SANUWAVE Health, Inc.
Form 10-Q
May 06, 2015

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, 2015

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	(I.R.S. Employer
incorporation or organization)	Identification No.)
11475 Great Oaks Way, Suite 150	**30022**

Alpharetta, GA
(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, 2015, there were issued and outstanding 63,056,519 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, 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, 2014, filed on March 3, 2015 and in the Company’s Quarterly Reports on Form 10-Q. Other risks and uncertainties are and will be disclosed in the Company’s prior and future Securities and Exchange Commission (the “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, 2014, filed on March 3, 2015.

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, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$2,454,199	$3,547,071
Accounts receivable, net of allowance for doubtful accounts of $17,364 in 2015 and $15,018 in 2014	67,497	86,404
Inventory	266,859	271,871
Prepaid expenses	147,722	128,550
TOTAL CURRENT ASSETS	2,936,277	4,033,896
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 4)	6,915	7,840
OTHER ASSETS	11,186	11,106
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 5)	536,824	613,513
TOTAL ASSETS	$3,491,202	$4,666,355
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$204,348	$231,840
Accrued expenses (Note 6)	360,511	369,456
Accrued employee compensation	65,334	2,226
Interest payable, related parties (Note 7)	80,072	81,864
Notes payable, related parties (Note 7)	5,372,743	5,372,743
Warrant liability (Note 11)	103,600	159,626
TOTAL LIABILITIES	6,186,608	6,217,755
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' DEFICIT		
	-	1

PREFERRED STOCK, SERIES A CONVERTIBLE, par value $0.001, 6,175 authorized; 6,175 shares issued and 0 and 1,165 shares outstanding in 2015 and 2014, respectively (Note 10)		
PREFERRED STOCK - UNDESIGNATED, par value $0.001, 4,993,825 shares authorized; no shares issued and outstanding (Note 10)	-	-
COMMON STOCK, par value $0.001, 150,000,000 shares authorized; 63,056,519 and 60,726,519 issued and outstanding in 2015 and 2014, respectively (Note 9)	63,057	60,727
ADDITIONAL PAID-IN CAPITAL	86,609,970	86,584,472
ACCUMULATED DEFICIT	(89,343,238)	(88,184,123)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(25,195)	(12,477)
TOTAL STOCKHOLDERS' DEFICIT	(2,695,406)	(1,551,400)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$3,491,202	$4,666,355

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, 2015	Three Months Ended March 31, 2014
REVENUES	$210,452	$145,098
COST OF REVENUES	58,818	18,337
GROSS PROFIT	151,634	126,761
OPERATING EXPENSES		
Research and development	634,623	764,845
General and administrative	566,292	1,300,311
Depreciation	925	4,715
Amortization	76,689	76,689
TOTAL OPERATING EXPENSES	1,278,529	2,146,560
OPERATING LOSS	(1,126,895)	(2,019,799)
OTHER INCOME (EXPENSE)		
Gain on warrant valuation adjustment (Note 12)	56,026	-
Interest expense, net	(79,344)	(535,124)
Loss on foreign currency exchange	(8,902)	(1,863)
Interest expense on 18% Convertible Promissory Notes (Note 10)	-	(7,168)
TOTAL OTHER INCOME (EXPENSE)	(32,220)	(544,155)
LOSS BEFORE INCOME TAXES	(1,159,115)	(2,563,954)
INCOME TAX EXPENSE	-	-
NET LOSS	(1,159,115)	(2,563,954)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation adjustments	(12,718)	(1,432)
TOTAL COMPREHENSIVE LOSS	$(1,171,833)	$(2,565,386)
LOSS PER SHARE:		
Net loss - basic and diluted	$(0.02)	$(0.06)
Weighted average shares outstanding - basic and diluted	62,931,250	39,646,922

