

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, 2017

OR

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: 001-36445

NanoVibronix, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
or organization)

01-0801232

(I.R.S. Employer Identification Number)

9 Derech Hashalom Street
Nesher, Israel

(Address of principal executive office)

36651

(Zip Code)

Registrant's telephone number, including area code: (914) 233-3004

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 during the preceding 12 months (or for such shorter period that the registrant has been 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

The number of shares outstanding of the registrant's common stock, par value \$0.001 per share, as of November 14, 2017 was 3,774,756 shares.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | 3 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 26 |
| <u>Item 4. Controls and Procedures</u> | 26 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 27 |
| <u>Item 1A. Risk Factors</u> | 27 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 28 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 28 |
| <u>Item 4. Mine Safety Disclosures</u> | 28 |
| <u>Item 5. Other Information</u> | 28 |
| <u>Item 6. Exhibits</u> | 28 |
| <u>Signatures</u> | 29 |
| <u>Exhibits</u> | 30 |

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | September 30, 2017 (unaudited) | December 31, 2016 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 82 | \$ 106 |
| Trade receivables | 29 | 6 |
| Prepaid expenses and other accounts receivable | 80 | 42 |
| Inventories | 91 | 67 |
| <u>Total current assets</u> | <u>282</u> | <u>221</u> |
| NON-CURRENT ASSETS: | | |
| Long-term prepaid expense | 222 | 5 |
| Severance pay fund | 298 | 257 |
| Property and equipment, net | 7 | 11 |
| <u>Total non-current assets</u> | <u>527</u> | <u>273</u> |
| <u>Total assets</u> | <u>\$ 809</u> | <u>\$ 494</u> |

The accompanying notes are an integral part of the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share data)

| | September 30, 2017 | December 31, 2016 |
|---|-------------------------------|------------------------------|
| | (unaudited) | |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 357 | \$ 82 |
| Other accounts payable | 576 | 483 |
| Total current liabilities | 933 | 565 |
| LONG-TERM LIABILITIES: | | |
| Convertible promissory notes | 1,394 | — |
| Warrants to purchase Common stock | 2,372 | 2,079 |
| Accrued severance pay | 399 | 349 |
| Total long-term liabilities | 4,165 | 2,428 |
| COMMITMENTS AND CONTINGENT LIABILITIES | | |
| STOCKHOLDERS' DEFICIENCY: | | |
| Stock capital - | | |
| Common stock of \$ 0.001 par value - | | |
| Authorized: 24,000,000 shares at September 30, 2017 and December 31, 2016; Issued and outstanding: 2,632,710 shares at September 30, 2017 and December 31, 2016, respectively | 2 | 2 |
| Series C Preferred stock of \$ 0.001 par value - | | |
| Authorized: 5,500,000 shares at September 30, 2017 and December 31, 2016; Issued and outstanding: 1,951,261 shares at September 30, 2017 and December 31, 2016, respectively | 2 | 2 |
| Additional paid-in capital | 22,448 | 20,073 |
| Accumulated deficit | (26,741) | (22,576) |
| Total stockholders' deficiency | (4,289) | (2,499) |
| Total liabilities and stockholders' deficiency | \$ 809 | \$ 494 |

The accompanying notes are an integral part of the interim consolidated financial statements.

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

U.S. dollars in thousands (except share and per share data)

| | Nine months ended September 30, | | Three months ended September 30, | |
|--|------------------------------------|-------------------|-------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | \$ 169 | \$ 180 | \$ 65 | \$ 61 |
| Cost of revenues | 56 | 77 | 22 | 27 |
| Gross profit | 113 | 103 | 43 | 34 |
| Operating expenses: | | | | |
| Research and development | 474 | 447 | 160 | 161 |
| Selling and marketing | 309 | 390 | 109 | 120 |
| General and administrative | 1,404 | 741 | 387 | 298 |
| Total operating expenses | 2,187 | 1,578 | 656 | 579 |
| Operating loss | (2,074) | (1,475) | (613) | (545) |
| Financial expense, net | 1,217 | 208 | 975 | 52 |
| Loss before taxes on income | (3,291) | (1,683) | (1,588) | (597) |
| Taxes on income | 33 | 28 | 11 | 9 |
| Loss | <u>\$ (3,324)</u> | <u>\$ (1,711)</u> | <u>\$ (1,599)</u> | <u>\$ (606)</u> |
| Deemed dividend related to extension of February 2015 warrants to Common stock in January 2017 | 841 | — | — | — |
| Total comprehensive loss attributable to holders of Common stock and Preferred C stock | <u>\$ (4,165)</u> | <u>\$ (1,711)</u> | <u>\$ (1,599)</u> | <u>\$ (606)</u> |
| Common stock and Preferred C stock basic and diluted loss per share | <u>\$ (0.91)</u> | <u>\$ (0.37)</u> | <u>\$ (0.35)</u> | <u>\$ (0.13)</u> |
| Weighted average number of shares of Common stock and Preferred C stock used in computing basic and diluted loss per share | <u>4,583,971</u> | <u>4,576,616</u> | <u>4,583,971</u> | <u>4,582,290</u> |

The accompanying notes are an integral part of the interim consolidated financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY (Unaudited)

U.S. dollars in thousands (except share data)

| | <u>Preferred C stocks</u> | | <u>Common stocks</u> | | <u>Additional paid-in capital</u> | <u>Accumulated deficit</u> | <u>Total stockholders' deficiency</u> |
|--|---------------------------|---------------|----------------------|---------------|---|--------------------------------|---|
| | <u>Number</u> | <u>Amount</u> | <u>Number</u> | <u>Amount</u> | | | |
| Balance as of January 1, 2016 | <u>1,951,261</u> | <u>\$ 2</u> | <u>2,611,328</u> | <u>\$ 2</u> | <u>\$ 19,521</u> | <u>\$ (19,734)</u> | <u>\$ (209)</u> |
| Issuance of Common stock upon exercise of options | — | — | 12,382 | *) | 33 | — | 33 |
| Issuance of Common stock to consultant | — | — | 9,000 | *) | — | — | — |
| Stock-based compensation related to options granted to employees | — | — | — | — | 459 | — | 459 |
| ASU 2016-09 adoption, Note 2t | — | — | — | — | 11 | (11) | — |
| Stock-based compensation related to restricted stock granted to consultant | — | — | — | — | 49 | — | 49 |
| Total comprehensive loss | — | — | — | — | — | (2,831) | (2,831) |
| Balance as of December 31, 2016 | <u>1,951,261</u> | <u>\$ 2</u> | <u>2,632,710</u> | <u>\$ 2</u> | <u>\$ 20,073</u> | <u>\$ (22,576)</u> | <u>\$ (2,499)</u> |
| Stock-based compensation related to options granted to employees | — | — | — | — | 683 | — | 683 |
| Issuance of warrants to Common stock | — | — | — | — | 851 | — | 851 |
| Deemed dividend related to extension of February 2015 warrants to Common stock in January 2017 | — | — | — | — | 841 | (841) | — |
| Total comprehensive loss | — | — | — | — | — | (3,324) | (3,324) |
| Balance as of September 30, 2017 (unaudited) | <u>1,951,261</u> | <u>\$ 2</u> | <u>2,632,710</u> | <u>\$ 2</u> | <u>\$ 22,448</u> | <u>\$ (26,741)</u> | <u>\$ (4,289)</u> |

*) Represents an amount lower than \$ 1.

