SANUWAVE Health, Inc.
Form 10-Q
August 14, 2017

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 June 30, 2017

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.)
3360 Martin Farm Road, Suite 100 **Suwanee, GA**	**30024**
(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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 7, 2017, there were issued and outstanding 139,099,843 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, the Company’s near term cash requirements and cash sources, 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 “continue,” the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the reports we file with the Securities and Exchange Commission (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, 2016, filed on March 31, 2017 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, 2016, filed on March 31, 2017.

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

Item1. FINANCIAL STATEMENTS (UNAUDITED)

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$62,069	$133,571
Accounts receivable, net of allowance for doubtful accounts of $152,029 in 2017 and $35,196 in 2016	191,932	460,799
Inventory, net	198,778	231,953
Prepaid expenses	95,741	87,823
TOTAL CURRENT ASSETS	548,520	914,146
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 4)	64,860	76,938
OTHER ASSETS	13,977	13,786
TOTAL ASSETS	$627,357	$1,004,870
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$1,188,459	$712,964
Accrued expenses (Note 5)	470,585	375,088
Accrued employee compensation	65,154	64,860
Advances from related parties (Note 6)	421,690	-
Interest payable, related parties (Note 7)	388,095	109,426
Short term loan, net (Note 8)	100,000	47,440
Warrant liability (Note 12)	816,521	1,242,120
Notes payable, related parties, net (Note 7)	5,369,361	5,364,572
TOTAL LIABILITIES	8,819,865	7,916,470
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' DEFICIT		
PREFERRED STOCK, SERIES A CONVERTIBLE, par value $0.001, 6,175 authorized; 6,175 shares issued and 0 shares outstanding in 2017 and 2016 (Note	-	-

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PREFERRED STOCK, SERIES B CONVERTIBLE, par value $0.001, 293 authorized; 293 shares issued and 0 shares outstanding in 2017 and 2016, respectively (Note 11)	-	-
PREFERRED STOCK - UNDESIGNATED, par value $0.001, 4,993,532 shares authorized; no shares issued and outstanding (Note 11)	-	-
COMMON STOCK, par value $0.001, 350,000,000 shares authorized; 139,099,843 and 137,219,968 issued and outstanding in 2017 and 2016, respectively (Note 10)	139,100	137,220
ADDITIONAL PAID-IN CAPITAL	93,077,145	92,436,697
ACCUMULATED DEFICIT	(101,342,917)	(99,433,448)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(65,836)	(52,069)
TOTAL STOCKHOLDERS' DEFICIT	(8,192,508)	(6,911,600)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$627,357	$1,004,870

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 June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
REVENUES	$111,045	$203,406	$260,614	$472,730
COST OF REVENUES (exclusive of depreciation and amortization shown below)	24,695	77,988	79,839	151,169
OPERATING EXPENSES				
Research and development	437,909	476,167	698,247	786,122
General and administrative	951,908	589,896	1,400,514	1,089,028
Depreciation	5,958	837	12,078	1,673
Amortization	-	76,689	-	153,378
Gain on sale of property and equipment	-	-	-	(1,000)
TOTAL OPERATING EXPENSES	1,395,775	1,143,589	2,110,839	2,029,201
OPERATING LOSS	(1,309,425)	(1,018,171)	(1,930,064)	(1,707,640)
OTHER INCOME (EXPENSE)				
Gain (loss) on warrant valuation adjustment and conversion	35,410	28,250	358,633	(769,447)
Interest expense, net	(143,281)	(129,334)	(336,019)	(363,764)
Gain (loss) on foreign currency exchange	1,359	(2,868)	(2,019)	(5,848)
TOTAL OTHER INCOME (EXPENSE), NET	(106,512)	(103,952)	20,595	(1,139,059)
NET LOSS	(1,415,937)	(1,122,123)	(1,909,469)	(2,846,699)
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustments	(15,552)	(5,684)	(13,767)	(2,713)
TOTAL COMPREHENSIVE LOSS	$(1,431,489)	$(1,127,807)	$(1,923,236)	$(2,849,412)
LOSS PER SHARE:				
Net loss - basic and diluted	$(0.01)	$(0.01)	$(0.01)	$(0.03)
Weighted average shares outstanding - basic and diluted	138,992,669	102,645,697	138,517,370	88,933,089

