

SONA MOBILE HOLDINGS CORP  
Form 10QSB  
August 14, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007  
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 000-12817

SONA MOBILE HOLDINGS CORP.  
(Name of small business issuer in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
245 Park Avenue, New York, New York 10167  
(Address of principal executive office)

95-3087593  
(I.R.S. Employer  
Identification No.)

(212) 486-8887  
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

None  
(Title of Each Class)

None  
(Name of each Exchange on Which  
Registered)

Securities registered under Section 12(g) of the Exchange Act:

Common Stock  
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 45 days. Yes No

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, \$0.01 par value, as of August 9, 2007 was 57,832,857 shares.

Transitional Small Business Disclosure Format. Yes No

SONA MOBILE HOLDINGS CORP.

FORM 10-QSB REPORT  
June 30, 2007

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| FORWARD-LOOKING STATEMENTS   |           |

Certain statements made in this Quarterly Report on Form 10-QSB are “forward-looking statements” regarding the plans and objectives of management for future operations and market trends and expectations. The words “expect,” “believe,” “plan,” “intend,” “estimate,” “anticipate,” “propose,” “seek” and similar words and variations thereof, when used, are intended to specifically identify forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties, including but not limited to those set forth in our Registration Statement on Form SB-2, as amended and filed with the SEC on April 3, 2007. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate

and, therefore, we cannot assure you that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We do not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

The terms the "Company", "Sona", "we", "our", "us", and derivatives thereof, as used herein refer to Sona Mobile Holdings Corp., a Delaware corporation, and its subsidiaries and its predecessor, Sona Mobile, Inc., a Washington corporation.

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PART I  
FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Sona Mobile Holdings Corp. And Subsidiaries  
Consolidated Balance Sheet

|  | At<br>June 30, 2007<br>(unaudited) |
|--|------------------------------------|
| Assets   |                                    |
| Current:   |                                    |
| Cash and cash equivalents  | \$ 2,722,166                       |
| Accounts receivable (net of allowance for doubtful accounts of \$12,926) | 88,173                             |
| Tax credits receivable   | 47,656                             |
| Prepaid expenses & deposits  | 74,574                             |
| Total current assets   | 2,932,569                          |
| Property and equipment:  |                                    |
| Computer equipment   | 125,173                            |
| Furniture and equipment  | 84,055                             |
| Less: accumulated depreciation   | (76,565)                           |
| Total property and equipment   | 132,663                            |
| Software development costs (Note 3(i))                                   | 316,821                            |
| Total Assets   | \$ 3,382,053                       |
| Liabilities and Stockholders' Equity                                     |                                    |
| Current:   |                                    |
| Accounts payable   | \$ 256,763                         |
| Accrued liabilities & payroll (Note 13)                                  | 496,228                            |
| Deferred revenue (Note 14)   | 441,143                            |
| Total current liabilities  | 1,194,134                          |
| Total Liabilities  | 1,194,134                          |

## Stockholders' equity:

|   |              |
|---|--------------|
| Preferred Stock – 2,000,000 shares authorized, par value \$.01 per share – no shares issued and outstanding       |              |
| Common Stock – 90,000,000 shares authorized, par value \$.01 per share – 57,817,857 shares issued and outstanding | 578,178      |
| Additional paid-in capital  | 15,898,349   |
| Common Stock purchase warrants  | 4,734,965    |
| Unamortized stock based compensation  | (16,055)     |
| Accumulated other comprehensive (loss)  | (75,707)     |
| Accumulated deficit   | (18,931,811) |
| Total stockholders' equity  | 2,187,919    |
| Total Liabilities and Stockholders' Equity  | \$ 3,382,053 |

See accompanying notes to consolidated financial statements.

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Item 1. Consolidated Financial Statements (Continued)

Sona Mobile Holdings Corp. and Subsidiaries  
Consolidated Statements of Operations and Comprehensive Loss

|  | Three months ended June 30 |             | Six months ended June 30 |             |
|--|----------------------------|-------------|--------------------------|-------------|
|  | 2007                       | 2006        | 2007                     | 2006        |
|  | (unaudited)                | (unaudited) | (unaudited)              | (unaudited) |
| Net Revenue  | \$ 267,182                 | 165,429     | \$ 415,309               | 290,753     |
| Operating expenses   |                            |             |                          |             |
| Depreciation and amortization  | 15,722                     | 8,950       | 28,007                   | 16,787      |
| General and administrative expenses  | 696,133                    | 727,005     | 1,241,723                | 1,300,065   |
| Professional fees  | 228,332                    | 302,180     | 625,791                  | 600,086     |
| Development expenses   | 372,130                    | 370,029     | 917,177                  | 753,694     |
| Selling and marketing expenses   | 299,695                    | 938,663     | 645,963                  | 2,239,647   |
| Total operating expenses   | 1,612,012                  | 2,346,827   | 3,458,661                | 4,910,279   |
| Operating loss   | (1,344,830)                | (2,181,398) | (3,043,352)              | (4,619,526) |
| Interest income  | 39,256                     | 19,638      | 94,995                   | 36,653      |
| Interest expense   | —                          | (1,013)     | (464)                    | (1,965)     |
| Other income and expense   | 2,194                      | 230,573     | (9,631)                  | 53,190      |
| Net loss   | \$ (1,303,380)             | (1,932,200) | \$ (2,958,452)           | (4,531,648) |
| Foreign currency translation adjustment  | (25,912)                   | (215,462)   | (24,845)                 | (190,057)   |
| Comprehensive loss   | \$ (1,329,292)             | (2,147,662) | \$ (2,983,297)           | (4,721,705) |
| Net loss per share of common stock – basic and diluted                                     | \$ (0.02)                  | (0.05)      | \$ (0.05)                | (0.11)      |
| Weighted average number of shares of common stock outstanding – basic and diluted (note 6) | 57,782,692                 | 40,914,710  | 57,794,312               | 40,408,581  |

See accompanying notes to consolidated financial statements.

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## Item 1. Consolidated Financial Statements (Continued)

Sona Mobile Holdings Corp. and Subsidiaries  
Consolidated Statements of Cash Flows

|  | Six months ended June 30, |             |
|--|---------------------------|-------------|
|  | 2007                      | 2006        |
|  | (unaudited)               | (unaudited) |
| Cash provided by (used in):                                  |                           |             |
| Operating activities   |                           |             |
| Net loss   | \$ (2,958,452)            | (4,531,648) |
| Adjustments for:   |                           |             |
| Depreciation and amortization                                | 28,007                    | 16,787      |
| Loss on disposal of fixed assets                             | 5,171                     | —           |
| Write-off of in-process purchased technology                 | —                         | 597,652     |
| Amortization of restricted stock-based compensation          | 8,200                     | 205,882     |
| Stock based compensation                                     | 183,751                   | 154,967     |
| Gain on revaluation of common stock purchase warrants        | —                         | (468,326)   |
| Changes in non-cash working capital assets and liabilities:  |                           |             |
| Accounts receivable, net                                     | 116,206                   | 284,849     |
| Tax credits receivable                                       | —                         | (14,689)    |
| Prepaid expenses & deposits                                  | 21,392                    | (2,484)     |
| Accounts payable   | (93,612)                  | 223,741     |
| Accrued liabilities & payroll                                | 83,432                    | (34,375)    |
| Deferred revenue   | 51,581                    | 21,794      |
| Net cash used in operating activities                        | (2,554,324)               | (3,545,850) |
| Investing activities   |                           |             |
| Software development costs                                   | (316,821)                 | —           |
| Acquisition of property & equipment                          | (78,914)                  | (3,741)     |
| Net cash used in investing activities                        | (395,735)                 | (3,741)     |
| Financing activities   |                           |             |
| Proceeds from the sale of common stock                       | —                         | 1,664,400   |
| Proceeds from exercise of stock options                      | —                         | 69,334      |
| Proceeds from the issuance of common stock purchase warrants | —                         | 1,335,600   |
| Net cash provided by financing activities                    | —                         | 3,069,334   |
| Effect of exchange rate changes on cash & cash equivalents   | (9,937)                   | (188,380)   |
| Change in cash & cash equivalents during the period          | (2,959,996)               | (668,637)   |
| Cash & cash equivalents, beginning of period                 | 5,682,162                 | 1,286,912   |
| Cash & cash equivalents, end of period                       | \$ 2,272,166              | 618,275     |

There were no amounts paid in cash for taxes or interest in the first six months of 2007 or 2006.

See accompanying notes to consolidated financial statements.

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## Note 1. Going Concern and Management's Plans

The accompanying consolidated financial statements of Sona Mobile Holdings Corp. (the "Company") have been prepared assuming that the Company will continue as a going concern. However, since its inception in November 2003, the Company has generated minimal revenue, has incurred substantial losses and has not generated any positive cash flow from operations. The Company has relied upon the sale of shares of equity securities to fund its operations. These conditions raise substantial doubt as to the Company's ability to continue as a going concern.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts or classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

At June 30, 2007, the Company had total cash and cash equivalents of \$2.7 million held in current and short-term deposit accounts. Management believes that based on the current level of spending, this cash will only be sufficient to fund the Company's operations until November 2007. Based on the current business plan, the Company will be obligated to seek additional financing before that time. There can be no assurance that the Company will be able to successfully implement its plans to raise additional capital or to increase revenue. The Company may not be able to obtain additional capital or generate new revenue opportunities on a timely basis, on favorable terms, or at all. If the Company cannot successfully implement its plans, the Company's liquidity, financial condition and business prospects will be materially and adversely affected and the Company may have to cease operations.

