
Inventory	258,495	284,908
Prepaid expenses	147,518	123,988
TOTAL CURRENT ASSETS	1,056,180	636,280
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	3,392	4,228
OTHER ASSETS	11,191	11,097
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 4)	230,067	306,756
TOTAL ASSETS	$1,300,830	$958,361
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$356,244	$509,266
Accrued expenses (Note 5)	252,003	359,374
Accrued employee compensation	286,155	241,542
Interest payable, related parties (Note 6)	182,968	239,803
Notes payable, related parties (Note 6)	5,353,806	-
Promissory notes payable (Note 7)	100,601	-
Warrant liability (Note 11)	122,800	138,100
TOTAL CURRENT LIABILITIES	6,654,577	1,488,085
NON-CURRENT LIABILITIES		

Notes payable, related parties (Note 6)	-	5,348,112
TOTAL LIABILITIES	6,654,577	6,836,197
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' DEFICIT		
PREFERRED STOCK, SERIES A CONVERTIBLE, par value $0.001, 6,175 authorized; 6,175 shares issued and 0 shares outstanding in 2016 and 2015 (Note 10)	-	-
PREFERRED STOCK, SERIES B CONVERTIBLE, par value $0.001, 293 authorized; 293 shares issued and 293 and 0 shares outstanding in 2016 and 2015, respectively (Note 10)	-	-
PREFERRED STOCK - UNDESIGNATED, par value $0.001, 4,993,532 shares authorized; no shares issued and outstanding (Note 10)	-	-
COMMON STOCK, par value $0.001, 350,000,000 shares authorized; 96,000,308 and 63,056,519 issued and outstanding in 2016 and 2015, respectively (Note 9)	96,000	63,057
ADDITIONAL PAID-IN CAPITAL	89,299,427	87,086,677
ACCUMULATED DEFICIT	(94,718,984)	(92,994,408)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(30,190)	(33,162)
TOTAL STOCKHOLDERS' DEFICIT	(5,353,747)	(5,877,836)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$1,300,830	$958,361

The accompanying notes to condensed consolidated financial

statements are an integral part of these statements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(UNAUDITED)

	Three Months Ended March 31, 2016			Three Months Ended March 31, 2015		
REVENUES	$	269,324		$	210,452	
COST OF REVENUES		73,181			58,818	
GROSS PROFIT		196,143			151,634	
OPERATING EXPENSES						
Research and development		309,955			634,623	
General and administrative		499,132			566,292	
Depreciation		836			925	
Amortization		76,689			76,689	
TOTAL OPERATING EXPENSES		886,612			1,278,529	
OPERATING LOSS		(690,469	)		(1,126,895	)
OTHER INCOME (EXPENSE)						
Gain on sale of assets		1,000			-	
Gain(loss) on warrant valuation adjustment (Note 11)		(797,697	)		56,026	
Interest expense, net		(154,187	)		(79,344	)
Amortization of debt issuance costs		(74,549	)		-	
Amortization of debt discount		(5,694	)		-	
Loss on foreign currency exchange		(2,980	)		(8,902	)
TOTAL OTHER EXPENSE		(1,034,107	)		(32,220	)
NET LOSS		(1,724,576	)		(1,159,115	)
OTHER COMPREHENSIVE INCOME (LOSS)						
Foreign currency translation adjustments		2,972			(12,718	)
TOTAL COMPREHENSIVE LOSS	$	(1,721,604	)	$	(1,171,833	)
LOSS PER SHARE:						
Net loss - basic and diluted	$	(0.02	)	$	(0.02	)
Weighted average shares outstanding - basic and diluted		75,220,485			62,931,250	