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)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,909,469)	$(2,846,699)
Adjustments to reconcile net loss to net cash used by operating activities to net cash used by operating activities		
Depreciation	12,078	1,673
Change in allowance for doubtful accounts	116,833	5,613
Amortization	-	153,378
Stock-based compensation - employees, directors and advisors	482,295	116,550
(Gain) loss on warrant valuation adjustment	(358,633)	769,447
Amortization of debt discount	57,349	11,472
Amortization of debt issuance costs	-	87,548
Loss on conversion option of promissory note payable	-	75,422
Gain on sale of property and equipment	-	(1,000)
Changes in assets - (increase)/decrease		
Accounts receivable - trade	152,034	(28,313)
Inventory	33,175	54,002
Prepaid expenses	(7,918)	26,165
Other	(191)	(45)
Changes in liabilities - increase/(decrease)		
Accounts payable	475,495	(50,989)
Accrued expenses	95,497	(63,551)
Accrued employee compensation	294	167,397
Interest payable, related parties	278,669	(131,579)
Promissory notes, accrued interest	-	(77,615)
NET CASH USED BY OPERATING ACTIVITIES	(572,492)	(1,731,124)
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 warrant exercise	93,067	-
Advances from related parties	421,690	-
Proceeds from 2016 Public Offering, net	-	1,596,855
Proceeds from convertible promissory notes, net	-	106,000

NET CASH PROVIDED BY FINANCING ACTIVITIES	514,757	1,702,855
EFFECT OF EXCHANGE RATES ON CASH	(13,767)	(2,713)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,502)	(29,982)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	133,571	152,930
CASH AND CASH EQUIVALENTS, END OF PERIOD	$62,069	$122,948
SUPPLEMENTAL INFORMATION		
Cash paid for interest, related parties	$-	$392,516

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

June 30, 2017

1. Nature of the Business

SANUWAVE Health, Inc. and subsidiaries (the "Company") is an acoustic shock wave technology company using a patented system of noninvasive, high-energy, acoustic pressure shock waves for regenerative medicine and other applications. The Company's initial focus is regenerative medicine – utilizing noninvasive (extracorporeal), acoustic shock waves 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 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 were submitted to the U.S. Food and Drug Administration ("FDA") in late July 2016, after our in-person meeting to discuss the submission strategy, for possible approval in the fourth quarter of 2017 or first quarter of 2018.

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. The Company currently does not market any commercial products for sale in the United States. Revenues are from sales of the European Conformity Marking ("CE Mark") devices and accessories in Europe, Canada, Asia and Asia/Pacific.

2. Going Concern

The Company does not currently generate significant recurring revenue and will require additional capital during the third quarter of 2017. As of June 30, 2017, the Company had an accumulated deficit of $101,342,917 and cash and cash equivalents of $62,069. For the six months ended June 30, 2017 and 2016, the net cash used by operating activities was $572,492 and $1,731,124, respectively. The Company incurred a net loss of $1,909,469 for the six months ended June 30, 2017 and a net loss of $6,439,040 for the year ended December 31, 2016. 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 the third quarter of 2017 to fund operations. Management's plans are to obtain additional capital in 2017 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.

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 June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 is unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2017.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

3. Summary of Significant Accounting Policies (continued)

The condensed consolidated balance sheet at December 31, 2016 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, 2016, filed with the SEC on March 31, 2017.

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 2018 instead of the current effective date, which was the first quarter of fiscal 2017. This one year deferral was issued by the FASB in ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*. 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

June 30, 2017

3. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize 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 August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230)*. This ASU will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. This standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. Management is evaluating the requirements of this guidance and has not yet determined the impact of the adoption on the Company's financial position or results of operations.

