

RUB MUSIC ENTERPRISES, INC.

Form 10-Q

November 16, 2009

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**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, 2009**

**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**

(State or other jurisdiction of incorporation or organization)

**20-1176000**

(I.R.S. Employer Identification No.)

**11680 Great Oaks Way, Suite 350**

**Alpharetta, GA**

(Address of principal executive offices)

**30022**

(Zip Code)

**(678) 581-6843**

(Registrant's telephone number, including area code)

**Rub Music Enterprises, Inc.**

(Former name, former address and former fiscal year, if changed since last report)

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 16, 2009, there were issued and outstanding 12,509,657 shares of the registrant's common stock.



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**Special Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q of SANUWAVE Health, Inc. and its subsidiaries (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, 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, predict, potential and continue, the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in this report, including the sections titled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. Other risks and uncertainties are disclosed in the Company's prior Securities and Exchange Commission 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 Current Report on Form 8-K filed on September 30, 2009.

*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.*

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**SANUWAVE HEALTH, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)**

	September 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,297,436	\$ 543,626
Accounts receivable trade, net of allowance for doubtful accounts of \$26,363 in 2009 and \$64,490 in 2008	87,384	52,414
Inventory (Note 7)	584,572	684,750
Prepaid expenses	56,364	106,617
Due from Pulse Veterinary Technologies, LLC	167,990	
Current assets related to discontinued operations (Note 6)	168,509	1,285,017
<b>TOTAL CURRENT ASSETS</b>	<b>4,362,255</b>	<b>2,672,424</b>
<b>PROPERTY AND EQUIPMENT</b> , at cost, less accumulated depreciation (Note 8)	<b>136,891</b>	<b>279,791</b>
<b>OTHER ASSETS</b>	<b>63,261</b>	<b>81,017</b>
<b>INTANGIBLE ASSETS</b> , at cost, less accumulated amortization (Note 9)	<b>2,223,984</b>	<b>2,454,051</b>
<b>NON-CURRENT ASSETS RELATED TO DISCONTINUED OPERATIONS</b> (Note 6)	<b>924,971</b>	<b>1,011,734</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,711,362</b>	<b>\$ 6,499,017</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,233,942	\$ 975,811
Payroll and related	511,770	820,397
Accrued expenses	350,744	448,242
Liabilities related to discontinued operations (Note 6)	655,761	845,593
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,752,217</b>	<b>3,090,043</b>
<b>NOTES PAYABLE, RELATED PARTIES</b> (Note 11)	<b>8,659,554</b>	<b>6,006,815</b>
<b>TOTAL LIABILITIES</b>	<b>11,411,771</b>	<b>9,096,858</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 12)		

	STOCKHOLDERS EQUITY (DEFICIT)	
COMMON STOCK	12,510	11,500
ADDITIONAL PAID-IN CAPITAL	32,248,865	30,094,546
ACCUMULATED OTHER COMPREHENSIVE LOSS	(4,081)	(196,646)
RETAINED DEFICIT	(35,957,703)	(32,507,241)
TOTAL STOCKHOLDERS EQUITY (DEFICIT)	(3,700,409)	(2,597,841)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	\$ 7,711,362	\$ 6,499,017

See accompanying notes to unaudited condensed consolidated  
financial statements.



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SANUWAVE HEALTH, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
 (UNAUDITED)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
REVENUES	\$ 134,771	\$ 167,423	\$ 538,818	\$ 862,651
COST OF REVENUES	30,753	60,213	129,416	281,948
GROSS PROFIT	104,018	107,210	409,402	580,703
OPERATING EXPENSES				
Research and development	1,063,876	865,518	2,686,160	2,396,185
General and administrative	1,530,282	1,935,750	3,433,448	6,027,089
Depreciation	46,636	70,031	150,482	193,602
Amortization	76,689	76,689	230,067	230,067
TOTAL OPERATING EXPENSES	2,717,483	2,947,988	6,500,157	8,846,943
OPERATING LOSS	(2,613,465)	(2,840,778)	(6,090,755)	(8,266,240)
OTHER INCOME (EXPENSE)				
Gain/(loss) on sale of assets	9,142		(4,509)	
Transitional services provided to Pulse Veterinary Technologies, LLC	102,500		136,250	
Interest expense	(188,278)	(72,552)	(517,354)	(213,042)
Loss on foreign currency exchange	(6,654)	(4,129)	(44,428)	(29,135)
TOTAL OTHER INCOME (EXPENSE)	(83,290)	(76,681)	(430,041)	(242,177)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(2,696,755)	(2,917,459)	(6,520,796)	(8,508,417)
INCOME TAX EXPENSE				
	(2,696,755)	(2,917,459)	(6,520,796)	(8,508,417)

