SANUWAVE Health, Inc.
Form 424B3
November 14, 2014
Filed pursuant to Rule 424(b)(3) and Rule 424(c)

File No. 333-195263

Prospectus Supplement No. 3
(To Prospectus dated May 7, 2014)

SANUWAVE HEALTH, INC.

Resale of up to 56,793,600 Shares of Common Stock

This prospectus supplement supplements the prospectus dated May 7, 2014 (the "Prospectus"), related to the offer and sale, from time to time, of up to 56,793,600 shares of common stock, $0.001 par value (the "Common Stock"), of SANUWAVE Health, Inc., a Nevada corporation (the "Company"), held on behalf of our selling stockholders, named in the section of the Prospectus titled "Selling Stockholders." This prospectus supplement should be read in conjunction with the Prospectus.

This prospectus supplement contains the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 filed by the Company with the Securities and Exchange Commission on November 12, 2014 (the "10-Q"). The 10-Q, as filed (but without the exhibits filed with the 10-Q), is set forth below. This prospectus supplement is not complete without, and may not be delivered or used except in connection with, the Prospectus. This prospectus supplement is qualified by reference to the Prospectus except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the Prospectus.

Investing in our common stock involves a high degree of risk.
See "Risk Factors" beginning on page 6 of the Prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 14, 2014

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 September 30, 2014

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

For the transition period from ________ to

Commission File Number 000-52985

SANUWAVE Health, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**20-1176000**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11475 Great Oaks Way, Suite 150	**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 November 7, 2014, there were issued and outstanding 50,706,519 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, 2013, filed on March 31, 2014 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, 2013, filed on March 31, 2014.

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)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$4,687,222	$182,315
Accounts receivable - trade, net of allowance for doubtful accounts of $48,044 in 2014 and $43,282 in 2013	94,954	139,736
Inventory	257,962	246,006
Prepaid expenses	162,306	75,020
TOTAL CURRENT ASSETS	5,202,444	643,077
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Note 3)	8,814	13,267
OTHER ASSETS	11,228	11,444
INTANGIBLE ASSETS, at cost, less accumulated amortization (Note 4)	690,202	920,269
TOTAL ASSETS	$5,912,688	$1,588,057
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$402,674	$935,028
Accrued expenses (Note 5)	359,218	863,572
Accrued employee compensation	117,700	140,102
Interest payable, related parties (Note 7)	81,864	163,729
Notes payable, related parties (Note 7)	5,372,743	-
Convertible promissory note (Note 9)	-	147,775
Promissory notes	-	89,038
Capital lease payable	-	3,951
TOTAL CURRENT LIABILITIES	6,334,199	2,343,195

NON-CURRENT LIABILITIES		
Notes payable, related parties (Note 7)	-	5,372,743
TOTAL LIABILITIES	6,334,199	7,715,938
COMMITMENTS AND CONTINGENCIES (Note 12)	-	-
STOCKHOLDERS' EQUITY (DEFICIT)		
PREFERRED STOCK, SERIES A CONVERTIBLE, par value $0.001, 6,175 shares authorized; 6,175 shares issued and outstanding (Note 10)	6	-
PREFERRED STOCK - UNDESIGNATED, par value $0.001, 4,993,825 shares authorized; no shares issued and outstanding	-	-
COMMON STOCK, par value $0.001, 150,000,000 shares authorized; 50,706,519 and 37,984,182 issued and outstanding in 2014 and 2013, respectively	50,707	37,984
ADDITIONAL PAID-IN CAPITAL	87,496,831	76,037,490
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(8,503)	6,688
ACCUMULATED DEFICIT	(87,960,552)	(82,210,043)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(421,511)	(6,127,881)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$5,912,688	$1,588,057