In July 2017, the FASB issued ASU No. 2017-11, *Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480): Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* Part I of this ASU addresses the complexity and reporting burden associated with the accounting for freestanding and embedded instruments with down round features as liabilities subject to fair value measurement. Part II of this ASU addresses the difficulty of navigating Topic 480. Part I of this ASU will be effective for fiscal years beginning after December 15, 2018. Early adoption is permitted for an entity in an interim or annual period. 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

4. Property and equipment

Property and equipment consists of the following:

	June 30, 2017	December 31, 2016
Machines and equipment	$240,295	$240,295
Office and computer equipment	156,860	156,860
Devices	82,204	82,204
Software	34,528	34,528
Furniture and fixtures	16,019	16,019
Other assets	2,259	2,259
Total	532,165	532,165
Accumulated depreciation	(467,305)	(455,227)
Net property and equipment	$64,860	$76,938

Depreciation expense was $5,958 and $837 for the three months ended June 30, 2017 and 2016, respectively and $12,078 and $1,673 for the six months ended June 30, 2017 and 2016, respectively.

5. Accrued expenses

Accrued expenses consist of the following:

	June 30, 2017	December 31, 2016
Accrued executive severance	$100,000	$100,000
Accrued board of director's fees	65,000	16,000

Accrued executive compensation	60,000	-
Accrued audit and tax preparation	56,355	100,000
Deferred rent	47,217	41,341
Accrued outside services	46,048	31,533
Deferred revenue	28,184	18,810
Accrued clinical expenses	23,650	13,650
Accrued travel and entertainment	21,094	-
Accrued legal professional fees	18,000	45,000
Accrued other	5,037	8,754
	$470,585	$375,088

6. Advances from related parties

The Company has received cash advances from related and third parties to help fund the Company's operations. These advances are a part of a subscription agreement that the Company is offering to issue convertible promissory notes.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

7. 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 bore interest at 6% per annum. Quarterly interest through June 30, 2010, was accrued and added to the principal balance. Interest was 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 provided 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. Events of Default under the notes payable, related parties have occurred and are continuing on account of the failure by SANUWAVE, Inc., a Delaware corporation, a wholly owned subsidiary of teh Company and the borrower under the notes payable, related parties, to make the requried payments of interest which were due December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the "Defaults"). As a result of the Defaults, the notes payable, related parties have been accruing interest at the rate of 10% per annum since January 1,2017 and continue to accrue interest at such rate. 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.

On June 28, 2016, the Company and HealthTronics, Inc. entered into a second amendment (the "Second Amendment") to amend certain provisions of the notes payable, related parties. The Second Amendment provides for the extension of the due date to January 31, 2018.

The notes payable, related parties had an aggregate net outstanding principal balance of $5,369,361, net of $3,382 debt discount at June 30, 2017 and $5,364,572, net of $8,171 debt discount at December 31, 2016, respectively.

In addition, the Company, in connection with the Note Amendment, issued to HealthTronics, Inc. on June 15, 2015, a 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. The fair value of these warrants on the date of issuance was $0.0112 and $36,989 was recorded as a debt discount to be amortized over the life of the amendment.

In addition, the Company, in connection with the Second Amendment, issued to HealthTronics, Inc. on June 28, 2016, an additional 1,890,000 Class K Warrants to purchase shares of the Company's Common Stock at an exercise price of $0.08 per share, subject to certain anti-dilution protection. The exercise price of the 3,310,000 Class K Warrants issued on June 15, 2015 was decreased to $0.08 per share. The fair value of these warrants on the date of issuance was $0.005 and $9,214 was recorded as a debt discount to be amortized over the life of the amendment.

Accrued interest currently payable totaled $388,095 and $109,426 at June 30, 2017 and December 31, 2016, respectively. Interest expense on notes payable, related parties totaled $143,281 and $108,224 for the three months ended June 30, 2017 and 2016, respectively, and $283,459 and $260,937 for the six months ended June 30, 2017 and 2016, respectively.