The accompanying notes are an integral part of the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

U.S. dollars in thousands

| | Nine months ended September 30, | |
|--|------------------------------------|----------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Loss | \$ (3,324) | \$ (1,711) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 6 | 6 |
| Stock-based compensation | 683 | 284 |
| Benefit component of Promissory Notes | 865 | — |
| Revaluation of warrants to purchase Common stock | 293 | 191 |
| Increase in trade receivables | (23) | (6) |
| Increase (decrease) in prepaid expenses and other accounts receivable | (255) | 15 |
| Decrease (increase) in inventories | (24) | 8 |
| Increase in trade payables | 275 | 11 |
| Increase in other accounts payable | 93 | 95 |
| Increase in accrued severance pay, net | 9 | — |
| Net cash used in operating activities | <u>(1,402)</u> | <u>(1,107)</u> |
| Cash flows from investment activities: | | |
| Purchase of property and equipment | <u>(2)</u> | <u>(8)</u> |
| Net cash used in investment activities | <u>(2)</u> | <u>(8)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of Convertible Promissory Notes and warrants | 1,380 | — |
| Proceeds from exercise of options | <u>—</u> | <u>33</u> |
| Net cash provided by financing activities | <u>1,380</u> | <u>33</u> |
| Decrease in cash and cash equivalents | (24) | (1,082) |
| Cash and cash equivalents at the beginning of the period | 106 | 1,614 |
| Cash and cash equivalents at the end of the period | <u>\$ 82</u> | <u>\$ 532</u> |
| Supplemental information and disclosure of non-cash financing transactions: | | |
| Carve out of warrants' fair value from Convertible Promissory Notes | <u>\$ 852</u> | <u>\$ —</u> |

The accompanying notes are an integral part of the interim consolidated financial statements.

NOTE 1:- GENERAL

- a. NanoVibronix, Inc. (“the Company”), a U.S. (Delaware) corporation, commenced operations on October 20, 2003 and is a medical device company focusing on noninvasive biological response-activating devices that target wound healing and pain therapy and can be administered at home, without the assistance of medical professionals.

The Company’s principal research and development activities are conducted in Israel through its wholly-owned subsidiary, NanoVibronix (Israel 2003) Ltd., a company registered in Israel, which commenced operations in October 2003.

- b. The Company’s ability to continue to operate is dependent mainly on its ability to successfully market and sell its products and the receipt of additional financing until profitability is achieved. The Company has incurred losses in the amount of \$3,324 during the nine month period ended September 30, 2017 and has an accumulated deficit of \$26,741 as of September 30, 2017, and accumulated negative cash flow from operating activities in the amount of \$1,402. The Company’s management believes that the Company has sufficient capital to execute its business plan over the next twelve months. If the Company is unable to successfully commercialize its products over the next twelve months it may need to raise additional capital at a later time. There are no assurances that the Company would be able to raise additional capital, if required, on terms favorable to it.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the financial position and results of operations of the Company. These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2016, as found in the Company’s Annual Report on Form 10-K/A filed with the Securities and Exchange Commission on July 26, 2017. The balance sheet for December 31, 2016 was derived from the Company’s audited financial statements for the year ended December 31, 2016. The results of operations for the nine and three months ended September 30, 2017 are not necessarily indicative of results that could be expected for the entire fiscal year.

- c. On February 9, 2015, the Company filed a Registration Statement on Form 10 under the Securities Exchange Act of 1934, as amended, to register its Common stock under Section 12(g) of that act. The Form 10 was effective on April 10, 2015.
- d. On November 6, 2017, the Company closed an underwritten public offering (the “Offering”) of shares of the Company's common stock and warrants resulting in net proceeds of approximately \$5,100 (See Note 11(3)).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2016 are applied consistently in these financial statements.

NOTE 3:- UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements as of September 30, 2017 have been prepared in accordance with the U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair presentation of the Company’s consolidated financial position as of September 30, 2017, the Company’s consolidated results of operation for the nine and three months ended September 30, 2017 and the Company’s consolidated cash flows for the nine months ended September 30, 2017.

NOTE 4:- FAIR VALUE MEASUREMENTS

ASC 820, “Fair Value Measurements and Disclosures” (“ASC 820”), defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value.

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

During February 2013, the Company signed a convertible Promissory Notes agreement (the "Agreement") pursuant to which the Company issued secured convertible Promissory Notes (the "Notes") to certain investors on February 5, 2013. On each of March 28, 2013, June 3, 2013, August 5, 2013, October 7, 2013, December 9, 2013, February 6, 2014, April 1, 2014, May 15, 2014, June 16, 2014, August 7, 2014, September 7, 2014, October 13, 2014, November 19, 2014 and December 11, 2014, the Agreement and the Notes were amended and restated to increase the principal amount by \$100. In addition, with each amendment, the Company issued to the holders of the Note warrants to purchase up to 37,594 shares of common stock in consideration for an additional \$100 per amendment. The exercise price at which the warrants may be exercised is \$2.66 per share, subject to adjustment for stock splits, fundamental transactions or similar events including "down round" protection. The warrants expire within a period of five years, based on the issuance date.

In April 2015, the holders of the Notes elected to convert the outstanding principal and interest thereunder into shares of the Company's series C preferred stock. On that date, an aggregate principal balance of \$1,500 and \$106 in accrued interest were converted into 603,769 shares of series C preferred stock. The shares of series C preferred stock were not registered under the Securities Act of 1933, as amended, or the securities laws of any state, and were offered and sold pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

The Company measures the warrants at fair value by applying the Black-Scholes option pricing model in each reporting period until they are exercised or expired, with changes in fair value being recognized in the Company's consolidated statement of comprehensive loss as financial income or expense.