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, 2015	Three Months Ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,159,115)	$(2,563,954)
Adjustments to reconcile loss from continuing operations to net cash used by operating activities		
Amortization	76,689	76,689
Depreciation	925	4,715
Change in allowance for doubtful accounts	2,346	2,748
Stock-based compensation - employees, directors and advisors	27,827	70,778
Gain on warrant valuation adjustment	(56,026)	-
Stock issued for consulting services	-	597,150
Accretion of interest on warrants issued concurrent with a convertible promissory note	-	339,864
Accrued interest on 18% Convertible Promissory Notes	-	7,168
Changes in assets - (increase)/decrease		
Accounts receivable - trade	16,561	75,327
Inventory	5,012	(4,478)
Prepaid expenses	(19,172)	(78,888)
Other	(80)	(13)
Changes in liabilities - increase/(decrease)		
Accounts payable	(27,492)	(371,229)
Accrued expenses	(8,945)	(228,409)
Accrued employee compensation	63,108	57,202
Interest payable, related parties	(1,792)	(83,657)
Promissory notes - accrued interest	-	(21,813)
NET CASH USED BY OPERATING ACTIVITIES	(1,080,154)	(2,120,800)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(1,945)
NET CASH USED BY INVESTING ACTIVITIES	-	(1,945)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from 2014 Private Placement, net	-	8,562,500
Proceeds from 18% Convertible Promissory Notes	-	815,000
Proceeds from convertible promissory notes, net	-	325,000
Proceeds from employee stock option exercise	-	12,600
Payments of principal on convertible promissory notes	-	(450,000)
Payments of principal on promissory notes	-	(90,000)
Payments of principal on capital lease	-	(1,292)

NET CASH PROVIDED BY FINANCING ACTIVITIES	-	9,173,808
EFFECT OF EXCHANGE RATES ON CASH	(12,718)	(1,432)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,092,872)	7,049,631
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,547,071	182,315
CASH AND CASH EQUIVALENTS, END OF PERIOD	$2,454,199	$7,231,946
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$81,864	$164,765

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, 2015

1. Nature of the Business

SANUWAVE Health, Inc. and subsidiaries (the “Company”) is a shockwave technology company using a patented system of noninvasive, high-energy, acoustic shockwaves for regenerative medicine and other applications. The Company’s initial focus is regenerative medicine – utilizing noninvasive, acoustic shockwaves to produce a biological response resulting in the body healing itself through the repair and regeneration of tissue, musculoskeletal and vascular structures. The Company’s lead regenerative product in the United States is the demaPACE® device, which is in a supplemental Phase III clinical study for treating diabetic foot ulcers.

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 conditions. Revenues are from sales of the European Conformity Marking (“CE Mark”) devices and accessories in Europe, Canada, Asia and Asia/Pacific.

In addition, there are license/partnership opportunities for the Company’s shockwave technology for non-medical uses, including energy, water, food and industrial markets.

2. Going Concern

The continuation of the Company’s business is dependent upon raising additional capital during or before the third quarter of 2015. As of March 31, 2015, the Company had a net working capital deficit of $3,250,331, an accumulated deficit of $89,343,238 and cash and cash equivalents of $2,454,199. For the three months ended March 31, 2015 and 2014, the net cash used by operating activities was $1,080,154 and $2,120,800, respectively. The Company incurred a net loss of $1,159,115 for the three months ended March 31, 2015 and a net loss of $5,974,080 for the year ended December 31, 2014. The operating losses and net working capital deficit create an uncertainty about the Company’s ability to continue as a going concern.

The Company does not currently generate significant recurring revenue and will require additional capital during or before the third quarter of 2015. Although no assurances can be given, management of the Company believes that existing capital resources should enable the Company to fund operations into the third quarter of 2015. The Company's unsecured notes payable, related parties, which total $5,372,743 at March 31, 2015, are due on August 1, 2015.

The continuation of the Company's business is dependent upon raising additional capital during or before the third quarter of 2015 to fund operations and repay the notes payable, related parties or amend the note terms to extend the notes and/or consider other non-cash repayment options. Management's plans are to obtain additional capital in 2015 through investments by strategic partners for market opportunities, which may include strategic partnerships or licensing arrangements, or raise capital through the issuance of common or preferred stock, securities convertible into common stock, the conversion of outstanding warrants 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 condensed 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, 2015

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, 2015 and for the three months ended March 31, 2015 and 2014 is unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2015.

The condensed consolidated balance sheet at December 31, 2014 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, 2014, filed with the SEC on March 3, 2015.