8. Short term loan

On December 21, 2016, the Company entered into a short term loan with Millennium Park Capital LLC (the "Holder") in the principal amount of $100,000. The principal amount shall be due and payable on the date that substantial money is obtained from the Company's Korean distributor or date that money is obtained from a new distributor.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

8. Short term loan (continued)

In addition, the Company will issue to the Holder 500,000 warrants to purchase shares of the Company's common stock, $0.001 par value (the "Common Stock"), at an exercise price of $0.17. Each warrant will represent the right to purchase one share of Common Stock. The warrants will vest upon issuance and have an expiration date of March 17, 2019. The fair value of the yet to be issued warrants on the date of issuance of the short term loan was $0.1168, using the Black-Scholes option pricing model, and $58,400 was recorded as a debt discount to be amortized over the life of the short term loan.

9. 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 2007.

At June 30, 2017, the Company had federal net operating loss ("NOL") carryforwards for tax years through the year ended December 31, 2016, that will begin to expire in 2025. The use of deferred tax assets, including federal NOLs, 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 June 30, 2017 indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2017. 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.

10. Equity transactions

Warrant Exercise

In April 2017, the Company issued 200,000 shares of common stock upon the exercise of 200,000 Class L Warrants to purchase shares of stock for $0.08 per share under the terms of the Class L Warrant Public Offering agreement. The Company received proceeds of $16,000.

On March 10, 2017, the Company issued 363,333 shares of common stock upon the exercise of 363,333 Class L Warrants to purchase shares of stock for $0.08 per share under the terms of the Class L Warrant Public Offering agreement. The Company received proceeds of $29,067.

On January 24, 2017, the Company issued 600,000 shares of common stock upon the exercise of 600,000 Class L Warrants to purchase shares of stock for $0.08 per share under the terms of the Class L Warrant Public Offering agreement. The Company received proceeds of $48,000.

On October 20, 2016, the Company issued 185,000 shares of common stock upon the exercise of 185,000 Class L Warrants to purchase shares of stock for $0.08 per share under the terms of the Class L Warrant agreement.

On October 14, 2016, the Company issued 258,333 shares of common stock upon the exercise of 258,333 Class L Warrants to purchase shares of stock for $0.08 per share under the terms of the Class L Warrant agreement.

On September 20, 2016, the Company issued 400,000 shares of common stock upon the exercise of 400,000 Class L Warrants to purchase shares of stock for $0.08 per share under the terms of the Class L Warrant agreement.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

10. Equity transactions (continued)

Cashless Warrant Exercise

On June 22, 2017, the Company issued 84,514 shares of common stock to Arthur Motch III upon the cashless exercise of 125,246 Series A Warrants to purchase shares of stock for $0.0334 per share based on a current market value of $0.1027 per share as determined under the terms of the Series A Warrant agreement.

On March 13, 2017, the Company issued 297,035 shares of common stock to Lucas Hoppel upon the cashless exercise of 583,333 Class L Warrants to purchase shares of stock for $0.08 per share based on a current market value of $0.163 per share as determined under the terms of the Class L Warrant Private Offering agreement.

On February 6, 2017, the Company issued 80,804 shares of common stock to Intracoastal Capital, LLC upon the cashless exercise of 100,000 Series A Warrants to purchase shares of stock for $0.0334 per share based on a current market value of $0.174 per share as determined under the terms of the Series A Warrant agreement.

On February 2, 2017, the Company issued 158,240 shares of common stock to Intracoastal Capital, LLC upon the cashless exercise of 100,000 Series A Warrants to purchase shares of stock for $0.0334 per share based on a current market value of $0.17 per share as determined under the terms of the Series A Warrant agreement.

On January 26, 2017, the Company issued 79,998 shares of common stock to Intracoastal Capital, LLC upon the cashless exercise of 100,000 Series A Warrants to purchase shares of stock for $0.0334 per share based on a current market value of $0.1669 per share as determined under the terms of the Series A Warrant agreement.