In estimating the warrants' fair value, the Company used the following assumptions:

| | September 30, | |
|--------------------------------------|---------------|---------------|
| | 2017 | 2016 |
| Dividend yield ⁽¹⁾ | 0% | 0% |
| Expected volatility ⁽²⁾ | 39.6% - 52.2% | 64.1% - 64.4% |
| Risk-free interest ⁽³⁾ | 1.13%-1.50% | 0.73%-0.85% |
| Expected term (years) ⁽⁴⁾ | 0.3-2.1 | 1.1-3.0 |

(1) Dividend yield - was based on the fact that the Company has not paid dividends to its stockholders in the past and does not expect to pay dividends to its stockholders in the future.

(2) Expected volatility - was calculated based on actual historical stock price movements of companies in the same industry over a term that is equivalent to the expected term of the warrants.

(3) Risk-free interest - was based on yield rate of non-index linked U.S. Federal Reserve treasury stock.

(4) Expected term - was based on the maturity date of the warrants.

Fair value measurement using significant unobservable inputs (Level 3):

| | Fair value of warrants to Common stock |
|----------------------------------|---|
| Balance at January 1, 2017 | \$ 2,079 |
| Change in fair value of warrants | 293 |
| Balance at September 30, 2017 | <u>\$ 2,372</u> |

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

Effective as of January 27, 2017, the Company entered into amendments to its two-year warrants (the "Warrant Amendment") to purchase an aggregate of 420,000 shares of common stock at an exercise price of \$3.00 per share and warrants to purchase an aggregate of 420,000 shares of common stock at an exercise price of \$6.00 per share, issued in January and February 2015, to extend the expiration date of the warrants for two additional years. Pursuant to the Warrant Amendment, warrants to purchase 266,667 shares of common stock at \$3.00 per share and warrants to purchase 266,667 shares of common stock at \$6.00 per share were to expire on January 29, 2019, and the warrants to purchase 140,000 shares of common stock at \$3.00 per share and warrants to purchase 140,000 shares of common stock at \$6.00 per share were to expire on February 10, 2019, and the warrants to purchase 13,333 shares of common stock at \$3.00 per share and warrants to purchase 13,333 shares of common stock at \$6.00 per share were to expire on February 23, 2019. The exercise price and all other terms of the original warrants remain the same. Since substantially all of the warrants to purchase 840,000 shares of common stock subject to the Warrant Amendment are held by the Company's stockholders, the Warrant Amendment was accounted for as "deemed dividend," which was measured at the amount equal to the incremental value reflecting the change in the fair value of the warrants before and after the Warrant Amendment. Accordingly, a deemed dividend in the amount of \$841 was recorded to the Statement of Changes in Stockholders' Deficiency as an increase in additional paid-in capital with a corresponding increase in the accumulated deficit.

In March 2017, the Company completed a bridge financing, pursuant to which the Company received from four investors \$350 of loans and issued to the investors convertible promissory notes (the "2017 Notes") in an aggregate principal amount of \$350 and seven-year warrants (the "Warrants") to purchase an aggregate of 140,000 shares of common stock at an exercise price of \$5.90 per share (the "Exercise Price") (see Note 6). The Company measured the Warrants at fair value on their issuance date by applying the Black-Scholes options pricing model, according to the following assumptions:

| | September 30, 2017 |
|--------------------------------------|-------------------------------|
| Dividend yield ⁽¹⁾ | 0% |
| Expected volatility ⁽²⁾ | 65.16%-65.80% |
| Risk-free interest ⁽³⁾ | 2.23%-2.27% |
| Expected term (years) ⁽⁴⁾ | 7 |

(1) Dividend yield - was based on the fact that the Company has not paid dividends to its stockholders in the past and does not expect to pay dividends to its stockholders in the future.

(2) Expected volatility - was calculated based on actual historical stock price movements of companies in the same industry over a term that is equivalent to the expected term of the warrants.

(3) Risk-free interest - was based on yield rate of non-index linked U.S. Federal Reserve treasury stock.

(4) Expected term - was based on the maturity date of the warrants.

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

In May and June 2017, the Company completed additional bridge financings, pursuant to which the Company received from five investors \$680 of loans and issued to the investors 2017 Notes in an aggregate principal amount of \$680 and Warrants to purchase an aggregate of 272,000 shares of common stock at the Exercise Price (see Note 6). The Company measured the Warrants at fair value on their issuance date by applying the Black-Scholes options pricing model, according to the following assumptions:

| | September 30, 2017 |
|--------------------------------------|-------------------------------|
| Dividend yield ⁽¹⁾ | 0% |
| Expected volatility ⁽²⁾ | 65.54%-65.85% |
| Risk-free interest ⁽³⁾ | 2%-2.14% |
| Expected term (years) ⁽⁴⁾ | 7 |

- (1) Dividend yield - was based on the fact that the Company has not paid dividends to its stockholders in the past and does not expect to pay dividends to its stockholders in the future.
- (2) Expected volatility - was calculated based on actual historical stock price movements of companies in the same industry over a term that is equivalent to the expected term of the warrants.
- (3) Risk-free interest – was based on yield rate of non-index linked U.S. Federal Reserve treasury stock.
- (4) Expected term - was based on the maturity date of the warrants.

In August and September 2017, the Company completed additional bridge financings, pursuant to which the Company received from two investors \$350 of loans and issued to the investors 2017 Notes in an aggregate principal amount of \$350 and Warrants to purchase an aggregate of 140,000 shares of common stock at the Exercise Price (see Note 6). The Company measured the Warrants at fair value on their issuance date by applying the Black-Scholes options pricing model, according to the following assumptions:

| | September 30, 2017 |
|--------------------------------------|-------------------------------|
| Dividend yield ⁽¹⁾ | 0% |
| Expected volatility ⁽²⁾ | 39.6%-65.3% |
| Risk-free interest ⁽³⁾ | 1%-2% |
| Expected term (years) ⁽⁴⁾ | 7 |

- (1) Dividend yield - was based on the fact that the Company has not paid dividends to its stockholders in the past and does not expect to pay dividends to its stockholders in the future.
- (2) Expected volatility - was calculated based on actual historical stock price movements of companies in the same industry over a term that is equivalent to the expected term of the warrants.
- (3) Risk-free interest – was based on yield rate of non-index linked U.S. Federal Reserve treasury stock.
- (4) Expected term - was based on the maturity date of the warrants.

In addition, the Company’s financial instruments also include cash and cash equivalents, trade receivables, prepaid expenses and other accounts receivable, trade payables and other accounts payable. The fair value of these financial instruments was not materially different from their carrying values as of September 30, 2017 due to the short-term maturities of such instruments.