## Note 2. Company Background and Description of Business

Sona Mobile, Inc. ("Sona Mobile") was formed under the laws of the State of Washington in November 2003 for the purpose of acquiring Sona Innovations, Inc. ("Innovations"), which it did in December 2003. On April 19, 2005, Sona Mobile merged (the "Merger") with and into PerfectData Acquisition Corporation, a Delaware corporation ("PAC") and a wholly-owned subsidiary of PerfectData Corporation, also a Delaware corporation ("PerfectData"). Under the terms of that certain Agreement and Plan of Merger dated as of March 7, 2005, (i) PAC was the surviving company but changed its name to Sona Mobile, Inc.; (ii) the pre-merger shareholders of Sona Mobile received stock in PerfectData representing 80% of the voting power in PAC post-merger; (iii) all of PerfectData's officers resigned and Sona Mobile's pre-merger officers were appointed as the new officers of PerfectData; and (iv) four of the five persons serving as directors of PerfectData resigned and the remaining director appointed the three pre-merger directors of Sona Mobile to the PerfectData Board of Directors. In November 2005, PerfectData changed its name to "Sona Mobile Holdings Corp."

At the time of the Merger, PerfectData was essentially a shell company that was not engaged in an active business. Upon completion of the Merger, PerfectData's only business was the historical business of Sona Mobile and the pre-merger shareholders of Sona Mobile controlled PerfectData. Accordingly, Sona Mobile was deemed the accounting acquirer and the Merger was accounted for as a reverse acquisition of a public shell and a recapitalization of Sona Mobile. No goodwill was recorded in connection with the Merger and the costs were accounted for as a reduction of additional paid-in-capital. The pre-merger financial statements of Sona Mobile are treated as the historical financial statements of the combined companies and its historical stockholders' equity was adjusted to reflect the new capital structure.

The Company is a wireless software and service provider specializing in value-added services to data-intensive vertical and horizontal market segments. The Company develops and markets wireless data applications for mobile devices in the rapidly growing wireless data marketplace. The Company operates as one business segment focused on the development, sale and marketing of wireless application software.

The Company's value proposition is to unlock, integrate and seamlessly deliver all types of data to wireless devices, whether streaming financial markets data for the investment banking industry, complex databases and enterprise applications for supporting all areas of a corporate organization or

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live television and digital radio delivery to the growing consumer market via channel and content partners – anytime, anywhere. The Company markets its products and services principally to two large vertical markets.

- Gaming and entertainment. The Company proposes to (i) deliver casino games wirelessly in designated areas on casino properties; (ii) offer real-time, multiplayer games that accommodate an unlimited number of players; (iii) deliver games on a play-for-free or wagering basis (where permitted by law) on mobile telephone handsets over any carrier network; and (iv) deliver horse and sports wagering applications, where legal, for on-track and off-track wagering, including live streaming video of horse races and other sports events. The Company also proposes to deliver content via channel partners and content partners, including live streaming television, digital radio, specific theme downloads for mobile phones, media downloads and gaming applications.
- Financial services and enterprise software. The Company's products and services extend enterprise applications to the wireless arena, such as customer relationship management systems, sales force automation systems, information technology (IT) service desk and business continuity protocols, all of which the Company believes are delivered in compliance with the current regulatory environment. One of the Company's primary focuses is to develop solutions for the data-intensive investment banking community and client-facing applications for the retail banking industry.

These products and services are deliverable globally across most of the major cellular networks and prominent wireless device operating systems. The Company's revenues consist primarily of project, licensing and support fees relating to our Sona Wireless Platform and related end-user wireless application software products made available to enterprises and cellular operators.

In 2006, in conjunction with the Company's strategic alliance with Shuffle Master and because of the perceived opportunities for wireless applications in the gaming industry, the primary sales and development focus of the Company was switched towards the gaming industry. The Company continues to focus on the financial services and enterprise market sectors for products, customers and verticals where success has previously been experienced or where significant opportunities are perceived to exist.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements herein include the accounts of the Company and its wholly-owned subsidiary, Sona Mobile, as well as Sona Mobile’s wholly-owned subsidiaries, Innovations, a Canadian company and Sona Ltd. (“Sona Ltd.”), which is incorporated in the United Kingdom. All material inter-company accounts and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2006 and the notes thereto included in Form 10-KSB filed with the United States Securities and Exchange Commission on March 29, 2007. Results of consolidated operations for the interim periods are not necessarily indicative of the operating results to be attained for the entire fiscal year.

#### Recently issued accounting pronouncements

In July 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109

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(FIN 48), which provides clarification related to the process associated with accounting for uncertain tax positions recognized in consolidated financial statements. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. The Company adopted this provision on January 1, 2007. The Company’s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, there was no accrued interest or penalty associated with any unrecognized tax benefits, nor was any interest expense or penalty recognized during the six months ended June 30, 2007.

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Sona Mobile, Sona Mobile’s wholly-owned subsidiary, Innovations and Sona Ltd. All inter-company accounts and transactions have been eliminated in consolidation.

#### (b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and term deposits with original maturity dates of less than 90 days. Cash and cash equivalents are stated at cost, which approximates market value, and are concentrated in three major financial institutions.

#### (c) Foreign currency translation



The functional currency is the U.S. dollar as that is the currency in which the Company primarily generates revenue and expends cash. In accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 52, “Foreign Currency Translation,” assets and liabilities denominated in a foreign currency have been translated at the period end rate of exchange. Revenue and expense items have been translated at the transaction date rate. For Innovations, which uses its local currency (Canadian dollar) as the functional currency, the resulting translation adjustments are included in other comprehensive income, as the company is a foreign self-sustaining operation. Other gains or losses resulting from foreign exchange transactions are reflected in earnings.

(d) Property and equipment

Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of three to five years.

(e) Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

(f) Software rights

In April 2006, the Company completed the acquisition of certain software from Digital Wasabi, LLC, a Colorado limited liability company (“Digital Wasabi”). The software, which has not been fully developed, is intended to facilitate the playing of certain games of chance, such as bingo and poker, on mobile wireless communication devices. The in-process purchased software does not meet the criteria for capitalization as prescribed in SFAS No. 86 “Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed” (“SFAS 86”) and as such was expensed in the quarter of acquisition.

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(g) Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes,” which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed periodically for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

(h) Revenue recognition

The Company derives revenue from license and service fees related to customization and implementation of the software being licensed. License fees are recognized in accordance with Statement of Position (“SOP”) 97-2, “Software Revenue Recognition,” as amended by SOP 98-4 and SOP 98-9, and in certain instances in accordance with SOP 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts.” Service fees on contracts when future development is required are recorded on a percentage of completion or completed-contract basis depending on whether or not reliable estimates of the costs to complete the work can be obtained. License fees are recognized when the rights to use the software transfer, as long as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is probable. When license fees are not fixed and determinable, they are recognized over the service period as they become determinable. The deferred revenues are amounts invoiced or received prior to completion of service.

(i) Research and software development costs

The Company incurs costs on activities that relate to research and the development of new software products. Research costs are expensed as they are incurred. Costs are reduced by tax credits where applicable. Software development costs to establish the technological feasibility of software applications developed by the Company are charged to expense as incurred. In accordance with SFAS 86, certain costs incurred subsequent to achieving technological feasibility are capitalized. Accordingly, a portion of the internal labor costs and external consulting costs associated with essential wireless software development and enhancement activities are capitalized. Costs associated with conceptual design and feasibility assessments as well as maintenance and routine changes are expensed as incurred. Capitalized costs are amortized based on current or future revenue for each product with an annual minimum equal to the straight-line basis of amortization over the estimated economic lives of the applications, not to exceed 5 years. Capitalized software development costs are periodically evaluated for impairment. Gross software development costs for the six-months ended June 30, 2007 and 2006 were \$1,156,452 and \$753,694, respectively. For the three months period ended June 30, 2007, \$239,275 of the gross software development costs met the criteria of SFAS 86 for capitalization of software development costs and accordingly were capitalized as of that date with a corresponding reduction of software development expenses for the quarter. Capitalized software development costs were \$316,821 as of June 30, 2007.

(j) Stock-based compensation

As of January 1, 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with, FASB Statement of Financial Accounting Standards No. 123 – revised 2004 (“SFAS 123R”), “Share-Based Payment” which replaced Statement of Financial Accounting Standards No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions

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of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures, as adjusted for estimated forfeitures.

During the first and second quarters of fiscal 2007, the Company issued stock options to directors, officers, and employees under the 2006 Incentive Plan (the "2006 Plan") as described in Note 11 to our consolidated financial statements. During the first and second quarters of fiscal 2006, the Company issued stock options to directors, officers, and employees under the Amended and Restated Stock Option Plan of 2000 which is also described in Note 11 to our consolidated financial statements. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model.

(k) Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year's presentation.

(l) Derivatives

The Company follows the provisions of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") along with related interpretations EITF No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" ("EITF 00-19") and EITF No. 05-2 "The Meaning of 'Conventional Convertible Debt Instrument' in Issue No. 00-19" (EITF 05-2). SFAS No. 133 requires every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivative's fair value recognized currently in earnings unless specific hedge accounting criteria are met. The Company values these derivative securities under the fair value method at the end of each reporting period, and their value is marked to market with the gain or loss recognition recorded against earnings. The Company uses the Black-Scholes option-pricing model to determine fair value. Key assumptions of the Black-Scholes option-pricing model include applicable volatility rates, risk-free interest rates and the instrument's expected remaining life. These assumptions require significant management judgment. At June 30, 2007, there were no derivative instruments reported on the Company's balance sheet.

Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, management continually monitors the financial condition of its customers to reduce the risk of loss. Customer account balances with invoices dated over 90 days are considered delinquent. The Company maintains reserves for potential credit losses based upon its loss history, its aging analysis and specific account review. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Such losses have been within management's expectations. The Company has some exposure to a concentration of credit risk as it relates to specific industry segments, as historically its customers have been primarily concentrated in the financial services industry. Since revenues are derived in large part from single projects, the Company bears some credit risk due to a high concentration of revenues from individual customers. During the second quarter of fiscal 2007, 93% of total revenues were generated from four customers that individually represented over 10% of total revenue each (Customer A – 19%, Customer B – 12%, Customer C – 17%, Customer D – 45%). During the second quarter of fiscal 2006, 80% of total revenues were generated from four customers individually representing over 10% of total revenue each (Customer A – 31%, Customer B – 21%, Customer E – 14%, Customer F – 14%).

We had a balance of \$12,926 in our Allowance for Doubtful Accounts provision as of June 30, 2007. This balance consists of provisions made in previous quarters. There was a total of \$15,000 of bad debt write-offs against the provision in 2007. There was a total of \$22,792 of bad debt write offs against the provision in 2006.

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Note 5. Stockholders' Equity

In January 2006, the Company sold 2,307,693 shares of common stock and a warrant to purchase 1,200,000 shares of our common stock to Shuffle Master, Inc. ("Shuffle Master") for \$3.0 million. This warrant had an exercise price of \$2.025 per share which expired on July 12, 2007 without being exercised. Using the Black-Scholes option-pricing model, the warrant was valued at \$1,335,600 using a volatility of 65%, a term of 18 months, an expected dividend yield of 0% and a risk-free interest rate of 4.4%.

During fiscal 2006, a total of 43,334 stock options were exercised resulting in total proceeds to the Company of \$69,334. A total of 457,778 shares of restricted stock were issued during fiscal 2006 to directors, officers and employees under the Company's compensation plans. Other stock transactions in 2006 included the issuance of 800,000 shares for the purchase of technology from Digital Wasabi. No cash proceeds were received in connection with these issuances and the stock was valued relative to the market price on the date of issuance.

On July 7, 2006 the Company closed a private placement to accredited investors whereby it sold 16,943,323 shares of common stock and warrants to purchase 8,471,657 shares of common stock for net proceeds of approximately \$9.3 million after payment of commissions, as well as legal and accounting expenses. The warrants have an exercise price of \$0.83 per share, subject to downward adjustment if the Company does not meet specified annual revenue targets, and are exercisable at any time during the period commencing July 7, 2006 and ending July 7, 2011. As a result of the Company not meeting the specified revenue targets for 2006, the exercise price of the warrants was adjusted downwards to \$0.70 per share as of December 31, 2006. The warrants were valued at \$3,114,595 using the Black-Scholes option-pricing model, assuming a risk-free interest rate of 5.10%, a five-year expected life, a volatility rate of 65%, and a dividend yield of 0%. The remainder of the net proceeds from the financing was credited to common stock and additional paid in capital.

The Company used \$300,000 of the funds raised on July 7, 2006 to repurchase 650,000 shares of common stock from its former chief executive officer, John Bush. The shares have been classified as treasury shares and will be used when share issuances for restricted stock and stock option exercises occur. During fiscal 2006, 288,333 of the repurchased shares were used for some of the above mentioned issuances of restricted stock to employees and directors.

Series B Warrants

In June 2005, the Company sold 3,848.7 shares of Series B Convertible Preferred Stock (the "Series B Preferred Stock") accompanied by common stock purchase warrants (the "Series B Warrants") to purchase 962,175 shares of its common stock to accredited investors for gross proceeds of \$5.05 million (the "Series B Financing"). As part of the financing transaction, the Company agreed to register and did register for resale the shares of common stock underlying the Series B Preferred Stock and the Series B Warrants. The registration statement became effective on April 24, 2006. During the second quarter of fiscal 2006, the Company issued an additional 8,553 Series B Warrants to the investors in the Series B Financing because the registration statement was not declared effective by April 19, 2006, as required by the Series B Financing agreements.

From the date of issuance through the quarter ended March 31, 2006, the Series B Warrants were classed as a liability in accordance with the provisions of SFAS 133, SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", and EITF 00-19. These standards require the Company to re-measure the value at the end of each reporting period with the resulting increase or decrease to the liability reported as a component of the Consolidated Statements of Operation and Comprehensive Loss. As a result of the increase in the value of the Series B Warrants from the time of issuance to the quarter ended March 31, 2006, a cumulative revaluation expense of \$246,675 was included in Other Income and Expense. This included \$146,655 for the first

quarter of 2006 and \$100,020 which was booked in 2005.

Upon the effectiveness of the resale registration statement on April 24, 2006, the Company determined that the provisions of EITF 00-19 allowed the Company to reclassify these financial

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instruments as equity. In accordance with EITF 00-19, the Series B Warrants were valued as of the date of the effectiveness of the registration statement and were reclassified as equity. The gain of \$614,981 as a result of the April 24, 2006 valuation was charged to other income in the second quarter of 2006.

The Series B Warrants had an exercise price of \$1.968 per share. The issuance of 2,307,693 shares to Shuffle Master in January 2006 at a share price of \$1.30 per share and the issuance of 16,943,332 shares at \$0.60 in the July 2006 private placement financing triggered an anti-dilution provision of the Series B Warrants. As such, the exercise price for the Series B Warrants was revised to \$1.542 per share in the third quarter of 2006.

Note 6. Earnings per Share

Basic earnings (loss) per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share considers the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity.

The calculation of diluted earnings (loss) per share did not include 7,153,668 shares of the Company's common stock issuable upon the exercise of options nor did it include the 10,642,385 shares issuable upon exercise of the common stock warrants, as their inclusion in the calculation would be anti-dilutive.

Note 7. Commitments

Lease commitments. The Company leases office space in Toronto, Ontario and Boulder, Colorado. The Company was released from its lease obligation in New York, New York, which was to expire at the end of December 2007, at the end of September 2006. The Company is currently leasing space in New York, New York on a short-term basis under a lease which runs to December 2007, for its corporate headquarters and sales and support functions. The Company intends to renew its lease on substantially the same terms on a short-term basis when the current lease agreement expires. The Company agreed with the existing landlord to move the Boulder office into new space as of May 2007. This move terminated the existing lease which was replaced by a new lease covering the new space. The lease of the new Boulder office commenced on May 1, 2007 and will run through September 2010. Office lease expenses for the three month periods ended June 30, 2007 and 2006 were approximately \$110,000 and \$177,000, respectively. In addition, the Company leases an apartment in Las Vegas, Nevada, which runs to February 28, 2008, as a cost effective way to house employees during frequent business visits to Las Vegas. The Company also leases office equipment. These leases have been classified as operating leases. Office equipment lease expenses for the three-month periods ended June 30, 2007 and 2006 were approximately \$49,000 and \$18,000, respectively. Future lease commitments by year are as follows (2007 amounts are for the remaining six months of fiscal 2007):

|                         | Future Lease Commitments by Year |            |            |            |            |
|-------------------------|----------------------------------|------------|------------|------------|------------|
|                         | 2007                             | 2008       | 2009       | 2010       | 2011       |
| Office Space Leases:    |                                  |            | (US\$)     |            |            |
| United States           | \$ 148,018                       | \$ 116,362 | \$ 125,926 | \$ 96,836  | \$ —       |
| Canada                  | 35,059                           | 107,917    | 111,249    | 114,638    | 118,084    |
| Total Office Space      | 183,078                          | 224,279    | 237,175    | 211,474    | 118,084    |
| Office Equipment        | 72,147                           | 143,973    | 60,975     | 646        | —          |
| Total Lease Commitments | \$ 255,224                       | \$ 368,252 | \$ 298,150 | \$ 212,120 | \$ 118,084 |

Purchase commitments. On September 1, 2006, the Company entered into a Private Label Partner Agreement (the "Agreement") with Motorola, Inc., pursuant to which the Company has the exclusive right to purchase certain private label wireless solution products from Motorola to support

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the Company's development of a secure wireless handheld gaming system. The Agreement requires that the Company purchase a specified minimum number of units over the three-year term of the Agreement. In the event such minimum purchase requirement is not met, Motorola has the right to adjust the unit purchase price to a level commensurate with the Company's volume and the private label exclusivity under the Agreement will be void. The Company believes that in the event of either the loss of private label exclusivity or the renegotiation of the unit purchase price, its consolidated financial statements would not be materially affected.

### Note 8. Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The reported book value of all financial instruments approximates fair values, due to their short term nature.

The Company is subject to credit risk with respect to its accounts receivable to the extent that debtors do not meet their obligations. The Company monitors the age of its accounts receivable and may delay development or terminate information fees if debtors do not meet payment terms.

The Company is subject to foreign currency risk with respect to financial instruments denominated in a foreign currency. As of June 30, 2007, approximately 7% of the Company's assets and 49% of its liabilities were denominated in Canadian dollars and exposed to foreign currency fluctuations.

### Note 9. Income Taxes

Deferred tax benefits arising from net operating loss carry forwards were determined using the applicable statutory rates. At June 30, 2007, the Company had net deferred tax assets of approximately \$6.7 million arising from net operating loss (NOL) carry-forwards. The NOL carry-forwards, which are available to offset future profits of the Company, begin to expire in 2010 if not utilized and expire in varying amounts through 2026. These deferred taxes benefits are fully offset by valuation allowances as there can be no assurance that the Company will earn sufficient future profits to utilize the loss carry-forwards. The net operating loss carry-forward balances vary from the applicable percentages of net loss due to expenses, primarily amortization and write off of software rights, recognized under GAAP, but not deductible for tax purposes.

The Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," ("FIN 48") on January 1, 2007. As the Company has a valuation allowance against the full amount of its net deferred tax asset, the adoption of FIN 48 did not have an impact on the financial statements for the six months ended June 30, 2007. The Company does not expect FIN 48 to have an impact on the financial statements in the current fiscal year.