On January 20, 2017, the Company issued 15,951 shares of common stock to Intracoastal Capital, LLC upon the cashless exercise of 20,000 Series A Warrants to purchase shares of stock for $0.0334 per share based on a current market value of $0.165 per share as determined under the terms of the Series A Warrant agreement.

On November 18, 2016, the Company issued 117,510 shares of common stock to DeMint Law, PLLC upon the cashless exercise of 143,400 Series A Warrants to purchase shares of stock for $0.0334 per share based on a current market value of $0.185 per share as determined under the terms of the Series A Warrant agreement.

On September 8, 2016, the Company issued 526,288 shares of common stock to Vigere Capital LP upon the cashless exercise of 971,667 Class M Warrants to purchase shares of stock for $0.06 per share based on a current market value of $0.11 per share as determined under the terms of the Class M Warrant agreement.

On August 23, 2016, the Company issued 343,434 shares of common stock to JDF Capital, Inc. upon the cashless exercise of 971,667 Class M Warrants to purchase shares of stock for $0.06 per share based on a current market value of $0.17 per share as determined under the terms of the Class M Warrant agreement.

On August 23, 2016, the Company issued 1,640,589 shares of common stock to JDF Capital, Inc. upon the cashless exercise of 4,641,667 Class J Warrants to purchase shares of stock for $0.06 per share based on a current market value of $0.17 per share as determined under the terms of the Class J Warrant agreement.

2016 Private Placement

On August 11, 2016, the Company began a private placement of securities (the “2016 Private Placement”) with select accredited investors in reliance upon the exemption from securities registration afforded by Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), an Rule 506 of Regulation D (“Regulation D”) as promulgated by the Securities and Exchange Commission under the Securities Act. The 2016 Private Placement offered Units (the “Units”) at a purchase price of $0.06 per Unit, with each Unit consisting of (i) one (1) share of Common Stock and, (ii) one (1) detachable warrant (the “Warrants”) to purchase one (1) share of Common Stock at an exercise price of $0.08 per share.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

10. Equity transactions (continued)

On August 25, 2016 and September 27, 2016 in conjunction with the 2016 Private Placement, the Company issued an aggregate of 22,766,667 and 5,533,334, respectively, shares of common stock for an aggregate purchase price of $1,366,000 and $332,000, respectively.

The Company, in connection with the 2016 Private Placement, issued to the investors an aggregate of 28,300,001 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 accredited investors in connection with the 2016 Private Placement, 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 Warrants. The failure on the part of the Company to satisfy certain deadlines described in the Registration Rights Agreement may subject the Company to payment of certain monetary penalties.

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 Private Placement of $75,000. A. Michael Stolarski, a member of the Company's board of directors and an existing shareholder of the Company, was a purchaser in the 2016 Private Placement of $60,000.

At the closing of the 2016 Private Placement, the Company paid West Park Capital, Inc., the placement agent for the equity offering, cash compensation of $169,800 based on the gross proceeds of the private placement and 2,830,000 Class L Warrants.

Consulting Agreement

In August 2016, the Company entered into a consulting agreement for which the fee for the services performed was paid with Common Stock. The Company issued 435,392 shares of Common Stock to Vigere Capital LP under this agreement. The fair value of the Common Stock issued to the consultant, based upon the closing market price of the Common Stock at the date the Common Stock was issued, was recorded as a non-cash general and administrative expense for the three months ended September 30, 2016.

Convertible Debenture and Restricted Stock

On July 29, 2016, the Company entered into a financing transaction for the sale of a Convertible Debenture (the "Debenture") in the principal amount of $200,000, with gross proceeds of $175,000 to the Company after payment of a 10% original issue discount. 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 Debenture was offered and sold to one accredited investor (the "Investor").