NOTE 5:- RECENTLY ISSUED ACCOUNTING STANDARD

1. In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard is effective for reporting periods beginning after December 15, 2018. The standard will supersede existing revenue recognition guidance, including industry-specific guidance, and will provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company is planning to adopt this ASU on January 1, 2018 under the modified retrospective approach, which will result in a cumulative adjustment to retained earnings. The Company expects that, as a result of the adoption of this ASU, the timing of recognizing revenue from sales of products to its distributors under agreements that will allow certain rights of return and other special rights will be generally earlier than under the existing revenue recognition guidance. The Company continues to evaluate the requirements of the standard, which are currently not expected to have a material effect on the Company’s financial statements.
2. In May 2017 the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted. The adoption of the new requirements of ASU No. 2017-09 are not expected to have a material impact on the Company’s consolidated financial position or results of operations
3. In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Non-public Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception*. Part I applies to entities that issue financial instruments such as warrants, convertible debt or convertible preferred stock that contain down round features. Part II simply replaces the indefinite deferral for certain mandatorily redeemable non-controlling interests and mandatorily redeemable financial instruments of nonpublic entities contained within Accounting Standards Codification (ASC) Topic 480 with a scope exception and does not impact the accounting for these mandatorily redeemable instruments. This ASU is effective for public companies for the annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of the standard may have on its consolidated financial statements.

NOTE 6:- CONVERTIBLE PROMISSORY NOTES

Since March 1, 2017, the Company have completed a series of bridge financings pursuant to which the Company have received from accredited investors aggregate proceeds of \$1,380 in exchange for 2017 Notes in the aggregate principal amount of \$1,380, and seven-year Warrants to purchase an aggregate of 552,000 shares of common stock at an exercise price of \$5.90 per share.

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

The principal amount and all accrued but unpaid interest on the 2017 Notes will become due and payable on the date (the "Maturity Date") that is the earlier of the (i) 5-year anniversary of the date of issuance, or (ii) the date the Company completes an equity financing pursuant to which the Company issues and sells shares of capital stock resulting in aggregate proceeds of at least \$2,000 (a "Qualified Financing"). The 2017 Notes bear interest at a rate of 6% per annum, payable on the Maturity Date. To the extent not previously converted, on the Maturity Date, each investor will receive, at the option of the investor, either (a) cash equal to the original principal amount of the 2017 Notes and interest then accrued and unpaid thereon, or (b) shares of common stock or Series C Convertible Preferred Stock of the Company, at a price per share equal to the lesser of: (x) 80% of the amount equal to the quotient obtained by dividing (i) the estimated value of the Company as of the Maturity Date, as determined in good faith by the Company's board of directors, by (ii) the aggregate number of outstanding shares of the Company's common stock, as of the Maturity Date on a fully diluted basis, and (y) \$5.90 per share, as such amount may be adjusted for any stock split, stock dividend, reclassification or similar events affecting the capital stock of the Company. Upon consummation of a Qualified Financing, the investors may elect to have the outstanding principal and accrued but unpaid interest thereon converted into shares of the same class and series of equity securities sold in such Qualified Financing, provided that the investor may elect to receive shares of Series C Convertible Preferred Stock instead of shares of common stock, to the extent that common stock are issued in such Qualified Financing, at a price per share equal to the lesser of: (a) 80% of the price per share at which such securities are sold in such Qualified Financing and (b) \$5.90 per share, as such amount may be adjusted for any stock split, stock dividend, reclassification or similar events affecting the Company's capital stock. If there is a change of control and the 2017 Notes have not been previously converted otherwise, the investors may, at their option, (a) receive an amount in cash equal to the sum of the original principal amount of the 2017 Notes and interest then accrued and unpaid thereon, or (b) convert the 2017 Notes and all accrued and unpaid interest thereon into shares of common stock or Series C Convertible Preferred Stock of the Company immediately prior to the closing of such change of control transaction at a price per share equal to the lesser of: (x) 80% of the amount equal to the quotient obtained by dividing (i) the estimated value of the Company implied by the exchange ratio set forth in the agreement governing such change of control transaction, as determined in good faith by the Company's board of directors, by (ii) the aggregate number of outstanding shares of the Company's common stock, immediately prior to such change of control on a fully diluted basis, and (y) \$5.90 per share, as such amount may be adjusted for any stock split, stock dividend, reclassification or similar events affecting the Company's capital stock.

As a result of issuing the warrants and as a result of the discount on the conversion price of the 2017 Notes, the Company recorded in the nine months and three months ended September 30, 2017 a benefit component in the amount of \$851 and \$214, respectively, to be amortized over the life of the 2017 Notes.

NOTE 7:- STOCKHOLDERS' DEFICIENCY

Stock based compensation

During the nine and three-month period ended September 30, 2017, the Company recorded share based compensation in a total amount of \$683 (including the effect of the modification described below) and \$147, respectively. During the nine and three-month period ended September 30, 2016 the Company recorded share based compensation in a total amount of \$284 and \$163, respectively.

In connection with the resignation of a director from the Company's board of directors, on March 30, 2017, the Company amended the option agreement, dated March 25, 2015, the Company entered into an agreement with the resigned director for the grant of an option to purchase 30,000 shares of common stock at an exercise price of \$2.57 per share, all of which have vested, and the option agreement, dated July 18, 2016, for the grant of an option to purchase 40,000 shares of common stock at an exercise price of \$5.35 per share, all of which were vesting on July 18, 2017, to (i) accelerate the vesting of the option granted to the director in 2016 so that it will be fully vested as of March 30, 2017, and (ii) permit the director to exercise the options granted in 2015 and 2016 at any time prior to the expiration of the option period as set forth in the applicable option agreement. This modification resulted in additional share based compensation expense of \$98 and \$0 in the nine and three months ended September 30, 2017.

As of September 30, 2017, the total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was \$845, which is expected to be recognized over a weighted average period of approximately 2.8 years.

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases office facilities and motor vehicles under operating leases, which expired on various dates, the latest of which expired on July 31, 2017. The Company is renting on a month to month basis and is in discussion with an extension of its lease.

There are no future minimum lease commitments under non-cancelable operating lease agreements as of September 30, 2017.

The Company leases motor vehicles under cancelable lease agreements. The Company has an option to be released from this lease agreement, which may result in penalties in a maximum amount of approximately \$5.

Rent and related expenses were \$20 and \$22 for the nine months and \$7 and \$7 for the three months ended September 30, 2017 and 2016, respectively.