LOSS FROM CONTINUING  
OPERATIONS

## DISCONTINUED OPERATIONS

Income from discontinued operations, net of tax		565,534		581,306		684,662
Gain/(loss) on sale of veterinary division, net of tax	(3,245)			2,489,028		
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(3,245)	565,534		3,070,334		684,662
NET LOSS	(2,700,000)	(2,351,925)		(3,450,462)		(7,823,755)
OTHER COMPREHENSIVE INCOME (LOSS), net of tax						
Foreign currency translation adjustments	12,031	(135,365)		(33,671)		(52,363)
TOTAL COMPREHENSIVE LOSS	\$ (2,687,969)	\$ (2,487,290)		\$ (3,484,133)		\$ (7,876,118)
EARNINGS (LOSS) PER SHARE:						
Loss from continuing operations basic	\$ (0.23)	\$ (0.26)		\$ (0.56)		\$ (0.79)
Loss from continuing operations diluted	\$ (0.23)	\$ (0.26)		\$ (0.56)		\$ (0.79)
Income (loss) from discontinued operations basic	\$ (0.00)	\$ 0.05		\$ 0.26		\$ 0.06
Income (loss) from discontinued operations diluted	\$ (0.00)	\$ 0.05		\$ 0.26		\$ 0.06
Net loss basic	\$ (0.23)	\$ (0.21)		\$ (0.30)		\$ (0.73)
Net loss diluted	\$ (0.23)	\$ (0.21)		\$ (0.30)		\$ (0.73)
Weighted average shares outstanding basic	11,836,552	11,383,932		11,612,184		10,798,162
Weighted average shares outstanding diluted	11,836,552	11,383,932		11,612,184		10,798,162

See accompanying notes to unaudited condensed consolidated financial statements.



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SANUWAVE HEALTH, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss from continuing operations	\$ (6,520,796)	\$ (8,508,417)
Adjustments to reconcile net loss to net cash used by operating activities		
Amortization	230,067	230,067
Accrued interest	527,739	213,051
Depreciation	150,482	193,602
Change in allowance for doubtful accounts	(38,128)	7,620
Loss on sale of property and equipment	4,509	
Stock-based compensation	585,400	401,088
Changes in assets (increase)/decrease		
Accounts receivable trade	3,158	13,447
Inventory	100,178	(35,342)
Prepaid expenses	50,253	189,917
Due from Pulse Veterinary Technologies, LLC	(167,990)	
Other assets	17,756	62,439
Changes in liabilities increase/(decrease)		
Accounts payable	258,131	(122,043)
Payroll and related	(308,627)	(46,071)
Accrued expenses	(97,498)	(312,044)
<b>NET CASH USED BY CONTINUING OPERATIONS</b>	<b>(5,205,366)</b>	<b>(7,712,686)</b>
<b>NET CASH PROVIDED BY DISCONTINUED OPERATIONS</b>	<b>708,237</b>	<b>2,151,826</b>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(4,497,129)</b>	<b>(5,560,860)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Continuing operations		
Proceeds from sale of property and equipment	9,142	
Purchase of property and equipment	(21,233)	(124,917)
<b>NET CASH PROVIDED (USED) BY CONTINUING OPERATIONS</b>	<b>(12,091)</b>	<b>(124,917)</b>
<b>NET CASH PROVIDED BY DISCONTINUED OPERATIONS</b>	<b>3,601,772</b>	<b>8,858</b>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>3,589,681</b>	<b>(116,059)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Continuing operations		