The Investor is entitled to, at any time or from time to time, commencing on the date that is one hundred fifty one (151) days from the Issuance Date set forth above convert the Conversion Amount into Conversion Shares, at a conversion price for each share of Common Stock equal to either (i) if the Company is Deposit/Withdrawal at Custodian ("DWAC") Operational at the time of conversion, Seventy percent (70%) of the lowest closing bid price (as reported by Bloomberg LP) of Common Stock for the twenty (20) Trading Days immediately preceding the date of the date of conversion of the Debentures, or (ii) if either the Company is not DWAC Operational or the Common Stock is traded on the bottom tier OTC Pink (or, "pink sheets") at the time of conversion, Sixty Five percent (65%) of the lowest closing bid price (as reported by Bloomberg LP) of the Common Stock for the twenty (20) Trading Days immediately preceding the date of conversion of the Debentures, subject in each case to equitable adjustments resulting from any stock splits, stock dividends, recapitalizations or similar events.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

10. Equity transactions (continued)

The Company recorded $124,900 in interest expense for the beneficial conversion feature of the debenture in December 2016.

The Debenture is secured by the accounts receivable of the Company and, unless earlier redeemed, matures on the third anniversary date of issuance. The Company paid a commitment fee of $2,500 and issued 835,000 shares of Restricted Stock. The fair value of the Restricted Stock on the date of issuance was $0.06 and $50,100 was recorded as interest expense in July 2016.

In September 2016, the Company repaid the Debenture in full which totaled $210,000 with a Redemption Price of 105% of the sum of the Principal Amount per the agreement. The premium of $10,000 paid upon redemption was recorded as interest expense in September 2016.

2016 Equity Offering

On March 11, 2016, April 6, 2016, and April 15, 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, 3,083,334 and 1,437,501, respectively, shares of common stock for an aggregate purchase price of $1,529,750, $185,000, and $86,200, respectively. 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 30,016,670 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 into 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. A. Michael Stolarski, 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 $75,000.

At the closing of the 2016 Equity Offering, the Company paid Newport Coast Securities, Inc., the placement agent for the equity offering, cash compensation of $180,095 based on the gross proceeds of the private placement and 3,001,667 Class L Warrants. In addition, the Company paid an escrow fee of $4,000 and an attorney fee of $20,000 from the gross proceeds.

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 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").

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

10. Equity transactions (continued)

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").

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.

11. 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 April 29, 2016, the holders of Series B Convertible Preferred Stock converted the outstanding 293 shares of Series B Convertible Preferred Stock into 3,657,278 shares of common stock. As of April 29, 2016, there were no outstanding shares of Series B Convertible Preferred Stock.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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June 30, 2017

11. Preferred Stock (continued)

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.

12. Warrants

A summary of the warrant activity as of June 30, 2017 and December 31, 2016, and the changes during the six months ended June 30, 2017, is presented as follows:

Warrant class	Outstanding as of December 31, 2016	Issued	Exercised	Converted	Expired	Outstanding as of June 30, 2017
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 K Warrants	5,200,000	-	-	-	-	5,200,000
Class L Warrants	65,945,005	-	(1,746,666)	-	-	64,198,339
Series A Warrants	2,106,594	-	(545,246)	-	-	1,561,348
	78,086,749	-	(2,291,912)	-	-	75,794,837

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

	Exercise price/share	Expiration date
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 K Warrants	$ 0.08	June 2025
Class L Warrants	$ 0.08	March 2019
Series A Warrants	$ 0.03	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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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June 30, 2017

12. Warrants (continued)

The exercise price of the Class K 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 certain securities at a price lower than the then applicable exercise price of the warrants. The exercise price of the Series A Warrants was adjusted to $0.0334 due to the 2016 Equity Offering (see Note 9). The 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.

In February 2013, the Company issued 2,000,000 warrants to a consultant to purchase the Company’s common stock at $0.35 per share (the “Class F Warrants”). The five year Class F Warrants vest 300,000 on the date of grant and 1,700,000 upon the completion of a $5,000,000, or greater, capital raise on or prior to June 8, 2013. A capital raise was not completed for the requisite amount and the 1,700,000 Class F Warrants expired by their terms. The Company recorded the underlying cost of the 300,000 Class F Warrants as a cost of the Public Offering.