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,724,576)	$(1,159,115)
Adjustments to reconcile loss from continuing operations to net cash used by operating activities		
Amortization	76,689	76,689
Depreciation	836	925
Change in allowance for doubtful accounts	1,052	2,346
Stock-based compensation - employees, directors and advisors	4,500	27,827
(Gain) Loss on warrant valuation adjustment	873,118	(56,026)
Gain on sale of property and equipment	(1,000)	-
Amortization of debt issuance costs	74,549	-
Amortization of debt discount	5,694	-
Changes in assets - (increase)/decrease		
Accounts receivable - trade	27,370	16,561
Inventory	26,413	5,012
Prepaid expenses	(23,530)	(19,172)
Other	(94)	(80)
Changes in liabilities - increase/(decrease)		
Accounts payable	(153,022)	(27,492)
Accrued expenses	(107,371)	(8,945)
Accrued employee compensation	44,613	63,108
Interest payable, related parties	(56,835)	(1,792)
Promissory notes - accrued interest	(79,948)	-
NET CASH USED BY OPERATING ACTIVITIES	(1,011,542)	(1,080,154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	1,000	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,000	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from 2016 Equity Offering, net	1,352,775	-
Proceeds from convertible promissory notes, net	106,000	-

NET CASH PROVIDED BY FINANCING ACTIVITIES	1,458,775	-
EFFECT OF EXCHANGE RATES ON CASH	2,972	(12,718)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	451,205	(1,092,872)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	152,930	3,547,071
CASH AND CASH EQUIVALENTS, END OF PERIOD	$604,135	$2,454,199
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$209,549	$81,864

The accompanying notes to condensed consolidated financial

statements are an integral part of these statements.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

1. Nature of the Business

SANUWAVE Health, Inc. and subsidiaries (the "Company") is an acoustic pressure shock wave technology company using a patented system of noninvasive, high-energy, acoustic pressure shock waves for indications such as regenerative medicine and other applications. The Company's initial focus is regenerative medicine – utilizing noninvasive (extracorporeal), acoustic pressure shock waves to produce a biological response resulting in the body healing itself through the repair and regeneration of skin, musculoskeletal tissue and vascular structures. The Company's lead regenerative product in the United States is the dermaPACE® device, used for treating diabetic foot ulcers, which was subject to two double-blinded, randomized Phase III clinical studies. The results of these clinical studies will be submitted to the FDA, after our in-person meeting to discuss the submission strategy, for possible approval in 2016.

The Company's portfolio of healthcare products and product candidates activate biologic signaling and angiogenic responses, including new vascularization and microcirculatory improvement, helping to restore the body's normal healing processes and regeneration. The Company intends to apply its Pulsed Acoustic Cellular Expression (PACE®) technology in wound healing, orthopedic, plastic/cosmetic and cardiac/endovascular conditions. Revenues are from sales of the European Conformity Marking ("CE Mark") devices and accessories in Europe, Canada, Asia and Asia/Pacific.

In addition to healthcare uses, our high-energy, acoustic pressure shock waves, due to their powerful pressure gradients and localized cavitational effects, may have applications in secondary and tertiary oil exploitation, for cleaning industrial waters, for sterilizing food liquids and finally for maintenance of industrial installations by disrupting biofilms formation. Our business approach will be through licensing and/or partnership opportunities.

2. Going Concern

The Company does not currently generate significant recurring revenue and will require additional capital during or before the third quarter of 2016. As of March 31, 2016, the Company had an accumulated deficit of $94,718,984 and cash and cash equivalents of $604,135. For the three months ended March 31, 2016 and 2015, the net cash used by operating activities was $1,011,542 and $1,080,154, respectively. The Company incurred a net loss of $1,724,576 for the three months ended March 31, 2016 and a net loss of $4,810,285 for the year ended December 31, 2015. The operating losses create an uncertainty about the Company's ability to continue as a going concern.