#### Note 10. Related Party Transactions

During the three months ended June 30, 2007, total payments of \$6,954 were made to Shuffle Master (a 10% beneficial shareholder, whose President had been a member of our Board of Directors from March 28, 2006 through June 12, 2007). These payments were entirely for the reimbursement of expenses paid by Shuffle Master on behalf of the Company, relating to the development and certification of the wireless gaming platform. There were no other related party transactions during this period.

#### Note 11. Stock-Based Compensation

The 2006 Plan, which is stockholder approved, permits the grant of options, restricted stock, and other stock awards to its directors, officers, and employees for up to 7 million shares of common stock. The Company believes such awards align the interest of its directors, officers, and employees with those of its shareholders and encourage directors, officers, and employees to act as equity owners

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of the Company. Prior to the adoption of the 2006 Plan, the Company had an Amended and Restated Stock Option Plan of 2000, which was terminated with respect to future grants effective upon the stockholder's approval of the 2006 Plan in September 2006.

#### Stock Options

Options awards are granted with exercise price equal to, or in excess of, market value at the date of grant. Accordingly, in accordance with SFAS 123(R) and related interpretations, compensation expense is recognized for the stock option grants. The options become exercisable on a prorated basis over a one to four year vesting period, and expire within 10 year after the grant date.

SFAS 123(R) requires the cash flow from tax benefits for deductions in excess of the compensation costs recognized for share-based payments awards to be classified as financing cash flows. Due to the Company's loss position, there was no such tax benefit during the six month periods ending June 30, 2007 and 2006.

The Company estimates the fair value of stock options using a Black-Scholes valuation model, consistent with the provision of SFAS 123(R). Key inputs and assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the Company's stock, the risk-free interest rate as of the date of the grant and the Company's dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimate of fair value made by the Company. The fair value of each stock option grant was estimated at the date of grant using a Black-Scholes option pricing model. The following table presents the weighted-average assumptions used for options granted:

|                         | 2007      | 2006      |
|-------------------------|-----------|-----------|
| Expected term (years)   | 3.0 years | 3.1 years |
| Risk-free interest rate | 4.90%     | 4.71%     |
| Volatility              | 55.0%     | 65.0%     |
| Dividend yield          | 0.0%      | 0.0%      |
| Expected forfeiture     | 33.3%     | 33.3%     |

As of June 30, 2007, the number of outstanding stock options as a percentage of the number of outstanding shares was approximately 12.4%. During the second quarter of fiscal 2007, 1,310,000 stock options were granted with a total estimated grant-date fair value of \$246,542. During the second quarter of fiscal 2006, 75,000 stock options were granted with a total estimated grant-date fair value of \$15,005. These stock options were granted under the Company's option plans. The following table summarizes option transactions under the Company's stock option plans since January 1, 2007:

|  | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>average<br>Remaining<br>Contractual<br>Term |
|--|---------------------|--|---|
| Outstanding, January 1, 2007                 | 5,869,277           | 0.807                                    | 8.459   |
| Granted                                      | 1,690,000           | 0.450                                    | 9.977   |
| Exercised                                    | —                   | —  | —   |
| Cancelled                                    | (405,609)           | 1.266                                    | 7.064   |
| Outstanding, June 30, 2007                   | 7,153,668           | 0.710                                    | 8.488   |
| Vested and expected to vest at June 30, 2007 | 5,220,335           | 0.746                                    | 8.495   |
| Exercisable at June 30, 2007                 | 960,673             | 1.251                                    | 3.8990  |

The aggregate intrinsic value of options outstanding, options vested and expected to vest, and options exercisable as of June 30, 2007 was \$52,400, \$34,933, and nil respectively. Certain of the options outstanding, and options vesting and expected to vest as of June 30, 2007 had exercise prices less than the market price on June 30, 2007. All options which were vested and exercisable as of

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June 30, 2007 had exercise prices greater than the market price as on the same date. The intrinsic value is calculated as the difference between the market price on exercise date and the exercise price of the shares. The closing market price as of June 30, 2007 was \$0.48 as reported on the OTC Bulletin Board.

A summary of the status of the Company's non-vested options as of June 30, 2007 is as follows:



|                               |           | Weighted<br>average<br>Grant-Date<br>Fair Value |
|-------------------------------|-----------|---|
| Non-vested Options            | Options   |   |
| Non-vested at January 1, 2007 | 4,918,909 | 0.2993  |
| Granted                       | 1,690,000 | 0.2092  |
| Vested                        | (183,332) | 0.1986  |
| Cancelled                     | (297,164) | 0.3670  |
| Non-vested at June 30, 2007   | 6,192,995 | 0.2212  |

As of June 30, 2007, there was \$805,687 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the 2006 Plan and the Amended and Restated Stock Option Plan of 2000. The unrecognized compensation cost is expected to be realized over a weighted average period of 2.24 years.

#### Restricted Stock Awards

In the second quarter of fiscal 2007, the Company granted 40,000 shares of restricted common stock to a newly appointed non-employee director in accordance with the Company's compensation plan for directors. In 2006, the Company granted 220,000 shares of restricted stock to non-employee directors and 190,000 shares of restricted stock to employees and former employees. These 450,000 shares of common stock were valued at the estimated fair market value (closing market price less an estimated 30% lack of marketability discount) on the date of grant and are charged as stock compensation expense over the vesting period. The marketability discount was based upon our consultation with an independent valuation expert.

Compensation expense recognized for the amortization of stock-based compensation related to restricted stock was \$13,348 and \$41,000, respectively for the three month periods ending June 30, 2007 and 2006, and \$31,360 and \$205,882, respectively for the six month periods ending June 30, 2007 and 2006.

#### Note 12. Segment Information

As described above in Note 2, the Company primarily markets its products and services to two different sales verticals. However, management has determined that the Company operates as one business segment which focuses on the development, sale and marketing of wireless application software. The Company currently maintains development, sales and marketing operations in the United States and Canada. The following table shows revenues by geographic segment for the three and six month periods ended June 30, 2007 and 2006:

|               | Three months ended June<br>30, |            | Six months ended June<br>30, |            |
|---------------|--------------------------------|------------|------------------------------|------------|
|               | 2007                           | 2006       | 2007                         | 2006       |
| Revenue       |                                |            |                              |            |
| North America | \$ 220,596                     | \$ 145,028 | \$ 365,608                   | \$ 249,387 |
| Europe        | 46,586                         | 20,401     | 49,701                       | 41,366     |
| Total         | \$ 267,182                     | \$ 165,429 | \$ 415,309                   | \$ 290,753 |

Revenue by geographic segment is determined based on the location of our customers. For the three-months ended June 30, 2007 and 2006, sales to customers in North America accounted for 83% and 88% of total revenues respectively; while sales outside North America accounted for 17% and 12%

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of total revenue respectively. For the six months ended June 30, 2007 and 2006, sales to customers in North America accounted for 88% and 86% of total revenues respectively; while sales outside North America account for 12% and 14% of total revenue respectively.

|                        | 2007       |
|------------------------|------------|
| Property and Equipment |            |
| United States          | \$ 68,509  |
| Canada                 | 64,154     |
| Total                  | \$ 132,663 |

Property and equipment includes only assets held for use, and is reported by geographic segment based on the physical location of the assets as at June 30, 2007.

## Note 13. Accrued Liabilities and Payroll

Accrued Liabilities and Payroll consist of, as at June 30:

|                                      | 2007       |
|--------------------------------------|------------|
| Accrued payroll and related expenses | \$ 197,841 |
| Accrued professional fees            | 210,592    |
| Accrued vendor obligations           | 85,499     |
| Other taxes payable                  | 2,296      |
| Total                                | \$ 496,228 |

## Note 14. Deferred Revenues

Deferred revenue occurs where the Company invoices customers for project work that has not been completed at the balance sheet date. The Company's deferred revenue balance as of June 30, 2007 was \$441,143.

## Note 15. Other Income and Expense

Other income and expenses include miscellaneous items such as foreign exchange gains or losses and nonrecurring transactions such as gains or losses from the revaluation of derivatives and related instruments. For the fiscal quarter ended June 30, 2007, other income and expense consisted of a foreign exchange gain in the amount of \$7,494 and a loss resulting from the write off of fixed assets in the amount of \$5,171. For the fiscal quarter ended June 30, 2006, other income and expense consisted of a gain of \$614,981 relating to the reclassification of the Series B Warrants from a liability to equity as of the registration statement effective date in the second quarter of 2006, in accordance with the provisions of EITF 00-19, and also a foreign exchange gain of \$201,080. In addition, there were offsetting amounts for the same period in 2006 related to the write off of in-process purchased technology of \$597,652 and a gain arising from the adjustment of other taxes in the amount of \$12,164.

For the six month period ended June 30, 2007, other income and expense was a loss of \$9,631 consisting of a loss of \$5,171 related to a write off of fixed assets and an exchange loss of \$4,460. Comparatively, during the same six month period of fiscal 2006, other income and expense was a gain of \$53,190 which consisted of the amounts described in

the previous paragraph, in addition to a loss of \$146,655 relating to the revaluation of the Series B Warrants classified as a liability and a foreign exchange loss of \$30,728.

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### Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended. See "Forward Looking Statements" on page 2 of this report. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.

Our consolidated financial statements included elsewhere in this report have been prepared assuming that we will continue as a going concern. Since our inception in November 2003, we have generated minimal revenue, have incurred net losses and have not generated positive cash flow from operations. We have relied primarily on the sale of shares of equity to fund our operations. In addition, our cash reserves are only sufficient to fund our current level of operating expenses to November 2007. In view of our continuing losses, our auditors in their report on our December 31, 2006 consolidated financial statements (included in our 2006 Annual Report on Form 10-KSB) have stated that these continuing losses raise substantial doubt about our ability to continue as a going concern.