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 April 2015, the FASB proposed a one-year delay in the effective date of ASU 2014-09, which, if approved, would make the effective date for the Company the first quarter of fiscal 2019 instead of the current effective date, which is the first quarter of fiscal 2018. 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, 2015

4. Property and equipment

Property and equipment consists of the following:

	March 31, 2015	December 31, 2014
Machines and equipment	$240,295	$240,295
Office and computer equipment	166,398	166,398
Software	34,528	34,528
Furniture and fixtures	20,380	20,380
Other assets	2,318	2,259
Total	463,919	463,860
Accumulated depreciation	(457,004)	(456,020)
Net property and equipment	$6,915	$7,840

The aggregate depreciation related to property and equipment charged to operations was $925 and $4,715 for the three months ended March 31, 2015 and 2014, respectively.

5. Intangible assets

Intangible assets consist of the following:

	March 31, 2015	December 31, 2014
Patents, at cost	$3,502,135	$3,502,135

Less accumulated amortization	(2,965,311)	(2,888,622)
Net intangible assets	$536,824	$613,513

The aggregate amortization charged to operations was $76,689 for the three months ended March 31, 2015 and 2014.

6. Accrued expenses

Accrued expenses consist of the following:

	March 31, 2015	December 31, 2014
Accrued clinical study expenses	$118,792	$64,464
Accrued former executive severance	100,000	100,000
Accrued audit and tax preparation	35,500	55,500
Accrued legal professional fees	31,000	111,600
Accrued board of directors fees	12,000	12,000
Accrued other	63,219	25,892
	$360,511	$369,456

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

7. Notes payable, related parties

The notes payable, related parties consist of the following:

	March 31, 2015	December 31, 2014
Notes payable, unsecured, payable to HealthTronics, Inc., a shareholder of the Company	$5,372,743	$5,372,743

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 is due August 1, 2015. Accrued interest currently payable totaled $80,072 and $81,864 at March 31, 2015 and December 31, 2014, respectively.

Interest expense on notes payable to related parties totaled $80,072 and $81,108 for the three months ended March 31, 2015 and 2014, respectively.

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, 2015, the Company had federal net operating loss ("NOL") carryforwards of $66,038,028 for tax years through the year ended December 31, 2014, 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, 2015 indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2015. As a result, a valuation allowance was provided for the entire net deferred tax asset related to future years, including NOL carryforwards.

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

9. Equity transactions

2014 Private Placement

On March 17, 2014, in conjunction with a private placement of securities (the “2014 Private Placement”) with institutional and select accredited investors, the Company issued an aggregate total of 6,210,000 shares of common stock and 6,175 shares of preferred stock (the “Series A Convertible Preferred Stock”) for an aggregate total purchase price of $9,280,000. Each share of Series A Convertible Preferred Stock is convertible into 2,000 shares of common stock at the option of the holder. The proceeds received by the Company were $8,562,500, net of offering costs of $717,500.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

9. Equity transactions (continued)

The Company, in connection with the 2014 Private Placement, issued to the investors an aggregate total of 23,200,000 warrants (the “Series A Warrants”) to purchase shares of common stock at an exercise price of $0.50 per share. Each Series A Warrant represents the right to purchase one share of common stock. The warrants vested upon issuance and expire after five years.

In addition, the Company, in connection with the 2014 Private Placement, issued to the investors an aggregate total of 13,920,000 warrants (the “Series B Warrants”) to purchase shares of common stock at an exercise price of $1.50 per share. Each Series B Warrant represents the right to purchase one share of common stock. The warrants vested upon issuance and expired in March 2015.

Pursuant to the terms of a registration rights agreement that the Company entered with the investors in connection with the 2014 Private Placement, the Company filed a registration statement with the SEC in April 2014 that covered the shares of common stock and the shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock and exercise of the Series A Warrants and Series B Warrants issued to the investors in the 2014 Private Placement. The registration statement was declared effective by the SEC on May 6, 2014.

Kevin A. Richardson, II, chairman of the board of directors of the Company and Co-Chief Executive Officer; Joseph Chiarelli, the former Chief Executive Officer of the Company; and, Michael N. Nemelka, the brother of a member of the Company’s board of directors and an existing shareholder of the Company, were purchasers in the 2014 Private Placement of $50,000, $40,000 and $50,000, respectively.