The continuation of the Company's business is dependent upon raising additional capital during or before the third quarter of 2016 to fund operations. Management's plans are to obtain additional capital in 2016 through investments by strategic partners for market opportunities, which may include strategic partnerships or licensing arrangements, or raise capital through the conversion of outstanding warrants, the issuance of common or preferred stock, securities convertible into common stock, or secured or unsecured debt. These possibilities, to the extent available, may be on terms that result in significant dilution to the Company's existing shareholders. Although no assurances can be given, management of the Company believes that potential additional issuances of equity or other potential financing transactions as discussed above should provide the necessary funding for the Company to continue as a going concern. If these efforts are unsuccessful, the Company may be forced to seek relief through a filing under the U.S. Bankruptcy Code. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all the information and footnotes required by United States generally accepted accounting principles for complete financial statements. The financial information as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 is unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month periods ended March 31, 2016 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016.

The condensed consolidated balance sheet at December 31, 2015 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.

Significant Accounting Policies

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, 2015, filed with the SEC on March 30, 2016.

Recently Issued Accounting Standards

New accounting pronouncements are issued by the Financial Standards Board ("FASB") or other standards setting bodies that the Company adopts according to the various timetables the FASB specifies. The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB confirmed a one-year delay in the effective date of ASU 2014-09, making the effective date for the Company the first quarter of fiscal 2019 instead of the current effective date, which was the first quarter of fiscal 2018. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, deferring the effective date of ASU 2014-09 by one year. The Company can elect to adopt the provisions of ASU 2014-09 for annual periods beginning after December 31, 2017, including interim periods within that reporting period. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements and has not yet determined the method by which the Company will adopt the standard.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

3. Summary of Significant Accounting Policies (continued)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures in the notes to the financial statements. The amendments in this ASU should help reduce the diversity in the timing and content of disclosures in the notes to the financial statements. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the pending adoption of ASU 2014-15 on the consolidated financial statements and has not yet determined the timing at which the Company will adopt the standard.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU provides guidance that simplifies the presentation of debt issuance costs by amending the accounting guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The amendments are consistent with the accounting guidance related to debt discounts. This guidance is effective for the first interim or annual period beginning after December 15, 2015. The Company adopted this guidance in the first quarter of fiscal 2016.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11), which proposed that inventory should be measured at the lower of cost and net realizable value for inventory that is measured using first-in, first-out (FIFO) or average cost. The main provision of ASU 2015-11 is that an entity should measure inventory at the lower or cost and net realizable value, where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This amendment does not apply to entities that measure inventory using last-in, first-out (LIFO) or the retail inventory method. The standard is effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of the pending adoption of ASU 2015-11 on the consolidated financial statements and has not yet determined the timing at which the Company will adopt the standard.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU provides guidance that simplifies the presentation of deferred income taxes. This ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The implementation of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize the most leases on the balance sheet. The provisions of this guidance are effective for the annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. Management is evaluating the requirements of this guidance and has not yet determined the impact of the pending adoption on the Company's financial position or results of operations.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payments transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for annual and interim periods beginning after December 31, 2016. Early adoption is permitted for an entity in an interim or annual period. We are currently evaluating the effect that the updated standard will have on our financial statements, but expect the guidance will add modest volatility in our equity-based compensation expense, provision for income taxes, and net income (loss).

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

4. Intangible assets

Intangible assets consist of the following:

	March 31, 2016	December 31, 2015
Patents, at cost	$3,502,135	$3,502,135
Less accumulated amortization	(3,272,068)	(3,195,379)
Net intangible assets	$230,067	$306,756

The aggregate amortization charged to operations was $76,689 for the three months ended March 31, 2016 and 2015.

5. Accrued expenses

Accrued expenses consist of the following:

	March 31, 2016	December 31, 2015
Accrued former executive payment	$100,000	$100,000
Accrued outside services	29,828	58,813
Accrued directors and advisors fees	27,000	-
Accrued audit and tax preparation	23,376	93,500
Accrued clinical study expenses	19,773	22,777
Accrued legal professional fees	15,250	76,500
Accrued other	36,776	7,784

$252,003	$359,374

6. Notes payable, related parties

The notes payable, related parties were issued in conjunction with the Company's purchase of the orthopedic division of HealthTronics, Inc. on August 1, 2005. The notes payable, related parties bear interest at 6% per annum. Quarterly interest through June 30, 2010, was accrued and added to the principal balance. Interest is paid quarterly in arrears beginning September 30, 2010. All remaining unpaid accrued interest and principal was due August 1, 2015.