### Business Overview

We are a wireless software and service provider specializing in value-added services to data-intensive vertical and horizontal market segments. We develop and market wireless data applications for mobile devices in the rapidly growing wireless data marketplace. We operate as one business segment focused on the development, sale and marketing of wireless application software.

Our value proposition is to unlock, integrate and seamlessly deliver all types of data to wireless devices, whether streaming financial markets data for the investment banking industry, complex databases and enterprise applications for supporting all areas of a corporate organization or live television and digital radio delivery to the growing consumer market via channel and content partners – anytime, anywhere. We market our products and services principally to two large vertical markets.

- Gaming and entertainment. We propose to (i) deliver casino games wirelessly in designated areas on casino properties; (ii) offer real-time, multiplayer games that accommodate an unlimited number of players; (iii) deliver games on a play-for-free or wagering basis (where permitted by law) on mobile telephone handsets over any carrier network; and (iv) deliver horse and sports wagering applications, where legal, for on-track and off-track wagering, including live streaming video of horse races and other sports events. We also propose to deliver content via channel partners and content partners, including live streaming television, digital radio, specific theme downloads for mobile phones, media downloads and gaming applications.
- Financial services and enterprise software. Our products and services extend enterprise applications to the wireless arena, such as customer relationship management systems, sales

force automation systems, information technology (IT) service desk and business continuity protocols, all of which we believe are delivered in compliance with the current regulatory environment. One of our primary focuses is to develop solutions for the data-intensive investment banking community and client-facing applications for the retail banking industry.

These products and services are deliverable globally across most of the major cellular networks and prominent wireless device operating systems. Our revenues consist primarily of project, licensing and support fees relating to our Sona Wireless Platform (“SWP”) and related end-user wireless application software products made available to enterprises and cellular operators.

Since December 2003, we have focused on two areas: (1) further developing and enhancing the SWP and developing an array of products for the gaming, entertainment, financial services, and general corporate market that leverage the functionality of the SWP and (2) developing a sales strategy that would develop relationships with software manufacturers, multi-service operators,

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wireless carriers and direct customers. Since we had limited capital, we lacked the resources to execute this strategy quickly. Once we began generating operating revenue in late 2004 and once we raised modest amounts of capital in the second quarter of 2005, we were able to begin hiring the sales and marketing and administrative personnel necessary to execute our strategy.

In 2006, in conjunction with our strategic alliance with Shuffle Master and because of the perceived opportunities for wireless applications in the gaming industry, we switched our primary sales and development focus towards the gaming industry. We continue to focus on the financial services and enterprise market sectors for products, customers and verticals where we have previously experienced success or where we perceive significant opportunities to exist.

## Business Trends

The market demand for mobile and wireless solutions, both at the enterprise and consumer levels, continues to grow rapidly. We believe that we are well-positioned to exploit this opportunity with various focused initiatives, ranging from direct and channel sales to the enterprise market, combined with partnership and joint venture agreements with content providers to satisfy the significant growth in demand from the consumer market for these types of services.

Approximately 62% of our revenue for the fiscal quarter ended June 30, 2007 resulted from upfront development fees for project work and approximately 38% from continuing license subscriptions. During the comparative fiscal quarter ended 2006, 80% of revenue resulted from project work and 20% from continuing subscriptions. Much of our project work is attributable to new engagements for which we received upfront development fees. We believe that in future quarters, the ratio will move toward continuing license subscription revenue, as we transition from focusing on custom projects in the financial services and enterprise segment and move towards longer term licensing contracts in the gaming industry in conjunction with our strategic alliance with Shuffle Master and from perceived potential opportunities in the horse wagering industry. As the relationship with Shuffle Master progresses and new leads are generated, we anticipate that significant business opportunities will emerge. However, we cannot assure you that our relationship with Shuffle Master will progress or that any such business opportunities will emerge, or if they do, that any such opportunity will result in a definitive arrangement with any enterprises in the gaming industry, or that any such definitive arrangement will be profitable.

## Significant Transactions

In January 2006, we entered into a strategic alliance distribution and licensing agreement with Shuffle Master, a leading provider of table gaming content, to license, develop, distribute and market “in casino” wireless handheld gaming content and delivery systems to gaming venues throughout the world. Under the terms of the agreement, we agreed to develop a Shuffle Master-branded wireless gaming platform powered by our SWP for in-casino use, which would feature handheld versions of Shuffle Master’s proprietary table game content, as well as other proprietary gaming content and public domain casino games. In conjunction with this strategic alliance, Shuffle Master invested \$3 million in the Company, in exchange for common stock and warrants to purchase common stock in our Company pursuant to the Licensing and Distribution Agreement, dated January 12, 2006 between the Company and Shuffle Master, (the “Licensing and Distribution Agreement”). This Licensing and Distribution Agreement was amended and restated in February 2007. Under the terms of the amended Licensing and Distribution Agreement, dated February 28, 2006, both the Company and Shuffle Master are permitted to distribute, market and sell the Casino On Demand Wireless Gaming System to gaming venues worldwide. Additionally, we have been granted a non-exclusive worldwide license to offer Shuffle Master’s proprietary table game content on the platform, and the Company has granted Shuffle Master a non-exclusive worldwide license to certain Company developed wireless platform software and enhancements that support the integration and mobilization of casino gaming applications into in-casino wireless gaming delivery systems. Shuffle Master beneficially owns 10% of our common stock as of June 30, 2007.

On April 28, 2006, we purchased certain intellectual property assets from Digital Wasabi LLC, a Colorado limited liability company (“Digital Wasabi”). The purchase price was 800,000 shares of our

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common stock. The assets consist of intellectual property in the form of software under development related to communications and gaming. The principals and employees of Digital Wasabi became our employees and are based in our Boulder, Colorado office. While we believe this purchased technology will have significant future value, the software does not meet the criteria for capitalization as prescribed by SFAS No. 86, “Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed” (“SFAS 86”) and as such was written off in the quarter of acquisition.

On July 7, 2006, we closed a private placement to accredited investors whereby we sold 16,943,323 shares of common stock and warrants to purchase 8,471,657 shares of common stock for gross proceeds of approximately \$10.1 million before payment of commissions and expenses. The warrants had an exercise price of \$0.83 per share, subject to downward adjustment if the Company does not meet specified annual revenue targets, and are exercisable at any time during the period commencing July 7, 2006 and ending July 7, 2011. The funds from the financing will primarily be used for general working capital purposes. During the fourth quarter of fiscal 2006, as a result of the Company not meeting the specified revenue targets, the exercise price of the warrants was adjusted downwards to an exercise price of \$0.70 per share. As of June 30, 2007, the exercise price of the warrants remained at \$0.70 per share. We used \$300,000 of the funds raised to repurchase 650,000 shares of common stock from our former chief executive officer, John Bush. We agreed to file and filed a registration statement with the U.S. Securities and Exchange Commission (the “SEC”) to register the resale of the shares of common stock issued in the private placement, as well as the shares of common stock issuable upon exercise of the aforementioned warrants. Such registration statement was declared effective by the SEC on November 3, 2006. A post-effective amendment to this registration statement was filed on April 3, 2007, which amendment was declared effective by the SEC on April 11, 2007.

## Corporate History

Sona Mobile, Inc. (“Sona Mobile”) was formed under the laws of the State of Washington in November 2003 for the purpose of acquiring Sona Innovations, Inc. (“Innovations”), which it did in December 2003. On April 19, 2005, Sona Mobile merged (the “Merger”) with and into PerfectData Acquisition Corporation, a Delaware corporation (“PAC”) and a wholly-owned subsidiary of PerfectData Corporation, also a Delaware corporation (“PerfectData”). Under the terms of that certain Agreement and Plan of Merger dated as of March 7, 2005, (i) PAC was the surviving company but changed its name to Sona Mobile, Inc.; (ii) the pre-merger shareholders of Sona Mobile received stock in PerfectData representing 80% of the voting power in PAC post-merger; (iii) all of PerfectData’s officers resigned and Sona Mobile’s pre-merger officers were appointed as the new officers of PerfectData; and (iv) four of the five persons serving as directors of PerfectData resigned and the remaining director appointed the three pre-merger directors of Sona Mobile to the PerfectData Board of Directors. In November 2005, PerfectData changed its name to “Sona Mobile Holdings Corp.”

At the time of the Merger, PerfectData was essentially a shell company that was not engaged in an active business. Upon completion of the Merger, PerfectData’s only business was the historical business of Sona Mobile and the pre-merger shareholders of Sona Mobile controlled PerfectData. Accordingly, the Merger was accounted for as a reverse acquisition of a public shell and a recapitalization of Sona Mobile. No goodwill was recorded in connection with the Merger and the costs were accounted for as a reduction of additional paid-in-capital. The pre-merger financial statements of Sona Mobile are treated as the historical financial statements of the combined companies. The historical financial statements of PerfectData prior to the Merger are not presented. Furthermore, because Sona Mobile is deemed the accounting acquirer, its historical stockholders’ equity has been adjusted to reflect the new capital structure.

## Critical Accounting Policies

We prepare our financial statements in accordance with U.S. generally accepted accounting principles. These accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and

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liabilities at the date of its financial statements. Management is also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. Management periodically evaluates these estimates and assumptions including those relating to revenue recognition, impairment of goodwill and intangible assets, the allowance for doubtful accounts, capitalized software, restructuring, income taxes, stock-based compensation and contingencies and litigation. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable based on specific circumstances. Management reviews the development, selection, and disclosure of these estimates with the Audit Committee of our Board of Directors. These estimates and assumptions form the basis for judgments about the carrying value of certain assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. Further, changes in accounting and legal standards could adversely affect our future operating results. Our critical accounting policies include: revenue recognition, allowance for doubtful accounts, capitalized software, income taxes, stock-based compensation, and derivatives, each of which are discussed below.