At the closing of the 2014 Private Placement, the Company paid Newport Coast Securities, Inc., the placement agent for the private placement, and Oppenheimer & Co. Inc., the former placement agent, cash compensation based on the gross proceeds of the private placement and 696,000 Series A Warrants and 417,600 Series B Warrants.

18% Convertible Promissory Notes

During the period January 24, 2014 through March 7, 2014, the Company entered into subscriptions payable for 18% convertible promissory notes, as amended, (the “18% Convertible Promissory Notes”) from selected accredited investors. Up to $1,000,000 aggregate principal amount of 18% Convertible Promissory Notes were offered by the Company. The Company completed the offering and issued an aggregate $815,000 in convertible notes in March 2014. Michael N. Nemelka, the brother of a member of the Company’s board of directors and an existing shareholder of the Company, purchased $110,000 of the convertible notes.

The 18% Convertible Promissory Notes had a nine month term from the subscription date and the note holders could convert into Company common stock at anytime during the term at $0.55 per share. Upon the consummation of a qualified financing, as defined in the convertible note agreements, of $1,000,000 or more by the Company, the principal and interest on the 18% Convertible Promissory Notes would convert into Company common stock equal to the lower of (i) the Company common stock issued in the qualified financing, and (ii) $0.55 per share. The note holders would also receive, if any were issued, warrants or any other security issued in a qualified financing on similar terms to the qualified financing. The 18% Convertible Promissory Notes were unsecured.

The 2014 Private Placement was a qualified financing as defined in the 18% Convertible Promissory Notes. As such, on March 17, 2014, in conjunction with the 2014 Private Placement discussed above, the 18% Convertible Promissory Notes, with an aggregate outstanding principal and accrued interest balance of $822,168, were automatically converted and the holders received in the aggregate 1,644,337 shares of common stock, 2,055,421 Series A Warrants, and 1,233,252 Series B Warrants.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

9. Equity transactions (continued)

Subscription agreement

On November 27, 2012, the Company and David N. Nemelka (the “Subscriber”), the brother of a member of the Company’s board of directors, entered into a subscription agreement (the “Subscription Agreement”) whereby the Subscriber agreed to purchase from the Company, and the Company agreed to sell and issue, a total of 4,000,000 shares of the Company’s unregistered common stock at a purchase price equal to $0.25 per share, for an aggregate sales price of $1,000,000 (the “Purchase Price”). The shares are subject to piggy-back registration rights if the Company files a registration statement for an offering of securities.

The Purchase Price was payable to the Company as follows: (i) $50,000 on or before January 31, 2013; (ii) $50,000 on or before February 15, 2013; and (iii) the balance of $900,000 on or before May 27, 2014 (the “Outside Due Date”). The Subscriber could make payments of the Purchase Price at his discretion in minimum installments of $100,000 each, until the Outside Due Date.

In the event that at any time after February 15, 2013, the Company’s total available cash should be less than $100,000, the Subscriber would, upon demand of the Company, pay to the Company $100,000 of the then outstanding balance of the Purchase Price, which payment would be due within 30 days of the demand. There was no limit on the number of demands that the Company could make pursuant to this provision of the Subscription Agreement, provided, however, that in no event could the Company provide more than one notice of demand for payment in any 30 day period.

On May 27, 2014, the Subscriber paid the Company the remaining $900,000 and was issued 3,600,000 shares of unregistered common stock of the Company as full settlement of the Subscription Agreement.

$278,500 Convertible Promissory Note and Warrants

On February 10, 2014, the Company entered into a financing transaction with an accredited investor for the sale of an 8% convertible promissory note (the "$278,500 Convertible Note") and warrants (the "Class J Warrants") in the principal amount of $278,500, with gross proceeds of $250,000 to the Company after payment of a 10% original issue discount and related professional expenses.