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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
REVENUE	$227,492	$148,421	$610,705	$510,272
COST OF REVENUE	68,077	29,467	149,813	109,061
GROSS PROFIT	159,415	118,954	460,892	401,211
OPERATING EXPENSES				
Research and development	708,304	775,717	2,486,801	1,744,935
General and administrative	780,115	1,151,709	2,774,828	3,160,749
Depreciation	3,827	4,854	13,312	14,836
Amortization	76,689	76,689	230,067	230,067
TOTAL OPERATING EXPENSES	1,568,935	2,008,969	5,505,008	5,150,587
OPERATING LOSS	(1,409,520)	(1,890,015)	(5,044,116)	(4,749,376)
OTHER INCOME (EXPENSE)				
Loss on embedded conversion feature of Senior Secured Notes (Note 6)	-	(964,813)	-	(2,373,813)
Loss on extinguishment of Senior Secured Notes (Note 6)	-	(1,073,572)	-	(1,073,572)
Accretion of interest and interest expense on Senior Secured Notes (Note 6)	-	(421,060)	-	(2,178,390)
Interest expense, net	(79,955)	(88,772)	(700,085)	(256,472)
Gain on sale of fixed assets	-	-	-	7,500
Gain (loss) on foreign currency exchange	(3,430)	1,442	(6,308)	(331)
TOTAL OTHER INCOME (EXPENSE)	(83,385)	(2,546,775)	(706,393)	(5,875,078)
LOSS BEFORE INCOME TAXES	(1,492,905)	(4,436,790)	(5,750,509)	(10,624,454)
INCOME TAX EXPENSE	-	-	-	-
NET LOSS	(1,492,905)	(4,436,790)	(5,750,509)	(10,624,454)

OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	(10,210)	(1,829)	(15,191)	(5,804)
TOTAL COMPREHENSIVE LOSS	$(1,503,115)	$(4,438,619)	$(5,765,700)	$(10,630,258)
LOSS PER SHARE:				
Net loss - basic and diluted	$(0.03)	$(0.14)	$(0.12)	$(0.43)
Weighted average shares outstanding - basic and diluted	50,706,519	31,874,479	46,258,912	24,969,972

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)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(5,750,509)	$(10,624,454)
Adjustments to reconcile net loss to net cash used by operating activities		
Amortization	230,067	230,067
Depreciation	13,312	14,836
Change in allowance for doubtful accounts	4,762	352
Stock-based compensation - employees, directors and advisors	91,788	683,382
Stock issued for consulting services	743,150	751,587
Accrued interest on 18% Convertible Promissory Notes	7,168	-
Accretion of interest on warrants issued concurrent with a convertible promissory note	339,864	-
Loss on embedded conversion feature of Senior Secured Notes	-	2,373,813
Accretion of interest and accrued interest on Senior Secured Notes	-	2,178,390
Loss on extinguishment of Senior Secured Notes	-	1,073,572
Gain on sale of property and equipment	-	(7,500)
Changes in assets - (increase)/decrease		
Accounts receivable - trade	40,020	21,554
Inventory	(11,956)	48,907
Prepaid expenses	(87,286)	39,735
Other	216	(26)
Changes in liabilities - increase/(decrease)		
Accounts payable	(532,354)	(165,858)
Accrued expenses	(504,354)	111,725
Accrued employee compensation	(22,402)	(106,426)
Interest payable, related parties	(81,865)	-
Promissory notes - accrued interest	(21,813)	1,450
NET CASH USED BY OPERATING ACTIVITIES	(5,542,192)	(3,374,894)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of property and equipment	-	7,500
Purchase of property and equipment	(8,859)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(8,859)	7,500

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from 2014 Private Placement, net	8,562,500	-
Proceeds from sale of capital stock - subscription agreement	900,000	75,000
Proceeds from 18% Convertible Promissory Notes	815,000	-
Proceeds from convertible promissory notes, net	325,000	-
Proceeds from employee stock option exercise	12,600	37,917
Proceeds from subscriptions payable for Senior Secured Notes	-	1,570,000
Proceeds from public offering, net	-	1,517,450
Proceeds from private placement	-	405,000
Proceeds from promissory notes	-	360,000
Payments of principal on convertible promissory notes	(450,000)	-
Payments of principal on promissory notes	(90,000)	(325,000)
Payments of principal on capital lease	(3,951)	(3,664)
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,071,149	3,636,703
EFFECT OF EXCHANGE RATES ON CASH	(15,191)	(5,804)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,504,907	263,505
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	182,315	70,325
CASH AND CASH EQUIVALENTS, END OF PERIOD	$4,687,222	$333,830
SUPPLEMENTAL INFORMATION		
Cash paid for interest, related parties	$325,804	$242,904

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

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SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

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 with possible FDA approval in 2016, subject to submission of satisfactory clinical study results.

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. Revenue is 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. 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 September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 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 nine month periods ended September 30, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2014.

The condensed consolidated balance sheet at December 31, 2013 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.

Financial condition

Since inception in 2005, the Company's operations have primarily been funded from the sale of capital stock and convertible debt securities. At September 30, 2014, the Company had cash and cash equivalents totaling $4,687,222 and negative working capital of $1,131,755. For the nine months ended September 30, 2014 and 2013, the net cash used by operating activities was $5,542,192 and $3,374,894, respectively. Since inception, the Company has experienced recurring losses from operations and had an accumulated deficit of $87,960,552 at September 30, 2014.