Motor vehicle leases and related expenses were \$14 and \$12 for the nine months and \$5 and \$7 for the three months ended September 30, 2017 and 2016, respectively.

b. Royalties to the Israel Innovation Authority ("the IIA"):

Under the Company's subsidiary research and development agreements with the IIA and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3-3.5% of sales of products developed with funds provided by the IIA, up to an amount equal to 100% of the IIA research and development grants received, linked to the dollar including accrued interest at the LIBOR rate. The Company is obligated to repay the Israeli Government for the grants received only to the extent that there are sales of the funded products.

As of September 30, 2017, there are no sales from the funded project and the Company has a contingent obligation to pay royalties in the principal amount of approximately \$492. In addition, the IIA may impose certain conditions on any arrangement under which it permits the Company to transfer technology or development out of Israel.

NOTE 9:- LOSS PER SHARE

All outstanding share options and warrants for the nine and the three months ended September 30, 2017 and 2016 have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for all periods presented.

NOTE 10:- GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

Summary information about geographic areas:

The Company manages its business on the basis of one reportable segment, and derives revenues from selling its products directly to patients as well as through distributor agreements. The following is a summary of revenues within geographic areas:

| | Nine months ended September 30, | | Three months ended September 30, | |
|-------------------|------------------------------------|---------------|-------------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| United States | \$ 63 | \$ 62 | \$ 23 | \$ 26 |
| Europe | 58 | 44 | 29 | 6 |
| Israel | 4 | 11 | 3 | 4 |
| India | 10 | 24 | 2 | 15 |
| Rest of the world | 34 | 39 | 8 | 10 |
| | <u>\$ 169</u> | <u>\$ 180</u> | <u>\$ 65</u> | <u>\$ 61</u> |

During the nine and three month period ended September 30, 2017, revenues from distributors accounted for 42% and 52% of total revenues. During the nine and three month period ended September 30, 2016, revenues from distributors accounted for 34% and 36% of total revenues.

The Company's long-lived assets are all located in Israel.

NOTE 11:- SUBSEQUENT EVENTS

The Company evaluates events or transactions that occur after the balance sheet date but prior to the issuance of financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. For its interim consolidated financial statements as of September 30, 2017 (unaudited) and for the three months period then ended (unaudited), the Company evaluated subsequent events through November 14, 2017 the date that the consolidated financial statements were issued.

1. On October 4, 2017, the Company issued 358,995 shares of Preferred C stock, to the holders of certain warrants to purchase an aggregate of 563,910 shares of common stock that contained full ratchet anti-dilution price protection in such warrants pursuant to a cashless exercise of such warrants.
2. On November 2, 2017, the Company issued 13,409 shares of common stock and 180,464 shares of Preferred C Stock to the holders of certain warrants to purchase an aggregate of 563,910 shares of common stock that contained full ratchet anti-dilution price protection in such warrants pursuant to a cashless exercise of such warrants.

NANOVIBRONIX, INC. AND ITS SUBSIDIARY

3. On November 6, 2017, the Company closed an underwritten public offering (the "Offering") of 1,224,488 shares of the Company's common stock (and common stock equivalents), together with warrants (which includes warrants pursuant to the over-allotment option granted to the underwriter) to purchase up to 972,609 shares of common stock at an offering price of \$4.90 per share of common stock and accompanying warrant to purchase 0.75 of one share of common stock. Total gross proceeds from the offering totaled approximately \$6,000, and net proceeds of approximately \$5,100 after deducting underwriting and estimated offering expenses. Each warrant has an exercise price of \$6.95 per full share of common stock with a life of five years. The Company intends to use the net proceeds from this offering: (i) to cover expenses related to listing its shares on The NASDAQ Capital Market; (ii) to expand its sales leadership and field level sales resources; (iii) for research and development; (iv) to implement the Company's Surface Acoustic Wave platform to other applications; (v) to pursue complimentary acquisitions; and (vi) for general working capital. The securities were issued pursuant to the Company's registration statement on Form S-1 originally filed with the Securities and Exchange Commission on June 21, 2017, and declared effective on November 1, 2017.
4. In September 2017, all of the holders of the 2017 Notes agreed to convert the full principal and accrued interest on the 2017 Notes into equity securities of the Company in the event the Company consummated a Qualified Financing anytime before December 31, 2017. The Offering constituted a Qualified Financing, and based on the outstanding principal amount and all accrued but unpaid interest on the 2017 Notes at 80% of the offering price of \$4.90 per share of common stock and accompanying warrant, the Company issued an aggregate of 361,462 shares of common stock (and common stock equivalents) and warrants to purchase an aggregate of 271,096 shares of common stock to the holders of the 2017 Notes, all of which are subject to lock-up agreements for 180 days from November 1, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of financial condition and results of operations in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Unless the context requires otherwise, references in this Form 10-Q to the "Company," "NanoVibronix," "we," "our" and "us" refer to NanoVibronix, Inc., a Delaware corporation, and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements," which include information relating to future events, future financial performance, financial projections, strategies, expectations, competitive environment and regulation. Words such as "may," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results and may not be accurate indications of when such performance or results will be achieved. Forward-looking statements are based on information we have when those statements are made or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- Our ability to continue as a going concern.
- The timing of clinical studies and eventual U.S. Food and Drug Administration approval of WoundShield™ and our other product candidates.
- Regulatory actions that could adversely affect the price of or demand for our approved products.
- Market acceptance of existing and new products.
- Favorable or unfavorable decisions about our products from government regulators, insurance companies or other third-party payers.
- Our intellectual property portfolio.
- Our ability to recruit and retain qualified regulatory and research and development personnel.
- Unforeseen changes in healthcare reimbursement for any of our approved products.
- Lack of financial resources to adequately support our operations.
- Difficulties in maintaining commercial scale manufacturing capacity and capability.
- Our ability to generate internal growth.
- Changes in our relationship with key collaborators.
- Changes in the market valuation or earnings of our competitors or companies viewed as similar to us.
- Our failure to comply with regulatory guidelines.

- Uncertainty in industry demand and patient wellness behavior.
- General economic conditions and market conditions in the medical device industry.
- Future sales of large blocks of our common stock, which may adversely impact our stock price.
- Depth of the trading market in our common stock.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipated in our forward-looking statements. For a discussion of these and other risks that relate to our business and financial performance, you should carefully review the risks and uncertainties described under the heading “Item 1A. Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2016, and those described from time to time in our future reports filed with the Securities and Exchange Commission. Moreover, new risks regularly emerge and it is not possible for us to predict or articulate all risks we face, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. All forward-looking statements included in this Form 10-Q are based on information available to us on the date of this prospectus. Except to the extent required by applicable laws or rules, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

We are a medical device company focusing on noninvasive biological response-activating devices that target wound healing and pain therapy and can be administered at home, without the assistance of medical professionals. Our WoundShield, PainShield and UroShield products are backed by novel technology which relates to ultrasound delivery through surface acoustic waves.