On June 15, 2015, the Company and HealthTronics, Inc. entered into an amendment (the "Note Amendment") to amend certain provisions of the notes payable, related parties. The Note Amendment provides for the extension of the due date to January 31, 2017. In the period ending March 31, 2016, the Company reclassified the outstanding principal balance from non-current liabilities to current liabilities. In connection with the Note Amendment, the Company entered into a security agreement with HealthTronics, Inc. to provide a first security interest in the assets of the Company. The notes payable, related parties will bear interest at 8% per annum effective August 1, 2015 and during any period when an Event of Default occurs, the applicable interest rate shall increase by 2% per annum. The Company will be required to make mandatory prepayments of principal on the notes payable, related parties equal to 20% of the proceeds received by the Company through the issuance or sale of any equity securities in cash or through the licensing of the Company's patents or other intellectual property rights.

The notes payable, related parties had an aggregate outstanding principal balance of $5,353,806, net of $18,937 debt discount at March 31, 2016 and $5,348,112, net of $24,631 debt discount at December 31, 2015, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

6. Notes payable, related parties (continued)

In addition, the Company, in connection with the Note Amendment, issued to HealthTronics, Inc. on June 15, 2015, an aggregate total of 3,310,000 warrants (the "Class K Warrants") to purchase shares of the Company's common stock, $0.001 par value (the "Common Stock"), at an exercise price of $0.55 per share, subject to certain anti-dilution protection. Each Class K Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire after ten years.

Accrued interest currently payable totaled $182,968 and $239,803 at March 31, 2016 and December 31, 2015, respectively. Interest expense on notes payable, related parties totaled $152,713 and $80,072 for the three months ended March 31, 2016 and 2015, respectively.

7. Promissory notes payable

On February 1, 2016, the Company entered into a financing transaction for the sale of an 8% Convertible Promissory Note (the "$58,300 Convertible Note") and warrants (the "Class M Warrants") in the principal amount of $58,300 each, with gross proceeds of $53,000 to the Company after payment of a 10% original issue discount and related professional expenses. The offering was conducted pursuant to the exemption from registration provided by Section 4(a)(2) of the Act and Rule 506 of Regulation D thereunder. The Company did not utilize any form of general solicitation or general advertising in connection with the offering. The $58,300 Convertible Note was offered and sold to two accredited investors, with gross proceeds of $106,000 to the Company.

The $58,300 Convertible Note and Class M Warrants were issued pursuant to the terms of a purchase agreement among the Company and the Investors. The convertible note is an unsecured obligation of the Company and, unless earlier redeemed, matures on August 1, 2016. The Company has the right to prepay the convertible note and accrued interest during the first sixty (60) days following the date of issuance. During that time, the amount of any prepayment during the first sixty (60) days is 120% of the outstanding amounts owed, and the amount of the prepayment increases every subsequent thirty (30) days. Each Class M Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on February 21, 2021.

The $58,300 Convertible Note is convertible, at any time from the issuance date, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of 30% of the lowest reported sale price of the Company’s common stock for the 20 trading days immediately prior to (i) the date of the purchase agreement or (ii) the voluntary conversion date.

The $58,300 Convertible Note contained put options that may require the Company to repay the debt before its maturity. The $58,300 Convertible Note holder has rights to demand repayment in the event of defaults. However, since the put is contingent on an event of default, and no principal is due until maturity, the likelihood of the other default provision is considered to be very remote especially given the term of the $58,300 Convertible Note is six months.

The promissory notes payable had an aggregate outstanding balance of $100,601, net of $17,473 debt issuance costs at March 31, 2016.