The Company does not currently generate significant recurring revenue and will require additional capital in the second half of 2015 to obtain FDA approval for the dermaPACE in 2016, assuming positive clinical study results. 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 September 30, 2014, are due on August 1, 2015.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

2. **Summary of Significant Accounting Policies (continued)**

The continuation of the Company's business is dependent upon raising additional capital in the second half 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 in specific clinical indications or market opportunities, which may include strategic partnerships or licensing arrangements.

In addition, the Company may 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, or by selling all or a portion of the Company's assets (or some combination of the foregoing). If these efforts are unsuccessful, the Company may be forced to seek relief through a filing under the U.S. Bankruptcy Code. These possibilities, to the extent available, may be on terms that result in significant dilution to the Company's existing shareholders. Although no assurances can be given, management of the Company believes that potential additional issuances of equity or other potential financing transactions as discussed above should provide the necessary funding for the Company to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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, 2013, filed with the SEC on March 31, 2014.

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, 2016, 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). 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 in 2017.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

3. Property and equipment

Property and equipment consists of the following:

	September 30, 2014	December 31, 2013
Machines and equipment	$240,295	$233,793
Office and computer equipment	173,761	171,404
Software	41,872	41,872
Furniture and fixtures	22,447	22,447
Other assets	2,446	2,446
Total	480,821	471,962
Accumulated depreciation	(472,007)	(458,695)
Net property and equipment	$8,814	$13,267

The aggregate depreciation related to property and equipment charged to operations was $3,827 and $4,854 for the three months ended September 30, 2014 and 2013, respectively, and $13,312 and $14,836 for the nine months ended September 30, 2014 and 2013, respectively.

4. Intangible assets

Intangible assets consist of the following:

September 30, 2014	December 31, 2013

Patents, at cost	$3,502,135	$3,502,135
Less accumulated amortization	(2,811,933)	(2,581,866)
Net intangible assets	$690,202	$920,269

The aggregate amortization charged to operations was $76,689 for the three months ended September 30, 2014 and 2013, and $230,067 for the nine months ended September 30, 2014 and 2013.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

5. Accrued expenses

Accrued expenses consist of the following:

	September 30, 2014	December 31, 2013
Accrued executive severance	$ 100,000	$ 400,000
Accrued clinical study expenses	68,801	188,927
Accrued consultants	68,800	58,000
Accrued audit and tax preparation	64,125	91,000
Accrued legal professional fees	13,600	29,500
Accrued board of directors fees	12,000	37,333
Accrued other	31,892	58,812
	$ 359,218	$ 863,572

6. 18% Senior secured convertible promissory notes

During the period from November 2012 through March 8, 2013, the Company entered subscriptions payable for 18% senior secured convertible promissory notes (the “Senior Secured Notes”) from select accredited investors. The Company completed the offering and issued an aggregate $2,000,000 in Senior Secured Notes on March 8, 2013.

The Senior Secured Notes had a six month term from the subscription date and the note holders could convert into Company common stock at anytime during the term at a conversion price of $0.20 per share. Upon the consummation of a qualified financing and/or technology license, as defined in the Senior Secured Note agreements, as amended, of $4,000,000 or more by the Company, the principal and interest on the Senior Secured Notes would automatically convert into Company common stock equal to the lower of (i) the Company common stock issued in the qualified financing and/or technology license, reduced by a discount of 20%, and (ii) $0.20 per share. The note holders would also receive, if any were issued, warrants or any other securities issued in a qualified financing and/or technology license on similar terms to the qualified financing and/or technology license. The Senior Secured Notes were secured by the tangible and intangible assets of the Company.

The conversion feature embedded in the Senior Secured Notes was accounted for as a derivative liability and resulted in the creation at issuance of a discount to the carrying amount of the debt in the amount of $2,000,000, which was amortized as additional interest expense using the straight-line method over the term of the Senior Secured Notes (the Company determined that using the straight-line method of amortization did not yield a materially different amortization schedule than the effective interest method). The amount of the fair value of the embedded conversion feature in the Senior Secured Notes of $4,908,000, at the date of issuance, less the debt discount, totaled $2,908,000 and was recorded in the "loss on embedded conversion feature of Senior Secured Notes" in the accompanying consolidated statements of comprehensive loss. Subsequent fair value adjustments of the embedded conversion feature of a loss of $829,000 at March 31, 2013, a gain of ($2,328,000) at June 30, 2013 and a loss of $964,813 at July 31, 2013 (the date of extinguishment – see below) are also included in this financial statement caption.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