Critical Accounting Policies

A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operation and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies are more fully described in both (i) "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and (ii) Note 2 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2016. There have not been any material changes to such critical accounting policies since December 31, 2016.

The currency of the primary economic environment in which our operations are conducted is the U.S. dollar ("\$" or "dollar"). Accordingly, our functional currency is the dollar.

Recent Events

Underwritten Public Offering

On November 6, 2017, we closed an underwritten public offering (the "Offering") of 1,224,488 shares of our common stock (and common stock equivalents), together with warrants (which includes warrants pursuant to the over-allotment option granted to the underwriter) to purchase up to 972,609 shares of common stock at an offering price of \$4.90 per share of common stock and accompanying warrant to purchase 0.75 of one share of common stock. Total gross proceeds from the offering totaled approximately \$6,000,000, and net proceeds totaled approximately \$5,100,000 after deducting underwriting and estimated offering expenses. Each warrant has an exercise price of \$6.95 per full share of common stock with a life of five years. We intend to use the net proceeds from this offering: (i) to cover expenses related to listing our shares on The NASDAQ Capital Market; (ii) to expand our sales leadership and field level sales resources; (iii) for research and development; (iv) to implement our Surface Acoustic Wave platform to other applications; (v) to pursue complimentary acquisitions; and (vi) for general working capital. The securities were issued pursuant to our registration statement on Form S-1 originally filed with the Securities and Exchange Commission on June 21, 2017, and declared effective on November 1, 2017.

Conversion of Convertible Promissory Notes

In September 2017, all of the holders of the convertible promissory notes issued in connection with a series of bridge financings between March 1, 2017 and September 15, 2017 (collectively, the "2017 Notes") agreed to convert the full principal and accrued interest on the 2017 Notes into equity securities of the Company in the event the Company consummated a Qualified Financing any time before December 31, 2017. The Offering constituted a Qualified Financing, and based on the outstanding principal amount and all accrued but unpaid interest on the 2017 Notes at 80% of the offering price of \$4.90 per share of common stock and accompanying warrant, we issued an aggregate of 361,462 shares of common stock (and common stock equivalents) and warrants to purchase an aggregate of 271,096 shares of common stock to the holders of the 2017 Notes, all of which are subject to lock-up agreements for 180 days from November 1, 2017.

Results of Operations

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

Revenues. For the nine months ended September 30, 2017 and 2016, our revenues were approximately \$169,000 and \$180,000, respectively, a decrease of approximately 6.1%, or \$11,000, between the periods. The decrease was mainly attributable to decreased sales to consumers in the nine months ended September 30, 2017. Our revenues may fluctuate as we add new consumers or when existing distributors or consumers make large purchases of our products during one period and no purchases during another period. Our revenues may fluctuate from quarter-to-quarter and any growth or decrease in revenues by quarter may not be linear or consistent.

For the nine months ended September 30, 2017, the percentage of revenues attributable to our products was: PainShield 81% and UroShield - 19%. For the nine months ended September 30, 2016, the percentage of revenues attributable to our products was: PainShield - 89% and UroShield - 11%. For the nine months ended September 30, 2017 and 2016, the percentage of revenues attributable to our disposable products was 53% and 45%, respectively. For the nine months ended September 30, 2017 and 2016, the portion of our revenues that was derived from distributors was 42% and 34%, respectively.

Gross Profit. For the nine months ended September 30, 2017 and 2016, gross profit was approximately \$113,000 and \$103,000, respectively, an increase of approximately 9.7%, or \$10,000, between the periods. The increase was mainly due to a markdown of obsolete inventory during such period in 2016.

Gross profit as a percentage of revenues was approximately 67% and 57% for the nine months ended September 30, 2017 and 2016, respectively. The increase in gross profit as a percentage is mainly due to the markdown of obsolete inventory as described above.

Research and Development Expenses. For the nine months ended September 30, 2017 and 2016, research and development expenses were approximately \$474,000 and \$447,000, respectively, an increase of approximately 6%, or \$27,000, between the periods. The increase was primarily due to the increase in expenses related to our clinical trials.

Research and development expenses as a percentage of total revenues were approximately 280% and 248% for the nine months ended September 30, 2017 and 2016, respectively. The increase was due primarily to the increase in expenses described above.

Our research and development expenses consist mainly of payroll expenses to employees involved in research and development activities, stock-based compensation expenses, expenses related to subcontracting, patents application and registration, clinical trial and facilities expenses associated with and allocated to research and development activities.

Selling and Marketing Expenses. For the nine months ended September 30, 2017 and 2016, selling and marketing expenses were approximately \$309,000 and \$390,000, respectively, a decrease of approximately 21%, or \$81,000, between the periods. The decrease was mainly due to a decrease in our sales staff and, to a lesser degree, decreased selling and marketing activities, particularly trade show expenses and marketing campaigns as we had to reduce our sales budget due to limited cash resources.

Selling and marketing expenses as a percentage of total revenues were approximately 182% and 216% for the nine months ended September 30, 2017 and 2016, respectively. The decrease was due primarily to the decrease in expenses described above.

Selling and marketing expenses consist mainly of payroll expenses to direct sales and marketing employees, stock-based compensation expenses, travel expenses, advertising and marketing expenses, rent and facilities expenses associated with and allocated to selling and marketing activities.

General and Administrative Expenses. For the nine months ended September 30, 2017 and 2016, general and administrative expenses were approximately \$1,404,000 and \$741,000, respectively, an increase of approximately 89%, or \$663,000, between the periods. The increase was mainly due to a \$223,000 increase in our stock based compensation and the increased compensation costs of the new management team hired in the fourth quarter of 2016.

General and administrative expenses as a percentage of total revenues were approximately 830% and 412% for the nine months ended September 30, 2017 and 2016, respectively. The increase was due primarily to the increase in expenses described above.

Our general and administrative expenses consist mainly of payroll expenses for management and administrative employees, share-based compensation expenses, accounting, legal and facilities expenses associated with general and administrative activities and costs associated with being a publicly traded company.

Financial Expenses, net. For the nine months ended September 30, 2017 and 2016, financial expenses, net were approximately \$1,217,000 and \$208,000, respectively, an increase of approximately 485%, or \$1,009,000, between the periods. The increase resulted primarily an additional expense of approximately \$865,000 related to the issuance of the Warrants amortized over the life of the 2017 Notes issued in the first two quarters of 2017 and a \$293,000 increase due to a higher valuation adjustment of our warrants that were issued with our 2013 and 2015 convertible promissory notes.