8. Income taxes

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

At March 31, 2016, the Company had federal net operating loss (“NOL”) carryforwards of $70,096,802 for tax years through the year ended December 31, 2015, that will begin to expire in 2025. The use of deferred tax assets, including federal net operating losses, is limited to future taxable earnings. Based on the required analysis of future taxable income under the provisions of ASC 740, *Income Taxes*, the Company’s management believes that there is not sufficient evidence at March 31, 2016 indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2016. As a result, a valuation allowance was provided for the entire net deferred tax asset related to future years, including NOL carryforwards.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

8. Income Taxes (continued)

The Company's ability to use its NOL carryforwards could be limited and subject to annual limitations. In connection with future offerings, the Company may realize a "more than 50% change in ownership" which could further limit its ability to use its NOL carryforwards accumulated to date to reduce future taxable income and tax liabilities. Additionally, because United States tax laws limit the time during which NOL carryforwards may be applied against future taxable income and tax liabilities, the Company may not be able to take advantage of all or portions of its NOL carryforwards for federal income tax purposes.

9. Equity transactions

2016 Equity Offering

On March 11, 2016, in conjunction with an equity offering of securities (the "2016 Equity Offering") with select accredited investors, the Company issued an aggregate of 25,495,835 shares of common stock for an aggregate purchase price of $1,529,750. The mandatory prepayment of principal on the notes payable, related parties equal to 20% of the proceeds received by the Company was waived by HealthTronics, Inc. for this 2016 Equity Offering.

The Company, in connection with the 2016 Equity Offering, issued to the investors an aggregate of 25,495,835 warrants (the "Class L Warrants") to purchase shares of common stock at an exercise price of $0.08 per share. Each Class L Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on March 17, 2019.

Pursuant to the terms of a Registration Rights Agreement that the Company entered with the investors in connection with the 2016 Equity Offering, the Company is required to file a registration statement that covers the shares of common stock and the shares of common stock issuable upon exercise of the Class L Warrants. The registration statement was declared effective by the SEC on February 16, 2016.

Michael N. Nemelka, the brother of a member of the Company's board of directors and an existing shareholder of the Company, was a purchaser in the 2016 Equity Offering of $100,000.

At the closing of the 2016 Equity Offering, the Company paid Newport Coast Securities, Inc., the placement agent for the equity offering, cash compensation based on the gross proceeds of the private placement and 2,549,584 Class L Warrants.

Series A Warrant Conversion

On January 13, 2016, the Company entered into an Exchange Agreement (the "Exchange Agreement") with certain beneficial owners (the "Investors") of Series A warrants (the "Warrants") to purchase shares of the Company's common stock, $0.001 par value per share (the "Common Stock"), pursuant to which the Investors exchanged (the "Exchange") all of their respective Warrants for either (i) shares of Common Stock or (ii) shares of Common Stock and shares of the Company's Series B Convertible Preferred Stock, $0.001 par value (the "Preferred Stock").

The Exchange was based on the following exchange ratio (the "Exchange Ratio"): 1 Series A Warrant = 0.4685 shares of capital stock. Investors who, as a result of the Exchange, owned in excess of 9.99% (the "Ownership Threshold") of the outstanding Common Stock, received a mixture of Common Stock and shares of Preferred Stock. They received Common Stock up to the Ownership Threshold, and received shares of Preferred Stock beyond the Ownership Threshold (but the total shares of Common Stock and Preferred Stock issued to such holders was still based on the same Exchange Ratio). The relative rights, preferences, privileges and limitations of the Preferred Stock are as set forth in the Company's Certificate of Designation of Series B Convertible Preferred Stock, which was filed with the Secretary of State of the State of Nevada on January 12, 2016 (the "Series B Certificate of Designation").

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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9. Equity transaction (continued)

In the Exchange an aggregate number of 23,701,428 Warrants were exchanged for 7,447,954 shares of Common Stock and 293 shares of Preferred Stock. Pursuant to the Series B Certificate of Designation, each of the Preferred Stock shares is convertible into shares of Common Stock at an initial rate of 1 Preferred Stock share for 12,500 Common Stock shares, which conversion rate is subject to further adjustment as set forth in the Series B Certificate of Designation. Pursuant to the terms of the Series B Certificate of Designation, the holders of the Preferred Stock shares will generally be entitled to that number of votes as is equal to the number of shares of Common Stock into which the Preferred Stock may be converted as of the record date of such vote or consent, subject to the Beneficial Ownership Limitation.