The $278,500 Convertible Note and Class J Warrants were issued pursuant to the terms of a purchase agreement among the Company and the holder. The convertible note was an unsecured obligation of the Company and, unless earlier redeemed, matured on August 11, 2014. The convertible note accrued interest at the rate of 8% per annum and included a 10%, or $25,000, original issuance discount. The Company had the right to prepay the convertible note and accrued interest during the first 180 days following the date of issuance. During that time, the amount of any prepayment during the first 60 days was 120% of the outstanding amounts owed, and the amount of the prepayment increased every subsequent 30 days. The $278,500 Convertible Note was convertible, after the first 180 days, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of the lower of 75% of the lowest reported sale price of the Company's common stock for the 20 trading days immediately prior to (i) the closing date of the financing, or (ii) 75% of the lowest reported sale price for the 20 days prior the conversion date of the convertible note. The convertible note included full ratchet anti-dilution protection for any lower priced issuances of common stock or securities convertible or exchangeable into Company common stock.

The Class J Warrants entitle the holder to purchase, in the aggregate, 629,378 shares of the Company's common stock. The Warrants were exercisable upon the six month anniversary of the closing date (August 10, 2014) and expire five years from the closing date. The Class J Warrants have an exercise price equal to $0.4425. The Class J Warrants may be exercised for cash or on a cashless basis. The exercise price of the warrants is subject to adjustment for stock splits, combinations or similar events, and, in this event, the number of shares issuable upon the exercise of the warrant will also be adjusted so that the aggregate exercise price shall be the same immediately before and immediately after the adjustment. In addition, the exercise price is also subject to a "down-round" anti-dilution adjustment if the Company issues or is deemed to have issued securities at a price lower than the then applicable exercise price of the warrants.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

9. Equity transactions (continued)

In March 2014, the Company repaid the $278,500 Convertible Note in full, which totaled $337,171 with accrued interest and a prepayment penalty of $56,195.

$128,500 Convertible Promissory Note

On December 23, 2013, the Company entered into a financing transaction with an accredited investor for the sale of an 8% convertible promissory note (the "$128,500 Convertible Note") in the principal amount of $128,500, with gross proceeds of $125,000 to the Company after payment of related professional expenses.

The $128,500 Convertible Note was issued pursuant to the terms of a purchase agreement among the Company and the accredited investor. The convertible note was an unsecured obligation of the Company and, unless earlier redeemed, matured on September 26, 2014. The convertible note accrued interest at the rate of 8% per annum. The Company had the right to prepay the convertible note and accrued interest during the first 180 days following the date of issuance. During that time, the amount of any prepayment during the first 30 days was 115% of the outstanding amounts owed, and the amount of the prepayment increased every subsequent 30 days.

The $128,500 Convertible Note was convertible, after the first 180 days, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of 61% of the lowest three reported sale prices of the Company's common stock for the 10 trading days immediately prior to the conversion date. The convertible note included full ratchet anti-dilution protection for any lower priced issuances of common stock or securities convertible or exchangeable into Company common stock.

In March 2014, the Company repaid the $128,500 Convertible Note in full, which totaled $158,055, with accrued interest and prepayment penalty of $29,555.

$78,500 Convertible Promissory Note

On February 18, 2014, the Company entered into a second tranche of financing with the accredited investor for the $128,500 Convertible Note for the sale of an 8% Convertible Promissory Note (the "$78,500 Convertible Note") under the same terms as the first tranche in the principal amount of $78,500, with gross proceeds of $75,000 to the Company after payment of related professional expenses.

The $78,500 Convertible Note was issued pursuant to the terms of a purchase agreement among the Company and the accredited investor. The convertible note was an unsecured obligation of the Company and, unless earlier redeemed, matured on November 20, 2014. The convertible note accrued interest at the rate of 8% per annum. The Company had the right to prepay the convertible note and accrued interest during the first 180 days following the date of issuance. During that time, the amount of any prepayment during the first 30 days was 115% of the outstanding amounts owed, and the amount of the prepayment increased every subsequent 30 days.

The $78,500 Convertible Note was convertible, after the first 180 days, in whole or in part, at the option of the investor, into shares of Company common stock at a conversion price of 61% of the lowest three reported sale prices of the Company's common stock for the 10 trading days immediately prior to the conversion date. The convertible note included full ratchet anti-dilution protection for any lower priced issuances of common stock or securities convertible or exchangeable into Company common stock.