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Proceeds from notes payable, related parties	2,125,000	
Proceeds from sale of stock	1,819,844	5,675,000
Repurchase of stock	(180,000)	
Payment of development period liabilities	(69,915)	
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>3,694,929</b>	<b>5,675,000</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS</b>	<b>(33,671)</b>	<b>(52,363)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>2,753,810</b>	<b>(54,282)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>543,626</b>	<b>693,033</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 3,297,436</b>	<b>\$ 638,751</b>

See accompanying notes to unaudited condensed consolidated financial statements.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**

**1. Nature of the Business**

SANUWAVE Health, Inc. and subsidiaries (the Company) is a global medical technology company which through its wholly owned subsidiary SANUWAVE, Inc. (SANUWAVE) is focused on the development and utilization of Pulsed Acoustic Cellular Expression (PACE) technology for advanced wound care, orthopedic/spine, plastic/cosmetic and cardiac conditions.

**2. Basis of Presentation and Principles of Consolidation**

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 10 of Regulation S-X. Accordingly, these 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, 2009 and for the three and nine months ended September 30, 2009 and 2008 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, 2009 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2009.

The condensed consolidated balance sheet at December 31, 2008 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.

For further information and a summary of significant accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company's Current Report on Form 8-K filed on September 30, 2009. Please refer also to Note 4 regarding the Company's adoption of recent accounting pronouncements.

**3. Reverse Merger Transaction**

On September 25, 2009, SANUWAVE Health, Inc. (formerly named Rub Music Enterprises, Inc. (SANUWAVE Health)) and RME Delaware Merger Sub, Inc., a Nevada corporation and wholly-owned subsidiary of SANUWAVE Health (the Merger Sub), entered into a reverse merger agreement (the Merger Agreement) with SANUWAVE. Pursuant to the Merger Agreement, the Merger Sub merged with and into SANUWAVE, with SANUWAVE as the surviving entity (the Merger). In connection with the Merger, SANUWAVE Health acquired 100% of the outstanding capital stock of SANUWAVE and the stockholders of SANUWAVE received 11,009,657 shares of the SANUWAVE Health's common stock, warrants to purchase 1,106,627 shares of SANUWAVE Health's common stock at \$4.00 per share, and warrants to purchase an additional 1,106,627 shares of SANUWAVE Health's common stock at \$8.00 per share. In addition, in connection with the Merger, certain stockholders of SANUWAVE Health agreed to cancel all of their shares of common stock of SANUWAVE Health, except for 1,500,000 shares of common stock, for an aggregate price of \$180,000 (the Share Repurchase). At the time of the Merger, SANUWAVE Health had 1,500,000 warrants outstanding to purchase SANUWAVE Health's common stock at \$4.00 per share.

As a result of the Merger and Share Repurchase, the stockholders of SANUWAVE control approximately 88% of SANUWAVE Health's outstanding common stock, holding 11,009,657 of the 12,509,657 outstanding shares, and SANUWAVE is considered the accounting acquirer in this Merger. SANUWAVE Health was a shell company as such term is defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the Exchange Act) immediately prior to the Merger. As a result of the Merger, SANUWAVE Health's operations are now focused in global medical technology. Consequently, SANUWAVE Health believes that the Merger has caused the Company to cease being a shell company as it no longer has nominal operations.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**September 30, 2009**

**4. Recent Accounting Pronouncements*****The FASB Accounting Standards Codification***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ( SFAS No. 168 ), which establishes the FASB Accounting Standards Codification ( Codification ). The Codification supersedes all existing accounting standard documents and will become the single source of authoritative non-governmental United States generally accepted accounting principles. The Codification did not change United States generally accepted accounting principles but reorganizes the literature. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification was implemented on July 1, 2009 and is effective for interim and annual periods ending after September 15, 2009. Subsequent changes to the Codification will be released through Accounting Standards Updates ( ASU ), which serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes in the Codification. The Company has conformed its financial statements and related notes to the new Codification for the three and nine months ended September 30, 2009.

In conjunction with the issuance of SFAS No. 168, the FASB issued ASU No. 2009-01 Topic 105, *Generally Accepted Accounting Principles* ( ASC No. 2009-01 ). ASU No. 2009-01 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of non-governmental entities that are presented in conformity with United States generally accepted accounting principles. ASU No. 2009-01 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this ASU did not have a material impact on the Company's financial position or results of operation as of and for the three and nine months ended September 30, 2009.