In connection with entering into the Exchange Agreement, the Company also entered into a Registration Rights Agreement, dated January 13, 2016, with the Investors. The Registration Rights Agreement requires that the Company file with the SEC a registration statement to register for resale the shares of the Common Stock issued in connection with the Exchange and the Common Stock issuable upon conversion of the Preferred Stock shares (the “Preferred Stock Conversion Shares”). The registration statement was declared effective by the SEC on February 16, 2016.

10. Preferred Stock

The Company’s Articles of Incorporation authorize the issuance of up to 5,000,000 shares of “blank check” preferred stock with designations, rights and preferences as may be determined from time to time by the board of directors. On January 12, 2016, the Company filed a Certificate of Designation of Preferences, Rights and Limitations for Series B Convertible Preferred Stock of the Company (the “Certificate of Designation”) with the Nevada Secretary of State. The Certificate of Designation amends the Company’s Articles of Incorporation to designate 293 shares of preferred stock, par value $0.001 per share, as Series B Convertible Preferred Stock. The Series B Convertible Preferred Stock has a stated value of $1,000 per share. On January 13, 2016, in connection with the Series A Warrant Conversion, the Company issued 293 shares of Series B Convertible Preferred Stock (for a more detailed discussion regarding the Series A Warrant Conversion, see Note 9).

Under the Certificate of Designation, holders of Series B Convertible Preferred Stock are entitled to receive dividends equal (on an as-if-converted-to-common-stock basis) to and in the same form as dividends (other than dividends in the form of common stock) actually paid on shares of the common stock when, as and if such dividends are paid. Such holders will participate on an equal basis per-share with holders of common stock in any distribution upon winding up, dissolution, or liquidation of the Company. Holders of Series B Convertible Preferred Stock are entitled to convert each share of Series A Convertible Preferred Stock into 2,000 shares of common stock, provided that after giving effect to such conversion, such holder, together with its affiliates, shall not beneficially own in excess of 9.99% of the number of shares of common stock outstanding (the “Beneficial Ownership Limitation”). Holders of the Series B Convertible Preferred Stock are entitled to vote on all matters affecting the holders of the common stock on an “as converted” basis, provided that such holder shall only vote such shares of Series B Convertible Preferred Stock eligible for conversion without exceeding the Beneficial Ownership Limitation.

On March 14, 2014, the Company filed a Certificate of Designation of Preferences, Rights and Limitations for Series A Convertible Preferred Stock of the Company (the “Certificate of Designation”) with the Nevada Secretary of State. The Certificate of Designation amends the Company’s Articles of Incorporation to designate 6,175 shares of preferred stock, par value $0.001 per share, as Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock has a stated value of $1,000 per share. On March 17, 2014, in connection with a Private Placement, the Company issued 6,175 shares of Series A Convertible Preferred Stock. As of January 6, 2015 there were no outstanding shares of Series A Convertible Preferred Stock.

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11. Warrants

A summary of the warrant activity as of March 31, 2016 and December 31, 2015, and the changes during the three months ended March 31, 2016, is presented as follows:

Warrant class	Outstanding as of December 31, 2015	Issued	Exercised	Converted	Expired	Outstanding as of March 31, 2016
Class E Warrants	3,576,737	-	-	-	-	3,576,737
Class F Warrants	300,000	-	-	-	-	300,000
Class G Warrants	1,503,409	-	-	-	-	1,503,409
Class H Warrants	1,988,095	-	-	-	-	1,988,095
Class I Warrants	1,043,646	-	-	-	-	1,043,646
Class J Warrants	629,378	4,012,289	-	-	-	4,641,667
Class K Warrants	3,310,000	-	-	-	-	3,310,000
Class L Warrants	-	28,045,419	-	-	-	28,045,419
Class M Warrants	-	1,943,333	-	-	-	1,943,333
Series A Warrants	25,951,421	-	-	(23,701,427)	-	2,249,994
	38,302,686	34,001,041	-	(23,701,427)	-	48,602,300