## Revenue Recognition

We follow specific and detailed guidance in measuring revenue, although certain judgments affect the application of our revenue recognition policy. These judgments include, for example, the determination of a customer's creditworthiness, whether two separate transactions with a customer should be accounted for as a single transaction, or whether included services are essential to the functionality of a product thereby requiring percentage of completion accounting rather than software accounting.

We recognize revenue in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9, and in certain instances in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." We license software under non-cancelable license agreements. License fee revenues are recognized when (a) a non-cancelable license agreement is in force, (b) the product has been delivered, (c) the license fee is fixed or determinable and (d) collection is reasonably assured. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer.

**Residual Method Accounting.** In software arrangements that include multiple elements (e.g., license rights and technical support services), we allocate the total fees among each of the elements using the "residual" method of accounting. Under this method, revenue allocated to undelivered elements is based on vendor-specific objective evidence of fair value of such undelivered elements, and the residual revenue is allocated to the delivered elements. Vendor specific objective evidence of fair value for such undelivered elements is based upon the price we charge for such product or service when it is sold separately. We may modify our pricing practices in the future, which would result in changes to our vendor specific objective evidence. As a result, future revenue associated with multiple element arrangements could differ significantly from our historical results.

**Percentage of Completion Accounting.** Fees from licenses sold together with consulting services are generally recognized upon shipment of the licenses, provided (i) the criteria described in subparagraphs (a) through (d) in the second paragraph under "Revenue Recognition" above are met; (ii) payment of the license fee is not dependent upon performance of the consulting services; and (iii) the consulting services are not essential to the functionality of the licensed software. If the services are essential to the functionality of the software, or performance of services is a condition to payment of license fees, both the software license and consulting fees are recognized under the "percentage of completion" method of contract accounting. Under this method, we are required to estimate the number of total hours needed to complete a project, and revenues and profits are recognized based on the percentage of total contract hours as they are completed. Due to the complexity involved in the estimating process, revenues and profits recognized under the percentage of completion method of accounting are subject to revision as contract phases are actually completed. Historically, these revisions have not been material.

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**Sublicense Revenues.** We recognize sublicense fees as reported by our licensees. License fees for certain application development and data access tools are recognized upon direct shipment by us to the end user or upon direct shipment to the reseller for resale to the end user. If collection is not reasonably assured in advance, revenue is recognized only when sublicense fees are actually collected.

**Service Revenues.** Technical support revenues are recognized ratably over the term of the related support agreement, which in most cases is one year. Revenues from consulting services subjected to time and materials contracts, and for education, are recognized as services are performed. Revenues from other contract services are generally recognized based on the proportional performance of the project, with performance measured based on hours of work performed.

### Allowance for Doubtful Accounts

Whenever relevant, we maintain an allowance for doubtful accounts to reflect the expected non-collection of accounts receivable based on past collection history and specific risks identified in our portfolio of receivables. Additional allowances might be required if deteriorating economic conditions or other factors affect our customers' ability to make timely payments.

### Capitalized Software Development Costs

We capitalize certain software development costs after a product becomes technologically feasible and before its general release to customers. Significant judgment is required in determining when a product becomes "technologically feasible." Capitalized development costs are then amortized over the product's estimated life beginning upon general release of the product. Periodically, we compare a product's unamortized capitalized cost to the product's net realizable value. To the extent unamortized capitalized cost exceeds net realizable value based on the product's estimated future gross revenues (reduced by the estimated future costs of completing and selling the product) the excess is written off. This analysis requires us to estimate future gross revenues associated with certain products and the future costs of completing and selling certain products. Changes in these estimates could result in write-offs of capitalized software costs. As of June 30, 2007, certain development costs of the Company met the criteria of SFAS 86 for the capitalization of software development costs. Accordingly, \$316,821 of software development costs are capitalized as of June 30, 2007.

### Income Taxes

We use the asset and liability approach to account for income taxes. This methodology recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. We then record a valuation allowance to reduce deferred tax assets to an amount that likely will be realized. We consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If we determine during any period that we could realize a larger net deferred tax asset than the recorded amount, we would adjust the deferred tax asset and record a corresponding reduction to its income tax expense for the period. Conversely, if management determines that we would be unable to realize a portion of our recorded deferred tax asset, it would adjust the deferred tax asset and record a charge to income tax expense for the period. Significant judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences (e.g., the income we earn within the United States) could materially impact our financial position or results of operations.

We adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," ("FIN 48") on January 1, 2007. As we have a valuation allowance against the full amount of its net deferred tax asset, the adoption of FIN 48 did not have an impact on the financial statements for the six months ended June 30, 2007. We do not expect FIN 48 to have an impact on the Company's financial statements in the current fiscal year.

### Stock-based Compensation

As of January 1, 2006, we adopted the provisions of, and accounts for stock-based compensation in accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial



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Accounting Standards No. 123 – revised 2004 (“SFAS 123R”), “Share-Based Payment” which replaced Statement of Financial Accounting Standards No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures, as adjusted for estimated forfeitures.

During the first six months of fiscal 2007 and during fiscal 2006 the Company issued stock options to directors, officers, and employees under the Amended and Restated Stock Option Plan of 2000 and the 2006 Incentive Plan as described in Note 11 to our consolidated financial statements. The fair value of these options was estimated at the date of grant using a Black-Scholes option-pricing model, using a range of risk-free interest rates of 4.2% – 5.1%, weighted average option term of 3.1 years, expected weighted average volatility of 62.4% and no dividend.

Derivatives

We follow the provisions of SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” (SFAS No. 133”) along with related interpretations EITF No. 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (“EITF 00-19”) and EITF No. 05-2 “The Meaning of ‘Conventional Convertible Debt Instrument’ in Issue No. 00-19” (“EITF 05-2”). SFAS No. 133 requires every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivative’s fair value recognized currently in earnings unless specific hedge accounting criteria are met. We value these derivative securities under the fair value method at the end of each reporting period, and their value is marked to market with the gain or loss recognition recorded against earnings. We use the Black-Scholes option-pricing model to determine fair value. Key assumptions of the Black-Scholes option-pricing model include applicable volatility rates, risk-free interest rates and the instruments expected remaining life. These assumptions require significant management judgment. At June 30, 2007, there were no derivative instruments reported on the Company’s balance sheet.

Results of Operations

Our business is in its early stages and consequently our financial results are difficult to compare from one period to the next. We expect such period-to-period differences to continue to be significant over the next several quarters, until we have a number of full years of operations.

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Comparison of three months ended June 30, 2007 and 2006

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For the three months ended June 30, 2007, we had a comprehensive loss of \$1.33 million compared to a comprehensive loss of \$2.15 million for the three months ended June 30, 2006. The decrease in comprehensive loss of \$0.82 million over the comparative fiscal quarter ended 2006 is primarily due to the decrease of \$0.64 million in selling and marketing expenses caused by our change in sales focus to a channel and partner based selling model. A channel and partner based selling model requires significantly less sales resources than a direct sales model, as it leverages the resources of the sales channels and partners. The following table compares our consolidated statement of operations data for the three months ended June 30, 2007 and 2006.

|   | Three months ended June 30, |                |
|---|-----------------------------|----------------|
|   | 2007                        | 2006           |
| Net Revenue                             | \$ 267,182                  | \$ 165,429     |
| Operating expenses                      |                             |                |
| Depreciation and amortization           | 15,722                      | 8,950          |
| General and administrative expenses     | 696,133                     | 727,005        |
| Professional fees                       | 228,332                     | 302,180        |
| Development expenses                    | 372,130                     | 370,029        |
| Selling and marketing expenses          | 299,695                     | 938,663        |
| Total operating expenses                | 1,612,012                   | 2,346,827      |
| Operating loss                          | (1,344,830)                 | (2,181,398)    |
| Interest income                         | 39,256                      | 19,638         |
| Interest expense                        | —                           | (1,013)        |
| Other income and expense                | 2,194                       | 230,573        |
| Net loss                                | (1,303,380)                 | (1,932,200)    |
| Foreign currency translation adjustment | (25,912)                    | (215,462)      |
| Comprehensive loss                      | \$ (1,329,292)              | \$ (2,147,662) |
| Net Revenue                             |                             |                |

Net revenue during the second quarter of fiscal 2007 was \$267,000 compared to net revenue of \$165,000 for the comparable quarter of fiscal 2006, an increase of 62%. The net revenue of \$267,000 for the second quarter of fiscal 2007 included \$253,000 of software licensing and development revenue and \$14,000 of maintenance fees. Approximately 38% of the current quarter revenue is attributable to continuing license subscriptions and the balance relates to new projects begun this quarter and recognition of deferred revenue for projects completed.

#### Operating expenses

Total operating expenses for the second quarter of fiscal 2007 were \$1.61 million compared to \$2.35 million in the comparable quarter of fiscal 2006, a decrease of 31%. There were substantial changes in the type of expenses incurred this quarter versus the same quarter a year ago. Selling and marketing expenses decreased by \$639,000 or 68%, as we moved from a direct sales model to a partner and channel-based selling model which requires less headcount resources.

#### Depreciation and amortization

Depreciation and amortization expenses for the second quarter of fiscal 2007 were \$16,000 compared to \$9,000 in the comparable quarter of fiscal 2006. The depreciation and amortization expense for the second quarter of both years was composed of depreciation of property, plant and equipment.