In June 2015, the Company, in connection with the Note Amendment (Note 6), issued to HealthTronics, Inc. an aggregate total of 3,310,000 Class K Warrants to purchase shares of the Company’s common stock, $0.001 par value, 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.

In June 2016, the Company, in connection with the Second Amendment (Note 6), issued to HealthTronics, Inc., an additional 1,890,000 Class K Warrants to purchase shares of the Company’s Common Stock at an exercise price of $0.08 per share, subject to certain anti-dilution protection. The exercise price of the 3,310,000 Class K Warrants issued on June 15, 2015 was decreased to $0.08 per share. The warrants vested upon issuance and expire after ten years.

The Class K Warrants, the Series A Warrants and the Series B Warrants are derivative financial instruments. The estimated fair value of the Class K Warrants at the date of grant was $36,989 and recorded as debt discount, which is accreted to interest expense through the maturity date of the related notes payable, related parties. 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

12. Warrants (continued)

A summary of the changes in the warrant liability as of June 30, 2017 and December 31, 2016, and the changes during the three and six months ended June 30, 2017, is presented as follows:

	Class K Warrants	Series A Warrants	Total
Warrant liability as of December 31, 2016	$884,000	$358,120	$1,242,120
Issued	-	-	-
Warrant redemption	-	(57,372)	(57,372)
Change in fair value	(208,000)	(115,223)	(323,223)
Warrant liability as of March 31, 2017	$676,000	$185,525	$861,525
Issued	-	-	-
Warrant redemption	-	(9,594)	(9,594)
Change in fair value	-	(35,410)	(35,410)
Warrant liability as of June 30, 2017	$676,000	$140,521	$816,521

13. Commitments and contingencies

Operating Leases

Rent expense for the three months ended June 30, 2017 and 2016, was $33,120 and $40,455, respectively and for the six months ended June 30, 2017 and 2016 was $66,227 and $82,974, respectively. Minimum future lease payments under the operating lease consist of the following:

Year ending December 31,	Amount
Remainder of 2017	$66,689

2018	135,704
2019	139,775
2020	143,969
2021	148,288
Total	$634,425

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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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14. 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 three 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 June 30, 2017 and December 31, 2016, the Stock Incentive Plan reserved 22,500,000 shares of common stock for grant.

On June 15, 2017, the Company granted to the active employees, members of the board of directors and members of the Company’s Medical Advisory Board options to purchase 5,550,000 shares each of the Company’s common stock at an exercise price of $0.11 per share and vested upon issuance. Using the Black-Scholes option pricing model, management has determined that the options had a fair value per share of $0.0869 resulting in compensation expense of $482,295. Compensation cost was recognized upon grant.

On November 9, 2016, the Company granted to the active employees, members of the board of directors and two members of the Company’s Medical Advisory Board options to purchase 2,830,000 shares each of the Company’s common stock at an exercise price of $0.18 per share and vested upon issuance. Using the Black-Scholes option pricing model, management has determined that the options had a fair value per share of $0.1524 resulting in compensation expense of $431,292. Compensation cost was recognized upon grant.

On June 16, 2016, the Company granted to the active employees, members of the board of directors and two members of the Company’s Medical Advisory Board options to purchase 3,300,000 shares each of the Company’s common stock at an exercise price of $0.04 per share and vested upon issuance. Using the Black-Scholes option pricing model, management has determined that the options had a fair value per share of $0.0335 resulting in compensation expense of $110,550. Compensation cost was recognized upon grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions for the six months ended June 30, 2017 and the year ended December 31, 2016:

	2017	2016
Weighted average expected life in years	5.0	5.0
Weighted average risk free interest rate	1.76 %	1.28 %
Weighted average volatility	120.0%	133.54%
Forfeiture rate	0.0 %	0.0 %
Expected dividend yield	0.0 %	0.0 %