A summary of the warrant exercise price per share and expiration date is presented as follows:

	Exercise price/share	Expiration date
Class E Warrants	$ 4.00	April 2016
Class F Warrants	$ 0.35	February 2018

Class G Warrants	$ 0.80	July 2018
Class H Warrants	$ 0.80	July 2018
Class I Warrants	$ 0.85	September 2018
Class J Warrants	$ 0.06	February 2019
Class K Warrants	$ 0.55	June 2025
Class L Warrants	$ 0.08	March 2019
Class M Warrants	$ 0.06	February 2021
Series A Warrants	$ 0.06	March 2019

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

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11. Warrants (continued)

The exercise price of the Class J Warrants, Class K Warrants, Class M and the Series A Warrants are subject to a "down-round" anti-dilution adjustment if the Company issues or is deemed to have issued certain securities at a price lower than the then applicable exercise price of the warrants. The exercise price of the Series A, Class J and Class M Warrants was adjusted to $0.06 due to the 2016 Equity Offering (see Note 9). The Class J Warrants and Class K Warrants may be exercised on a physical settlement or on a cashless basis. The Series A Warrants may be exercised on a physical settlement basis if a registration statement underlying the warrants is effective. If a registration statement is not effective (or the prospectus contained therein is not available for use) for the resale by the holder of the Series A Warrants, then the holder may exercise the warrants on a cashless basis.

The Class J Warrants, the Class K Warrants, the Class M Warrants, the Series A Warrants and the Series B Warrants are derivative financial instruments. The estimated fair value of the Class J Warrants at the date of grant was $12,776. The related debt discount was accreted to interest expense through the maturity date of the related note. The estimated fair value of the Class K Warrants at the date of grant was $36,989 and recorded as debt discount, which will be accreted to interest expense through the maturity date of the related notes payable, related parties. The estimated fair value of the Class M Warrants at the date of grant was $9,091 and the estimated value of the conversion option of the note at the date of grant was $66,331. The related debt discount was accreted to interest expense through the maturity date of the related note. The estimated fair values of the Series A Warrants and the Series B Warrants at the date of grant were $557,733 for the warrants issued in conjunction with the 2014 Private Placement and $47,974 for the warrants issued in conjunction with the 18% Convertible Promissory Notes. The fair value of the Series A Warrants and Series B Warrants were recorded as equity issuance costs in 2014, a reduction of additional paid-in capital. The Series B Warrants expired unexercised in March 2015.

The estimated fair values were determined using a binomial option pricing model based on various assumptions. The Company's derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income or expense accordingly, as adjustments to the fair value of derivative liabilities. Various factors are considered in the pricing models the Company uses to value the warrants, including the Company's current common stock price, the remaining life of the warrants, the volatility of the Company's common stock price, and the risk-free interest rate. In addition, as of the valuation dates, management assessed the probabilities of future financing and other re-pricing events in the binominal valuation models.

A summary of the changes in the warrant liability as of March 31, 2016 and December 31, 2015, and the changes during the three months ended March 31, 2016, is presented as follows:

	Class J Warrants	Class K Warrants	Class M Warrants	Series A Warrants	Total
Warrant liability as of December 31, 2015	$ 2,900	$ 22,700	$ -	$ 112,500	$ 138,100
Issued	-	-	75,422	-	75,422
Change in fair value	17,600	(6,600)	878	(102,600)	(90,722)
Warrant liability as of March 31, 2016	$ 20,500	$ 16,100	$ 76,300	$ 9,900	$ 122,800

12. Commitments and contingencies

Operating Leases

Rent expense for the three months ended March 31, 2016 and 2015, was $42,519 and $33,407, respectively.