#### General and Administrative expenses

General and administrative expenses for the second quarter of 2007 were \$696,000 compared to \$727,000 for the comparable quarter in fiscal 2006, a 4% decrease. Related payroll and rent expenses

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decreased in total by 38% during the second quarter of fiscal 2007 compared to the same quarter of fiscal 2006. These decreases were substantially off-set by increases in travel and entertainment, insurance, and stock based compensation expenses, equipment repair, and printing costs.

#### Professional fees

Professional fees for the second quarter of fiscal 2007 were \$228,000, compared to \$302,000 for the comparable quarter in fiscal 2006, a 24% decrease. The higher level of professional fees in the comparable quarter in fiscal 2006 related primarily to higher than normal legal expenses associated with the completion and filing of the registration statement which was filed and declared effective in such quarter.

#### Development expenses

Development expenses for the second quarter of fiscal 2007 were \$372,000 compared to \$370,000 for the comparable quarter of fiscal 2006, a 1% increase. Gross payroll related expenses increased by 62% from \$320,000 for the comparable quarter in fiscal 2006 to \$519,000 in the second quarter of fiscal 2007. During the second quarter of 2007, approximately \$240,000 of payroll related expenses were capitalized as software development costs, in accordance with SFAS 86, reducing development expense by the amount capitalized. The capitalization of software development costs resulted in total development expenses in the second quarter of 2007 to remain static as compared to the 2006 quarter. The capitalized development costs were connected to the wireless gaming software development project.

#### Selling and marketing expenses

Selling and marketing expenses for the second quarter of fiscal 2007 were \$300,000 compared to \$939,000 for the comparable quarter of fiscal 2006, a 68% decrease. The decrease in expenses is attributable to the significant effort initiated in 2006 to reduce the selling costs associated with our products by switching to a partner and channel driven sales model, instead of the relatively expensive direct sales model we had previously employed. Our personnel and sales contractor costs decreased by 67%, from \$711,000 in the second quarter of fiscal 2006 to \$235,000 in the current quarter of fiscal 2007. Expenses related to marketing, advertising and trade shows decreased from \$60,000 in the second quarter of fiscal 2006 to \$13,000 in the second quarter of fiscal 2007, as we reduced our direct marketing efforts. Travel expenses also decreased substantially in this category from \$77,000 in the second quarter of fiscal 2006 to \$35,000 in the second quarter of fiscal 2007, which also reflected our reduced level of sales personnel.

#### Other income and expense

For the quarter ended June 30, 2007, this income and expense category consisted of a foreign exchange gain in the amount of \$7,600, offset by a loss resulting from the disposal of fixed assets in the amount of \$5,200. For the quarter ended June 30, 2006, other income and expense consisted of a gain of \$615,000 relating to the reclassification from liability to equity of the common stock purchase warrants issued in June 2005 as of the registration statement effective date in the second quarter of fiscal 2006, in accordance with the provisions of EITF 00-19. This gain was offset by other expense of approximately \$598,000, related to the write off of in-process technology which was acquired from

Digital Wasabi in April 2006, as it did not meet the criteria for capitalization as prescribed in SFAS 86. There was also a foreign exchange gain of \$201,000 and a gain arising from the adjustment of other taxes in the amount of \$12,000 included in other income and expense in 2006.

#### Interest income

Interest income is derived from investing unused cash balances in short-term liquid investments. Average cash balances for the second quarter were higher in fiscal 2007 than in fiscal 2006, resulting in the higher level of interest income of \$39,000 in the current year's second quarter versus \$20,000 in the prior year's second quarter.

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#### Interest expense

The interest expense amount of approximately \$1,000 in the second quarter of fiscal 2006 relates primarily to bank charges and wire fees. There were no such expenses for the second quarter of fiscal 2007.

#### Foreign currency translation adjustment

Prior period retained earnings on Innovations' books are translated at historical exchange rates while the rest of the financial statement line items are translated at current period rates. The resulting difference is treated as gain or loss due to foreign currency translation during the period. The \$26,000 loss in this category for the second quarter of fiscal 2007, as compared to the translation adjustment loss of \$215,000 incurred in the second quarter of fiscal 2006 is due to the fact that in the second quarter of fiscal 2007 exchange gains or losses on long-term intercompany balances on Innovation's books were charged to foreign currency translation adjustment, while in fiscal 2006, intercompany balances were considered short-term and foreign exchange gains or losses were charged to other income and expense.

#### Comparison of six months ended June 30, 2007 and 2006

For the six months ended June 30, 2007, we had a comprehensive loss of \$2.98 million compared to a comprehensive loss of \$4.72 million for the six months ended June 30, 2006. The decrease of \$1.74 million in comprehensive loss between the first half of fiscal 2007 and 2006 is primarily due to the decrease of \$1.59 million in selling and marketing expenses caused by our change in sales focus to a channel and partner based selling model. The following table compares our consolidated statement of operations data for the six months ended June 30, 2007 and 2006.

|                                     | Six months ended June 30, |            |
|-------------------------------------|---------------------------|------------|
|                                     | 2007                      | 2006       |
| Net Revenue                         | \$ 415,309                | \$ 290,753 |
| Operating expenses                  |                           |            |
| Depreciation and amortization       | 28,007                    | 16,787     |
| General and administrative expenses | 1,241,723                 | 1,300,065  |
| Professional fees                   | 625,791                   | 600,086    |
| Development expenses                | 917,177                   | 753,694    |
| Selling and marketing expenses      | 645,963                   | 2,239,647  |

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|   |                |                |
|---|----------------|----------------|
| Total operating expenses                | 3,458,661      | 4,910,279      |
| Operating loss                          | (3,043,352)    | (4,619,526)    |
| Interest income                         | 94,995         | 36,653         |
| Interest expense                        | (464)          | (1,965)        |
| Other income and expense                | (9,631)        | 53,190         |
| Net loss                                | (2,958,452)    | (4,531,648)    |
| Foreign currency translation adjustment | (24,845)       | (190,057)      |
| Comprehensive loss                      | \$ (2,983,297) | \$ (4,721,705) |
| Net Revenue                             |                |                |

Net revenue for the six months ended June 30, 2007 was \$415,000 compared to net revenue of \$291,000 for the comparable six month period ended June 30, 2006, an increase of 43%. The net revenue of \$415,000 for the first half of fiscal 2007 included \$388,000 of software licensing and development revenue and \$27,000 of maintenance fees. Approximately 32% of revenue for the six months ended June 30, 2007 is attributable to continuing license subscriptions and the balance relates to new projects begun during the same quarters and recognition of deferred revenue for projects completed.

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Operating expenses

Total operating expenses for the first half of fiscal 2007 were \$3.46 million compared to \$4.91 million for the comparable half of fiscal 2006, a decrease of 30%. There were substantial changes in the type of expenses incurred during the first half of fiscal 2006 as compared to those during the first half of fiscal 2007. Selling and marketing expenses decreased by \$1.59 million or 71%, as we moved from a direct sales model to a partner and channel-based selling model which requires less headcount resources.

Depreciation and amortization

Depreciation and amortization expenses for the first half of fiscal 2007 were \$28,000 compared to \$17,000 in the comparable half of fiscal 2006. The depreciation and amortization expense for both years was composed of depreciation of property, plant and equipment. The amounts in fiscal 2007 are higher than in fiscal 2006 due to the higher level of fixed assets.

General and Administrative expenses

General and administrative expenses for the first six months of fiscal 2007 were \$1.24 million compared to \$1.3 million for the comparable period in fiscal 2006, a 4% decrease. Related payroll and rent expenses decreased in total by 27% during the first six months of fiscal 2007 compared to the same period during fiscal 2006. These decreases were substantially off-set by increases in travel and entertainment, insurance, conferences, equipment repair, printing costs, and other general expenses relating to our business.

Professional fees

Professional fees for the first six months of fiscal 2007 were \$626,000, compared to \$600,000 for the comparable half of fiscal 2006, a 4% increase. The higher level of professional fees for the first six months of fiscal 2007 related

primarily to higher than normal legal expenses associated with the renegotiation of the Shuffle Master agreements in the first quarter of fiscal 2007. The increase in legal fees in the first half of fiscal 2007 compared to the comparable half of fiscal 2006 was partially offset by a decrease in accounting fees of approximately \$31,000 in the first half of fiscal 2007 to \$61,000 versus \$92,000 in the first half of fiscal 2006. Other professional fees, consisting of investor relations and recruiting costs, declined by \$26,000 to \$33,000 for the first half of fiscal 2007 compared to \$59,000 in the first half of fiscal 2006.

#### Development expenses

Development expenses for the first half of fiscal 2007 were \$917,000 compared to \$754,000 for the comparable half of fiscal 2006, a 22% increase. Gross payroll and related expenses increased by 49% from \$702,000 in the first half of fiscal 2006 to \$1,043,000 in the current year's comparative period. During the first half of fiscal 2007, \$317,000 of total payroll related expenses was capitalized as software development costs, in accordance with SFAS 86, reducing development expense by the same amount capitalized. The capitalization of software development costs resulted in total payroll costs expensed in this category to increase slightly from \$668,000 during the first half of fiscal year 2006 compared to \$684,000 in the comparative period of fiscal 2007. The remaining differences related to the increase in this category were primarily caused by lease costs associated with laboratory and test equipment (\$40,000), development consulting resources (\$51,000) and travel (\$25,000) associated with trips to Las Vegas for the GLI product certification process.

#### Selling and marketing expenses

Selling and marketing expenses for the first half of fiscal 2007 were \$646,000 compared to \$2,240,000 for the same period in fiscal 2006, a 71% decrease. The decrease in expenses is attributable to the significant effort undertaken in 2006 to reduce the selling costs associated with our products by switching to a partner and channel driven sales model, instead of the direct sales model we had

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previously employed. Our personnel and sales contractor costs decreased by 67%, from \$1,570,000 in the first half of fiscal 2006 to \$521,000 in the comparative half of fiscal 2007. Expenses related to marketing, advertising and trade shows decreased from \$119,000 incurred in the first half of fiscal 2006 to \$16,000 in the comparative period of 2007, as we reduced our direct marketing efforts. Travel expenses also decreased substantially in this category from \$276,000 in the first half of fiscal 2006 to \$70,000 in the comparable period this year, which also reflected our reduced level of sales personnel.