In March 2014, the Company repaid the $78,500 Convertible Note in full, which totaled $90,275 with accrued interest and prepayment penalty of $11,775.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

9. Equity transactions (continued)

Consulting Agreements

In February 2014, the Company renewed one consulting contract and entered into three additional consulting agreements for which a portion of the fee for the services performed was paid with Company common stock. The Company issued 835,000 shares of common stock under these agreements in February and March 2014. The fair value of the common stock of $597,150 issued to the consultants, based upon the closing market price of the Company’s common stock at the dates the common stock was issued, was recorded as a non-cash general and administrative expense for the three months ended March 31, 2014. The Company did not have any consulting contracts in 2015 where a portion of the fee for services was to be paid with common stock.

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 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 the 2014 Private Placement, the Company issued 6,175 shares of Series A Convertible Preferred Stock (for a more detailed discussion regarding the 2014 Private Placement, see Note 9).

Under the Certificate of Designation, holders of Series A 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 A 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 A 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 A Convertible Preferred Stock eligible for conversion without exceeding the Beneficial Ownership Limitation.

In November and December 2014, the holders of Series A Convertible Preferred Stock converted 5,010 shares of Series A Convertible Preferred Stock into 10,020,000 shares of common stock. On January 6, 2015, the holders of Series A Convertible Preferred Stock converted the remaining 1,165 shares of Series A Convertible Preferred Stock into 2,330,000 shares of common stock. As of March 31, 2015, there were no outstanding shares of Series A Convertible Preferred Stock.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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March 31, 2015

11. Warrants

A summary of the warrant activity as of March 31, 2015 and December 31, 2014, and the changes during the three months ended March 31, 2015, is presented as follows:

Warrant class	Outstanding as of December 31, 2014	Issued	Exercised	Expired	Outstanding as of March 31, 2015
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	-	-	-	629,378
Series A Warrants	25,951,421	-	-	-	25,951,421
Series B Warrants	15,570,852	-	-	(15,570,852)	-
	50,563,538	-	-	(15,570,852)	34,992,686

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	$ 0.44	February 2019
Series A Warrants	$ 0.50	March 2019
Series B Warrants	$ 1.50	March 2015

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.

The exercise price of the Class J Warrants and the Series A Warrants are subject to a "down-round" anti-dilution adjustment if the Company issues or is deemed to have issued securities at a price lower than the then applicable exercise price of the warrants. The Class J 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

11. Warrants (continued)

The Class J 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 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. For the three months ended March 31, 2015, the Company recorded an adjustment to reflect a gain on the fair value adjustment for the warrants of $56,026. The estimated warrant liability totaled $103,600 at March 31, 2015 and $159,626 at December 31, 2014.

12. Commitments and contingencies

Operating Leases

Rent expense for the three months ended March 31, 2015 and 2014, was $33,407 and $29,934, respectively.

Litigation

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

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, 2015 and December 31, 2014, the Stock Incentive Plan reserved 8,500,000 shares of common stock for grant.

The Company recognized as compensation cost for all outstanding stock options granted to employees, directors and advisors, $27,827 and $70,778 for the three months ended March 31, 2015 and 2014, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

13. Stock-based compensation (continued)

A summary of option activity as of March 31, 2015 and December 31, 2014, and the changes during the three months ended March 31, 2015, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding as of December 31, 2014	7,206,830	$ 1.31
Granted	-	$ -
Exercised	-	$ -
Cancelled	-	$ -
Forfeited or expired	-	$ -
Outstanding as of March 31, 2015	7,206,830	$ 1.31
Exercisable	6,923,496	$ 1.35

The range of exercise prices for options was $0.21 to $2.92 for options outstanding at March 31, 2015 and December 31, 2014.

The weighted average remaining contractual term for outstanding exercisable stock options was 6.34 and 6.43 years as of March 31, 2015 and December 31, 2014, respectively.

A summary of the Company’s nonvested options as of March 31, 2015 and December 31, 2014, and changes during the three months ended March 31, 2015, is presented as follows:

Weighted

	Options	Average Exercise Price per share
Outstanding as of December 31, 2014	914,542	$ 0.37
Granted	-	$ -
Vested	(631,208)	$ 0.35
Cancelled	-	$ -
Forfeited or expired	-	$ -
Outstanding as of March 31, 2015	283,334	$ 0.43

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

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, 2015 and 2014, 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 42,199,516 shares and 73,433,622 shares at March 31, 2015 and 2014, respectively.