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12. Commitments and contingencies (continued)

Litigation

The Company is involved in various legal matters that have arisen in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution will not have a material adverse effect on the financial position or results of operations of the Company.

13. Stock-based compensation

On November 1, 2010, the Company approved the Amended and Restated 2006 Stock Incentive Plan of SANUWAVE Health, Inc. effective as of January 1, 2010 (the "Stock Incentive Plan"). The Stock Incentive Plan permits grants of awards to selected employees, directors and advisors of the Company in the form of restricted stock or options to purchase shares of common stock. Options granted may include non-statutory options as well as qualified incentive stock options. The Stock Incentive Plan is administered by the board of directors of the Company. The Stock Incentive Plan gives broad powers to the board of directors of the Company to administer and interpret the particular form and conditions of each option. The stock options granted under the Stock Incentive Plan are non-statutory options which generally vest over a period of up to four years and have a ten year term. The options are granted at an exercise price determined by the board of directors of the Company to be the fair market value of the common stock on the date of the grant. At March 31, 2016 and December 31, 2015, the Stock Incentive Plan reserved 12,500,000 shares of common stock for grant.

The Company recognized as compensation cost for all outstanding stock options granted to employees, directors and advisors, $4,500 and $27,827 for the three months ended March 31, 2016 and 2015, respectively.

A summary of option activity as of March 31, 2016 and December 31, 2015, and the changes during the three months ended March 31, 2016, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding as of December 31, 2015	10,073,385	$ 0.62
Granted	-	$ -
Exercised	-	$ -
Cancelled	-	$ -
Forfeited or expired	-	$ -
Outstanding as of March 31, 2016	10,073,385	$ 0.55
Exercisable	9,898,383	$ 0.56

The range of exercise prices for options was $0.06 to $2.00 for options outstanding at March 31, 2016 and December 31, 2015. The aggregate intrinsic value for all vested and exercisable options was $0 at March 31, 2016 and December 31, 2015.

The weighted average remaining contractual term for outstanding exercisable stock options was 7.21 and 7.46 years as of March 31, 2016 and December 31, 2015, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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March 31, 2016

13. Stock-based compensation (continued)

A summary of the Company's nonvested options as of March 31, 2016 and December 31, 2015, and changes during the three months ended March 31, 2016, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding as of December 31, 2015	175,002	$ 0.36
Granted	-	$ -
Vested	-	$ -
Cancelled	-	$ -
Forfeited or expired	-	$ -
Outstanding as of March 31, 2016	175,002	$ 0.36

14. Earnings (loss) per share

The Company calculates net income (loss) per share in accordance with ASC 260, *Earnings Per Share*. Under the provisions of ASC 260, basic net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders for the period by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock and dilutive common stock equivalents then outstanding. To the extent that securities are "anti-dilutive," they are excluded from the calculation of diluted net income (loss) per share.

As a result of the net loss for the three months ended March 31, 2016 and 2015, respectively, all potentially dilutive shares were anti-dilutive and therefore excluded from the computation of diluted net loss per share. The anti-dilutive equity securities totaled 62,332,963 shares and 42,199,516 shares at March 31, 2016 and 2015, respectively.

15. Subsequent events

2016 Equity Offering

On April 6, 2016 and April 15, 2016, in conjunction with the 2016 Equity Offering with select accredited investors, the Company issued an aggregate of 3,083,334 and 1,437,501, respectively, shares of common stock for an aggregate purchase price of $185,000 and $86,200, respectively.

The Company, in connection with the 2016 Equity Offering, issued to the investors an aggregate of 4,520,835 Class L Warrants to purchase shares of common stock at an exercise price of $0.08 per share. Each Class L Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on March 17, 2019.

The Company, in connection with the 2016 Equity Offering, issued to the placement agent an aggregate of 452,083 Class L Warrants to purchase shares of common stock at an exercise price of $0.08 per share. Each Class L Warrant represents the right to purchase one share of Common Stock. The warrants vested upon issuance and expire on March 17, 2019.

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