Tax expenses. For the nine months ended September 30, 2017 and 2016, tax expenses were \$33,000 and \$28,000, respectively. The tax expense is computed by multiplying income before taxes at our Israeli subsidiary by the appropriate tax rate. The increase in our tax expenses was due to increased spending by our Israel subsidiary.

Loss. Our loss increased by approximately \$1,613,000, or 94%, to approximately \$3,324,000 for the nine months ended September 30, 2017 from approximately \$1,711,000 in the same period of 2016. The increase in net loss resulted primarily from the factors described above.

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenues . For the three months ended September 30, 2017 and 2016, our revenues were approximately \$65,000 and \$61,000, respectively, an increase of approximately 7%, or \$4,000, between the periods. The increase was attributable to increased sales to our distributors in the three months ended September 30, 2017. Our revenues may fluctuate as we add new consumers or distributors or when existing consumers or distributors make large purchases of our products during one period and no purchases during another period. Our revenues may fluctuate from quarter-to-quarter and any growth or decrease in revenues by quarter may not be linear or consistent.

For the three months ended September 30, 2017, the percentage of revenues attributable to our products was: PainShield - 92% and UroShield - 8%. For the three months ended September 30, 2016, the percentage of revenues attributable to our products was: PainShield - 82% and UroShield -18%. For the three months ended September 30, 2017 and 2016, the percentage of revenues attributable to our disposable products was 45% and 38%, respectively. For the three months ended September 30, 2017 and 2016, the portion of our revenues that was derived from distributors was 52% and 36%, respectively.

Gross Profit. For the three months ended September 30, 2017, gross profit increased by approximately 26%, or \$9,000, to approximately \$43,000 from approximately \$34,000 during the same period in 2016. The increase was due to higher sales as well as a markdown of obsolete inventory.

Gross profit as a percentage of revenues was approximately 65% and 56% for the three months ended September 30, 2017 and 2016, respectively. The increase in gross profit as a percentage is mainly due to the increased percentage of higher margin sales described above.

Research and Development Expenses. For the three months ended September 30, 2017 and 2016, research and development expenses were approximately \$160,000 and \$161,000, respectively.

Research and development expenses as a percentage of total revenues were approximately 246% and 264% for the three months ended September 30, 2017 and 2016, respectively. The decrease was due to the increase in revenues.

Our research and development expenses consist mainly of payroll expenses to employees involved in research and development activities, stock-based compensation expenses, expenses related to subcontracting, patents application and registration, clinical trial and facilities expenses associated with and allocated to research and development activities.

Selling and Marketing Expenses. For the three months ended September 30, 2017 and 2016, selling and marketing expenses were approximately \$109,000 and \$120,000, respectively, a decrease of approximately 9%, or \$11,000, between the periods. The decrease was mainly due to a decrease in our sales staff and to a lesser degree decreased selling and marketing activities, particularly marketing expenses as we had to reduce our sales budget due to limited cash resources.

Selling and marketing expenses as a percentage of total revenues were approximately 168% and 196% for the three months ended September 30, 2017 and 2016, respectively. The decrease was due primarily to the decrease in expenses described above.

Selling and marketing expenses consist mainly of payroll expenses to direct sales and marketing employees, stock-based compensation expenses, travel expenses, advertising and marketing expenses, rent and facilities expenses associated with and allocated to selling and marketing activities.

General and Administrative Expenses. For the three months ended September 30, 2017 and 2016, general and administrative expenses were approximately \$387,000 and \$298,000, respectively, an increase of approximately 30%, or \$89,000, between the periods. The increase was mainly due to the increased compensation costs of the new management team hired in the fourth quarter of 2016 including their stock based compensation.

Our general and administrative expenses consist mainly of payroll expenses for management and administrative employees, share-based compensation expenses, accounting, legal and facilities expenses associated with general and administrative activities and costs associated with being a publicly traded company.

Financial Expenses, net. For the three months ended September 30, 2017 and 2016, financial expenses, net were approximately \$975,000 and \$52,000, respectively, an increase of approximately \$923,000, between the periods. The increase resulted from additional expenses incurred from the issuance of the Warrants amortized over the life of the 2017 Notes issued in the first two quarters of 2017 as well as by an increase derived by a higher valuation adjustment of our warrants that were issued with our 2013 and 2015 convertible promissory notes.

Tax expenses. For the three months ended September 30, 2017 and 2016, tax expenses were \$11,000 and \$9,000, respectively. The tax expense is computed by multiplying income before taxes at our Israeli subsidiary by the appropriate tax rate. The increase in our tax expenses was due to increased spending by our Israel subsidiary.

Loss. Our net loss increased by approximately \$993,000, or 163%, to approximately \$1,599,000 for the three months ended September 30, 2017 from approximately \$606,000 in the same period of 2016. The increase in net loss resulted primarily from the factors described above.

Liquidity and Capital Resources

We continue to incur losses and negative cash flows from operating activities. We have incurred losses in the amount of \$3,324,000 (not \$3,324,000)

During the nine months ended September 30, 2017, and through November 14, 2017, we met our short-term liquidity requirements from our existing cash reserves and from proceeds from the sales of convertible promissory notes in an aggregate amount of \$1,380,000, as well as the net proceeds of \$5,100,000 from our underwritten public offering which closed on November 6, 2017. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our products, our development of future products and competing technological and market developments. We intend to use these proceeds to meet our short-term liquidity requirements as well as to advance our long-term plans. It is our current belief that such proceeds will provide sufficient funding to meet our liquidity needs for the next twelve months. While we believe we have sufficient capital to execute our business plan over the next twelve months, there are no assurances that we will not need to raise additional capital at a later time, or that we would be able to raise additional capital, if required, on terms favorable to us.

We do not have any material commitments to capital expenditures as of September 30, 2017, and we are not aware of any material trends in capital resources that would impact our business.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

General. As of September 30, 2017, we had cash and cash equivalents of approximately \$82,000, compared to approximately \$106,000 as of December 31, 2016. The decrease is attributable primarily to our net cash used in operating activities. We have historically met our cash needs through a combination of issuance of equity, borrowing activities and sales. Our cash requirements are generally for product development, research and development cost, marketing and sales activities, finance and administrative cost, capital expenditures and general working capital.