6. 18% Senior secured convertible promissory notes (continued)

On July 31, 2013, all of the holders of the Senior Secured Notes voluntarily converted all of the outstanding principal and interest of the Senior Secured Notes into Company common stock. The aggregate outstanding amount of principal and interest on the Senior Secured Notes at July 31, 2013 of $2,186,906 was converted into 10,934,533 shares of Company common stock at the conversion price of $0.20 per share - the market price at the time the subscription agreement was written - pursuant to the Senior Secured Note agreements. In return for the holders' voluntarily converting the outstanding Senior Secured Notes on or before July 31, 2013, the Company agreed to issue to the holders warrants to purchase an aggregate total of 1,988,095 shares of Company common stock (the "Class H Warrants"). The Class H Warrants have an exercise price of $0.80 per share and are exercisable during the five-year period beginning on the date of issuance. In July 2013, the Company recorded a loss from extinguishment of debt of $1,073,572, which was the estimated fair value of the warrants issued to the holders on the date of exchange calculated using the Black-Scholes pricing model using the following primary inputs of: (i) $0.60 closing stock price on the date of grant, (ii) the expected time the warrants will be outstanding of five-years, (iii) estimated discount rate of 1.38%, and (iv) expected volatility of 149% based on historical data from companies similar in size and value to the Company.

Kevin A. Richardson, II, chairman of the board of directors and Co-Chief Executive Officer of the Company, converted an aggregate balance of $64,500 of the Senior Secured Notes and received 322,500 shares of Company common stock and 58,635 Class H Warrants in the foregoing transaction.

Accrued interest expense on the Senior Secured Notes, including amortization of the debt discount, totaled $421,060 for the three months ended September 30, 2013, and $2,178,390 for the nine months ended September 30, 2013.

7. Notes payable, related parties

The notes payable, related parties consist of the following:

	September 30, 2014	December 31, 2013
Notes payable, unsecured, payable to HealthTronics, Inc., a shareholder of the Company		
Current portion	$5,372,743	$-
Non-current portion	-	5,372,743
Total	$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 $81,864 and $163,729 at September 30, 2014 and December 31, 2013, respectively.

Interest expense on notes payable to related parties totaled $81,864 for the three months ended September 30, 2014 and 2013, and $243,940 and $242,903 for the nine months ended September 30, 2014 and 2013, respectively.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

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 September 30, 2014, the Company had federal net operating loss ("NOL") carryforwards of $59,355,168 for tax years through the year ended December 31, 2013, that will begin to expire in 2025. The use of deferred tax assets, including federal net operating losses, is limited to future taxable earnings. Based on the required analysis of future taxable income under the provisions of ASC 740, *Income Taxes* (formerly SFAS No. 109), the Company's management believes that there is not sufficient evidence at September 30, 2014 indicating that the results of operations will generate sufficient taxable income to realize the net deferred tax asset in years beyond 2014. 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.

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 expire after one year.

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 covers 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

9. Equity transactions (continued)

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.

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 has 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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

9. Equity transactions (continued)

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 “full ratchet” anti-dilution adjustment if the Company issues or is deemed to have issued securities at a price lower than the then applicable exercise price.

In the first quarter of 2014, the Company recorded additional interest expense of $339,864, which was the estimated fair value of the Class J Warrants on the date of grant, February 10, 2014, calculated using the Black-Scholes pricing model using the following primary inputs of: (i) $0.60 closing stock price on the date of grant, (ii) the expected time the warrants will be outstanding of five years, (iii) estimated discount rate of 1.48%, and (iv) expected volatility of 137% based on historical data from the Company and other companies similar in size and value to the Company.

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.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

9. Equity transactions (continued)

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.

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 1,035,000 shares of common stock under these agreements in February 2014 through May 2014. The fair value of the common stock 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 periods.

SANUWAVE HEALTH, INC. AND SUBSIDIARIES

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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.

11. Warrants

A summary of the warrant activity as of September 30, 2014 and December 31, 2013, and the changes during the nine months ended September 30, 2014, is presented as follows:

Warrant class	Outstanding as of December 31, 2013	Issued	Exercised	Expired	Outstanding as of September 30, 2014	Exercise price/share	Expiration date
Class A Warrants	1,106,627	-	-	(1,106,627)	-	$ 4.00	Sept, 2014
Class B Warrants	1,106,627	-	-	(1,106,627)	-	$ 8.00	Sept, 2014
Class E Warrants	3,576,737	-	-				