The Company recognized as compensation cost for all outstanding stock options granted to employees, directors and advisors, $482,295 and $112,050 for the three months ended June 30, 2017 and 2016, respectively and $482,295 and $116,550 for the six months ended June 30, 2017 and 2016, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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14. Stock-based compensation (continued)

A summary of option activity as of June 30, 2017 and December 31, 2016, and the changes during the three and six months ended June 30, 2017, is presented as follows:

	Options	Weighted Average Exercise Price per share
Outstanding as of December 31, 2016	16,203,385	$ 0.38
Granted	-	$ -
Exercised	-	$ -
Cancelled	-	$ -
Forfeited or expired	-	$ -
Outstanding as of March 31, 2017	16,203,385	$ 0.38
Granted	5,550,000	$ 0.11
Exercised	-	$ -
Cancelled	-	$ -
Forfeited or expired	(160,000)	$ 0.22
Outstanding as of June 30, 2017	21,593,385	$ 0.31
Exercisable	21,593,385	$ 0.31

The range of exercise prices for options was $0.04 to $2.00 for options outstanding at June 30, 2017 and December 31, 2016, respectively. The aggregate intrinsic value for all vested and exercisable options was $301,516 and $702,500 at June 30, 2017 and December 31, 2016, respectively.

The weighted average remaining contractual term for outstanding exercisable stock options was 7.87 and 5.88 years as of June 30, 2017 and December 31, 2016, respectively.

15. 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 six months ended June 30, 2017 and 2016, 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 97,388,222 shares and 65,261,866 shares at June 30, 2017 and 2016, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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June 30, 2017

16. Subsequent events

On August 3, 2017, the Company and its wholly owned subsidiary SANUWAVE, Inc., a Delaware corporation (the “Borrower”) and HealthTronics, Inc. entered into a third amendment (the “Third Amendment”) to amend certain provisions of two promissory notes dated August 1, 2005 between the Borrower and HealthTronics, Inc., as amended on June 15, 2015 and June 28, 2016 (the "Promissory Notes"), with an aggregate outstanding principal balance of $5,372,743 as of August 3, 2017. The Third Amendment amends various provisions of the Promissory Notes, including to extend the due date of the Promissory Notes to December 31, 2018, to revise the mandatory prepayment provisions of the Promissory Notes and to provide for the future issuance of additional warrants to HealthTronics, Inc. upon certain conditions.

In connection with the Third Amendment, on August 3, 2017, the Company entered into a new warrant agreement with HealthTronics, Inc. (the “Class K Warrant Agreement”) for the purchase shares of 2,000,000 warrant shares of Common Stock, at an exercise price of $0.11 per share, subject to certain anti-dilution protection (the "Class K Warrants"). Each Class K Warrant represents the right to purchase one share of Common Stock. The Class K Warrants vested upon issuance and expire after ten (10) years. The fair value of the Class K Warrants will be recorded as an additional debt discount to be recognized over the life of the Third Amendment.

Events of default under the Promissory Notes have occurred and are continuing on account of the Borrower's failure to make the required payments of interest which were due on December 31, 2016, March 31, 2017, and June 30, 2017 (collectively, the "Defaults"). As a result of the Defaults, the Promissory Notes have been accruing interest at the rate of 10.00% per annum since January 2, 2017 and continue to accrue interest at such rate. The aggregate outstanding principal amount under the Promissory Notes as of August 3, 2017 is $5,372,743. HealthTronics, Inc.'s entry into the Third Amendment did not waive the Defaults.

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, 2016 included in our Annual Report on Form 10-K, filed with the SEC on March 31, 2017.

Overview

We are a shock wave technology company using a patented system of noninvasive, high-energy, acoustic shock waves for regenerative medicine and other applications. Our initial focus is regenerative medicine – utilizing noninvasive, acoustic shock waves 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 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 were submitted to the U.S. Food and Drug Administration (FDA) in late July 2016, after our in-person meeting to discuss the submission strategy, for possible approval in the fourth quarter of 2017 or first quarter of 2018.

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 and Asia. 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.