***Fair Value Measurements and Other-Than-Temporary Impairments***

In April 2009, the FASB issued three Staff Positions ( FSP ): (1) ASC 320-10, *Investments - Debt and Equity Securities* (includes former FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). The ASC changes existing guidance for determining whether impairment of debt securities is other-than-temporary; (2) ASC 820-10, *Fair Value Measurements and Disclosures* (includes former FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). This ASC, while emphasizing that the objective of fair value measurement described in ASC 820 (formerly SFAS No. 157, *Fair Value Measurements*) remains unchanged, provides additional guidance for determining whether market activity for a financial asset or liability has significantly decreased, as well as for identifying circumstances that indicate that transactions are not orderly; and (3) ASC 825-10, *Financial Instruments* (includes former FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*). This ASC requires disclosures about fair values of financial instruments in all interim financial statements, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. These ASCs were effective for interim and annual periods ending after June 15, 2009. The Company adopted the ASCs effective January 1, 2009, and the adoption of did not have a material impact on the Company's condensed consolidated financial statements as of September 30, 2009.

***Business Combinations***

In April 2009, the FASB issued ASC 805-10, *Business Combinations* (includes former FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*). This ASC amends and clarifies the provisions of ASC 805, formerly SFAS No. 141(R), *Business Combinations*, with respect to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies associated with a business combination. The provisions of the ASC are effective, for the Company, for business combinations occurring after January 1, 2009. The adoption of the ASC did not have a material impact on the Company's condensed consolidated financial statements as of September 30, 2009.





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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**September 30, 2009**

**4. Recent Accounting Pronouncements (Continued)**

***Subsequent Events***

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*), which provides guidance on events that occur after the balance sheet date but prior to the issuance of the financial statements. This ASC distinguishes events requiring recognition in the financial statements and those that may require disclosure in the financial statements. Furthermore, ASC 855 requires disclosure of the date through which subsequent events were evaluated. ASC 855 is effective for interim and annual periods ending after June 15, 2009. The Company has adopted ASC 855, and has evaluated subsequent events through November 13, 2009.

**5. Earnings (Loss) Per Share**

The Company calculates net income (loss) per share in accordance with ASC 260, *Earnings Per Share* (formerly SFAS No. 128, *Earnings Per Share*). Under the provisions of ASC 260, basic net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders for the period by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of shares of common stock and dilutive common stock equivalents then outstanding. To the extent that securities are anti-dilutive, they are excluded from the calculation of diluted net income (loss) per share.

As a result of the net loss for the three and nine months ended September 30, 2009 and 2008, respectively, all potentially dilutive shares were anti-dilutive and therefore excluded from the computation of diluted net income (loss) per share. The anti-dilutive common shares totaled 4,000,281 shares and 633,823 shares for the three months ended September 30, 2009 and 2008, respectively, and 2,526,183 shares and 465,482 shares for the nine months ended September 30, 2009 and 2008, respectively.

**6. Discontinued operations**

On October 31, 2008, the Company discontinued its Ossatron<sup>®</sup> mobile service business. The Company sold certain assets for a total cash consideration of \$400,000 to a minority shareholder of the Company and recorded a gain of approximately \$106,000.

On June 3, 2009, the Company sold its veterinary business to Pulse Veterinary Technologies, LLC ( Pulse Vet ) for a total cash consideration of \$3,500,000. As a result of the sale, the Company recorded a gain of approximately \$2,489,028.

Accordingly, the Company's condensed consolidated financial statements have been prepared with the net assets, results of operations, and cash flows of these businesses displayed separately as discontinued operations.

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**SANUWAVE HEALTH, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**September 30, 2009**

**6. Discontinued operations (continued)**

The operating results of the discontinued operations are summarized as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue	\$	\$ 1,568,577	\$ 1,458,107	\$ 4,618,077
Cost of revenues		136,075	372,547	795,079
Gross profit		1,432,502	1,085,560	3,822,998
Operating expenses				
Depreciation expense		289,134	2,917	961,765
Other operating expenses		541,560	503,873	2,107,760
Total operating expenses		830,694	506,790	3,069,525