Cash used in our operating activities was approximately \$1,402,000 for the nine months ended September 30, 2017 and \$1,107,000 for the same period in 2016. The increase in our cash usage was mainly associated with the increase in our net operating loss for the nine months ended September 30, 2017 compared to the three months ended September 30, 2016, for the reasons described above.

Cash used in investing activities was \$2,000 and \$8,000 for the nine month periods ended September 30, 2017 and 2016, respectively, and was related to purchases of fixed assets.

Cash provided by financing activities was approximately \$1,380,000 for the nine months ended September 30, 2017 derived from proceeds received from the issuance of 2017 Notes and \$33,000 for the nine months ended September 30, 2017, which was derived from proceeds from the exercise of certain options.

Off Balance Sheet Arrangements

As of September 30, 2017, we have no off-balance sheet transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons that have, or may have, a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Factors That May Affect Future Operations

We believe that our future operating results will continue to be subject to quarterly variations based upon a wide variety of factors, including the ordering patterns of our distributors, timing of regulatory approvals, the implementation of various phases of our clinical trials and manufacturing efficiencies due to the learning curve of utilizing new materials and equipment. Our operating results could also be impacted by a weakening of the Euro and strengthening of the New Israeli Shekel, or NIS, both against the U.S. dollar. Lastly, other economic conditions we cannot foresee may affect customer demand, such as individual country reimbursement policies pertaining to our products.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. As of September 30, 2017, we conducted an evaluation, under the supervision and participation of management including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of September 30, 2017.

- (b) Changes in Internal Controls. There have been no changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation that arises through the normal course of business. As of the date of this filing, we are not a party to any material litigation nor are we aware of any such threatened or pending litigation.

There are no material proceedings in which any of our directors, officers or affiliates or any registered or beneficial shareholder of more than 5% of our common stock, or any associate of any of the foregoing is an adverse party or has a material interest adverse to our interest.

Item 1A. Risk Factors -

There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. You should carefully consider the risks described below and the other information included in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2016, including the consolidated financial statements and related notes. If any of the following risks, or any other risks not described below, actually occur, it is likely that our business, financial condition, and/or operating results could be materially adversely affected. In such case, the trading price and market value of our common stock could decline and you may lose part or all of your investment in our common stock. The risks and uncertainties described below include forward-looking statements and our actual results may differ from those discussed in these forward-looking statements.

During the three months ended September 30, 2017, there were no material changes to the risk factors previously discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K/A for the year ended December 31, 2016, and Form 10-Q for the quarter ended June 30, 2017, except for the following:

- The risk factor captioned "There has been a limited market for our common stock and we cannot ensure investors that an active market for our common stock will be sustained" is hereby deleted in its entirety and replaced with the following:

Although our shares of common stock are now listed on the NASDAQ Capital Market, we currently have a limited trading volume, which results in higher price volatility for, and reduced liquidity of, our common stock.

Although our shares of common stock are now listed on the NASDAQ Capital Market under the symbol "NAOV," trading volume in our common stock has been limited and an active trading market for our shares of common stock may never develop or be maintained. The absence of an active trading market increases price volatility and reduces the liquidity of our common stock. As long as this condition continues, the sale of a significant number of shares of common stock at any particular time could be difficult to achieve at the market prices prevailing immediately before such shares are offered.

- The following risk factor is hereby added:

If we cannot continue to satisfy the continuing listing criteria of the NASDAQ Capital Market, the exchange may subsequently delist our common stock.

NASDAQ requires us to meet certain financial, public float, bid price and liquidity standards on an ongoing basis in order to continue the listing of our common stock. Generally, we must maintain a minimum amount of stockholders equity and a minimum number of holders of our securities. If we fail to meet any of the continuing listing requirements, our common stock may be subject to delisting. If our common stock is delisted and we are not able to list our common stock on another national securities exchange, we expect our securities would be quoted on an over-the-counter market. If this were to occur, our stockholders could face significant material adverse consequences, including limited availability of market quotations for our common stock and reduced liquidity for the trading of our securities. In addition, we could experience a decreased ability to issue additional securities and obtain additional financing in the future. There can be no assurance that an active trading market for our common stock will develop or be sustained.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None

Item 6. Exhibits

See Index to Exhibits.

SIGNATURES

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

NANOVIBRONIX, INC.

Date: November 14, 2017

By: /s/ Brian Murphy
Name: Brian Murphy, Ph.D.
Title: Chief Executive Officer

Date: November 14, 2017

By: /s/ Stephen Brown
Name: Stephen Brown
Title: Chief Financial Officer

EXHIBIT INDEX

| Exhibit No. | Description |
|------------------------------|---|
| <u>3.1</u> | <u>Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed with the Securities and Exchange Commission on April 17, 2015)</u> |
| <u>3.2</u> | <u>Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Amendment No. 3 to the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 30, 2014)</u> |
| <u>3.3</u> | <u>Certificate of Designation of Preferences, Rights and Limitations of Series D Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on November 7, 2017).</u> |
| <u>4.1</u> | <u>Form of Warrant Agency Agreement, (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on October 31, 2017).</u> |
| <u>4.2</u> | <u>Form of Unit Purchase Option (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on October 18, 2017).</u> |
| <u>4.3</u> | <u>Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on October 18, 2017).</u> |
| <u>10.1</u> | <u>Form of Letter Agreement between NanoVibronix, Inc. and the holders of the 2017 Notes (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on September 14, 2017).</u> |
| <u>31.1*</u> | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>31.2*</u> | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| <u>32.1*</u> | <u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| <u>32.2*</u> | <u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101* | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Loss, (iii) Consolidated Statements of Changes in Equity (Deficiency) (iv) Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements |

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)

I, Brian Murphy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NanoVibronix, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 14, 2017

By: /s/ Brian Murphy
Name: Brian Murphy
Title: Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a)

I, Stephen Brown, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NanoVibronix, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

November 14, 2017

By: /s/ Stephen Brown

Name: Stephen Brown

Title: Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION FURNISHED PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2017 of NanoVibronix, Inc. (the "Company"). I, Brian Murphy, the Chief Executive Officer of the Company, certify that, based on my knowledge:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: November 14, 2017

By: /s/ Brian Murphy
Name: Brian Murphy
Title: Chief Executive Officer (Principal Executive Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION FURNISHED PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

This certification is furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and accompanies the Quarterly Report on Form 10-Q (the "Form 10-Q") for the quarter ended September 30, 2017 of NanoVibronix, Inc. (the "Company"). I, Stephen Brown, the Chief Financial Officer of the Company, certify that, based on my knowledge:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in this report.

Date: November 14, 2017

By: /s/ Stephen Brown
Name: Stephen Brown
Title: Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer)

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.