#### Other income and expense

For the six months ended June 30, 2007, other income and expense consisted of a foreign exchange loss in the amount of \$4,400, and a loss resulting from the disposal of fixed assets in the amount of \$5,200. The other income and expense amount in the first half of fiscal 2006 consisted of \$171,000 gain in foreign exchange fluctuation. During the first half of fiscal 2006, there was a net gain of \$468,000 related to the revaluation of the warrants carried as a liability on the balance sheet at that time, in accordance with the provisions of EITF 00-19. The gains due to this revaluation and the foreign exchange gain were offset by other expenses of approximately \$598,000, related to the write off of in-process technology which was acquired from Digital Wasabi in April 2006, as it did not meet the criteria for capitalization as prescribed in SFAS 86.

#### Interest income

Interest income is derived from investing unused cash balances in short-term liquid investments. Average cash balances for the first half of fiscal 2007 were higher than in the first half of fiscal 2006, resulting in the higher level of interest income of \$95,000 during the first half of fiscal 2007 versus \$37,000 in the prior year's comparable period.

#### Interest expense

The interest expense amounts for the first half of fiscal 2007 of under \$500 and just under \$2,000 in the first half of fiscal 2006 relate primarily to bank charges and wire fees.

#### Foreign currency translation adjustment

Prior period retained earnings on Innovations' books are translated at historical exchange rates while the rest of the financial statement line items are translated at current period rates. The resulting difference is treated as gain or loss due to foreign currency translation during the period. The fact that there was a relatively minimal fluctuation in the Canadian dollar exchange rate in the first half year of fiscal 2007 is due to the fact that in 2007, exchange gains or losses on long-term intercompany balances on Innovation's books were charged to foreign currency translation adjustment, while in 2006, intercompany balances were considered short-term and foreign exchange gains or losses were charged to other income and expense.

#### Liquidity and Capital Resources

At June 30, 2007, we had total cash and cash equivalents of \$2.7 million held in current and short-term deposit accounts. We believe that based on our current level of spending, this cash will only be sufficient to fund our current level of operating expenses until November 2007. Based on our current business plan, we will be obligated to seek additional financing before that time.

We cannot assure you that we will be able to successfully implement our plans to raise additional capital or to increase revenue. We may not be able to obtain additional capital or generate new revenue opportunities on a timely basis, on favorable terms, or at all. If we cannot successfully implement our plans, our liquidity, financial condition and business prospects will be materially and adversely affected and we may have to cease operations.

Because of our limited revenue and cash flow from operations, we have depended primarily on financing transactions to support our working capital and capital expenditure requirements. Through

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June 30, 2007, we had accumulated losses of approximately \$18.9 million, which were financed primarily through sales of equity securities. Since our inception in November 2003 through June 30, 2007, we have raised approximately \$20 million in equity financing. The foregoing included the sale of 2,307,693 shares of our common stock and warrants to purchase 1,200,000 shares of our common stock to Shuffle Master for \$3.0 million in January 2006. The Shuffle Master warrants had an exercise price of \$2.025 per share and expired on July 12, 2007 without being exercised. The sale of these shares and the issuance of the warrants were in connection with the original strategic alliance distribution and licensing agreement between us and Shuffle Master.

In addition, on July 7, 2006, we closed a private placement to accredited investors whereby we sold 16,943,323 shares of common stock and warrants to purchase 8,471,657 shares of common stock at an exercise price of \$0.83 per share, subject to downward adjustment if the Company does not meet specified annual revenue targets, for gross proceeds of approximately \$9.3 million after payment of commissions and expenses. As of December 31, 2006, as a result of the Company not meeting the specified annual revenue targets, the exercise price of the warrants was adjusted downwards to \$0.70 per share.

Our working capital at June 30, 2007 was \$1.7 million compared to our working capital of \$3.2 million at March 31, 2007, a decrease of \$1.5 million. Our current ratio at June 30, 2007 was 2.5 to 1 compared to our current ratio of 3.6 to 1 at March 31, 2007. The current ratio is derived by dividing current assets by current liabilities and is a measure used by lending sources to assess our ability to repay short-term liabilities.

Overall, for the first half year of fiscal 2007, we had a net cash decrease of \$2.96 million, attributable primarily to net cash used in operating activities. The primary components of our operating cash flows are net loss adjusted for non-cash expenses, such as depreciation and amortization, stock-based compensation, and the changes in accounts receivable, accrued liabilities and payroll, deferred revenue, and accounts payable. Cash used in operating activities was \$2.55 million in the first half year of fiscal 2007 versus \$3.55 million in the comparable period of 2006, a \$992,000 improvement. This improvement was primarily caused by the decrease in net loss on a year over year basis due to a reduction of expenses and slight increase in revenue.

There were capital expenditures of \$79,000 during the first half year of fiscal 2007 and software development costs of \$317,000 were capitalized during the first half year of fiscal 2007.

As of June 30, 2007, we had no indebtedness.

#### Commitment and Contingencies

**Lease commitments.** The Company leases office space in Toronto, Ontario and Boulder, Colorado. The Company was released from its lease obligation in New York, New York, which was to expire at the end of December 2007, at the end of September 2006. The Company is currently leasing space in New York, New York on a short-term basis under a lease which runs to December 2007, for its corporate headquarters and sales and support functions. The Company intends to renew its lease on substantially the same terms on a short-term basis when the current lease agreement expires. The Company agreed with the existing landlord to move the Boulder office into new space as of May 2007. This move terminated the existing lease which was replaced by a new lease covering the new space. The lease of the new Boulder office commenced on May 1, 2007 and will run through September 2010. Office lease expenses for the three month periods ended June 30, 2007 and 2006 were approximately \$110,000 and \$177,000, respectively. In addition, the Company leases an apartment in Las Vegas, Nevada, which runs to February 28, 2008, as a cost effective way to house employees during frequent business visits to Las Vegas. The Company also leases office equipment. These leases have been classified as operating leases. Office equipment lease expenses for the three months period

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ended June 30, 2007 and 2006 were approximately \$49,000 and \$18,000, respectively. Future lease commitments by year are as follows (2007 amounts are for six months):



|                         | Future Lease Commitments by Year |            |            |            |            |
|-------------------------|----------------------------------|------------|------------|------------|------------|
|                         | 2007                             | 2008       | 2009       | 2010       | 2011       |
| Office Space Leases:    |                                  |            | (US\$)     |            |            |
| United States           | \$ 148,018                       | \$ 116,362 | \$ 125,926 | \$ 96,836  | \$ —       |
| Canada                  | 35,059                           | 107,917    | 111,249    | 114,638    | 118,084    |
| Total Office Space      | 183,078                          | 224,279    | 237,175    | 211,474    | 118,084    |
| Office Equipment        | 72,147                           | 143,973    | 60,975     | 646        | —          |
| Total Lease Commitments | \$ 255,224                       | \$ 368,252 | \$ 298,150 | \$ 212,120 | \$ 118,084 |

Purchase commitments. On September 1, 2006, the Company entered into a Private Label Partner Agreement (the "Agreement") with Motorola, Inc. ("Motorola"), formerly Symbol Technologies, Inc., pursuant to which the Company has the exclusive right to purchase certain private label wireless solution products from Motorola to support the Company's development of a secure wireless handheld gaming system. The Agreement requires that the Company purchase a specified minimum number of units over the three-year term of the Agreement. In the event such minimum purchase requirement is not met, Motorola has the right to adjust the unit purchase price to a level commensurate with the Company's volume and the private label exclusivity under the Agreement will be void. The Company believes that in the event of either the loss of private label exclusivity or the renegotiation of the unit purchase price, its consolidated financial statements would not be materially affected.

#### Off-Balance Sheet Arrangements

As of June 30, 2007, there were no off-balance sheet arrangements.

#### Item 3. Controls And Procedures

Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the chief executive officer and the chief financial officer, carried out an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of the end of the period covered by this quarterly report (the "Evaluation Date"). Based upon that evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective, as of the Evaluation Date to ensure that (i) information required to be disclosed in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time limits specified in the Commission's rules and forms, and (ii) information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's chief executive officer and the chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II  
OTHER INFORMATION

Item 6. Exhibits.

Exhibits:

| Exhibit No. | Description  |
|-------------|--|
| 2.1         | Agreement and Plan of Merger, dated as of March 7, 2005 among the Company, PAC and Sona Mobile (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed March 11, 2005).  |
| 3.1         | Certificate of Incorporation, as amended (incorporated by reference to the following documents (i) the Company's Consent Solicitation dated October 26, 2004 as filed on November 1, 2004; (ii) Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock filed as Exhibit 4.2 to the Company's Annual Report on Form 10-KSB for its fiscal year ended March 31, 2005; (iii) Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 22, 2005; and (iv) Appendix IV to the Company's Definitive Proxy Statement dated October 27, 2005 and filed on the same date). |
| 3.2         | By-laws of the Company, as amended July 20, 2007.*   |
| 4.1         | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Company's Form SB-2 (file number 333-130461), filed February 2, 2006).  |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 32.1        | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*   |

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\* Filed herewith.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 14, 2007

Sona Mobile Holdings Corp.  
(Registrant)  
/s/ Shawn Kreloff

Date: August 14, 2007

Chief Executive Officer  
/s/ Stephen Fellows  
Chief Financial Officer  
(Principal Financial Officer)

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