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, 2014 included in our Annual Report on Form 10-K, filed with the SEC on March 3, 2015.

Overview

We are a shockwave technology company using a patented system of noninvasive, high-energy, acoustic shockwaves for regenerative medicine and other applications. Our initial focus is regenerative medicine – utilizing noninvasive, acoustic shockwaves to produce a biological response resulting in the body healing itself through the repair and regeneration of tissue, musculoskeletal and vascular structures. Our lead regenerative product in the United States is the demaPACE® device, used for treating diabetic foot ulcers, which is in a supplemental Phase III clinical study.

Our 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. We intend to apply our Pulsed Acoustic Cellular Expression (PACE®) technology in wound healing, orthopedic, plastic/cosmetic and cardiac conditions. We currently do not market any commercial products for sale in the United States. We generate our revenues from sales of the European Conformity Marking (CE Mark) devices and accessories in Europe, Canada, Asia and Asia/Pacific.

We believe we have demonstrated that our patented 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, Evotron®, and orthoPACE® devices in Europe, Asia and Asia/Pacific. Our lead product candidate for the global wound care market, dermaPACE, has received the CE Mark allowing for commercial use on acute and chronic defects of the skin and subcutaneous soft tissue.

We are focused on developing our Pulsed Acoustic Cellular Expression (PACE) technology to activate healing in:

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

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

Recent Developments

The U.S. Food and Drug Administration (FDA) has granted approval of our Investigational Device Exemption (IDE) Supplement to conduct a supplemental clinical trial utilizing our lead device product for the global wound care market, the dermaPACE device, in the treatment of diabetic foot ulcers. Patient enrollment began in June 2013 and as of April 30, 2014, we had enrolled the minimum number of 90 patients in the clinical trial, which represented the number of patients for the first interim analysis by the independent Data Monitoring Committee (DMC). In September 2014, we reported that the independent Data Monitoring Committee had performed an interim analysis on the 12-week efficacy results for the first 90 patients in the clinical trial and recommended we continue enrollment of patients into the study up to the next predefined patient analysis point of 130 patients. We completed enrollment for the 130 patients in November 2014 and suspended further enrollment at that time.

The DMC performed an analysis of the primary efficacy endpoint of the rate of 100% complete wound closure at the 12-week endpoint for the dermaPACE treated patients as compared to the sham-control patients and the safety data. The DMC has completed its review and noted there were no safety issues. The DMC reported the Monitoring Success Criterion for primary efficacy endpoint of 100% complete wound closure at 12 weeks has not been met and, assuming similar trends for any additional patents enrolled, will likely not be met at the next predefined analysis point of 170 patients. The Monitoring Success Criterion is a predictive probability of dermaPACE achieving statistical significance in the rate of 100% complete wound closure at 12 weeks as compared to the rate for sham-control.

As per its charter, the DMC's review was limited to only the 12-week endpoint data. The DMC has requested to us the ability to review complete closure rates at later points in the study, as patients were followed for up to 24 weeks and the DMC noted we had positive results in the first study of 206 patients completed in 2011 at the 20-week endpoint.

We are actively working with the FDA regarding the data requests from the DMC. The interaction with the FDA will determine if we discontinue enrollment and move to lock the database and unblind the data with the intention of filing a PMA with the FDA in late 2015, or continue the dermaPACE clinical study. We expect to have feedback from the FDA by the end of this quarter and will provide an update to shareholders at that time.

We have retained Musculoskeletal Clinical Regulatory Advisers, LLC (MCRA) in January 2015 to lead the Company's interactions and correspondence with the FDA for the dermaPACE, which have already commenced. MCRA has successfully worked with the FDA on numerous PMAs for various musculoskeletal, restorative and general surgical devices since 2006.

The double-blind, multi-center, randomized, sham-controlled, parallel group clinical trial plan incorporates the same primary efficacy endpoint of complete wound closure at 12 weeks as was utilized in the pivotal trial (discussed below). Similar to the pivotal trial, four dermaPACE procedures are administered during the first two weeks following subject enrollment. In the current trial, however, up to four additional dermaPACE procedures are delivered bi-weekly, between weeks 4 and 10 following subject enrollment, which we believe will increase the between-group difference in complete wound closure in favor of dermaPACE over that o