SONA MOBILE HOLDINGS CORP
Form 424B3
November 06, 2006

Filed pursuant to Rule 424(b)(3)
Registration Statement No. 333-136283

28,922,673 SHARES
OF
COMMON STOCK
SONA MOBILE HOLDINGS CORP.

The selling stockholders named in this prospectus are offering up to 28,922,673 shares of our common stock, par value $.01 per share. Of these shares, 9,671,657 shares are issuable upon exercise of warrants to purchase shares of our common stock. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. The selling stockholders and any of their pledges, donees, transferees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. Any commissions, fees and discounts of underwriters, brokers, dealers or agents will be paid by the selling stockholders.

Our common stock is quoted on the OTC Bulletin Board under the trading symbol ''SNMB''. The closing price for our common stock on the OTC Bulletin Board was $0.59 on October 31, 2006.

See ''Risk Factors'' beginning on page 8 of this prospectus for the factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these shares or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is November 3, 2006

You may rely on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor sale of common shares means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy our common shares in any circumstances under which the offer or solicitation is unlawful.

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We own various registered and unregistered trademarks, some of which are mentioned in this prospectus.

All references to ‘‘we,’’ ‘‘us,’’ ‘‘our,’’ ‘‘our company,’’ ‘‘Sona Mobile’’ and similar terms refer to Sona Mobile Holdings Cor predecessor and its subsidiaries, Sona Mobile, Inc., Sona Innovations, Inc. and Sona Limited.

FORWARD-LOOKING STATEMENTS

Some of the statements made in this prospectus discuss future events and developments, including our future business strategy and our ability to generate revenue, income and cash flow. In some cases, you can identify forward-looking statements by words or phrases such as ‘‘may,’’ ‘‘will,’’ ‘‘should,’’ ‘‘expects,’’ ‘‘plans,’’ ‘‘anticipates,’’ ‘‘believes,’’ ‘‘estimat ‘‘potential,’’ ‘‘continue,’’ ‘‘our future success depends,’’ ‘‘seek to continue,’’ or the negative of these words or phrases, or comparable words or phrases. These statements are only predictions that are based, in part, on assumptions involving judgments about 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. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various facts, including the risks outlined in the ‘‘Risk Factors’’ section beginning on page 8. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

PROSPECTUS SUMMARY

This summary provides a brief overview of the key aspects of our company and the offering. However, it is a summary and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus, including our financial statements and the notes to those statements.

Company Overview

We are a wireless software and service provider that specializes in value-added applications to data-intensive vertical market segments, including the gaming industry. Through our subsidiaries, we develop, market and sell wireless data application software for mobile devices which enables secure execution of real time transactions on a flexible platform over cellular or Wi-Fi networks, and is compatible with most wireless devices that are Internet enabled. Our customer base includes casinos, race track and cruise ship operators on the gaming side, and corporations in the data-intensive verticals on the enterprise side. Our revenues consist of project, licensing and support fees generated by our flagship Sona Wireless Platform™ (SWP) and related vertical wireless application software products.

We have identified specific market segments in the wireless arena that demand secure real-time, live and accurate information, and which also require transactional capabilities and interaction with this information. These markets include but are not limited to wireless gaming and entertainment, financial services, and businesses that require extension of enterprise applications to their mobile work force.

We market our products and services principally to two large vertical markets.

- Gaming and entertainment. We propose to deliver casino games wirelessly in designated areas on a casino property to offer real-time, multiplayer games that accommodate an unlimited number of players and to deliver games on a play-for-free or wagering basis (where permitted by law) on mobile telephone handsets over any carrier network. 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 software for the data-intensive investment banking community and client-facing applications for the retail banking industry.

We are committed to providing solutions that would generate new revenue streams and cost saving opportunities to our customers in gaming, financial and enterprise sectors by allowing them to securely extend data access and transaction capabilities to end users and employees. Our approach is to aggregate best-of-breed technology, data and content into our device-independent SWP and application software, which we believe will enable customers to extend the functionality of their current wireless devices.

Corporate Information

Sona Mobile, Inc., a privately held company organized under the laws of the State of Washington, commenced operations in November 2003. On April 19, 2005, which we refer to as the ‘‘Merger Date,’’ Sona-Mobile, Inc. merged with and into PerfectData Acquisition Corporation, a Delaware corporation and the wholly-owned merger subsidiary of PerfectData Corporation, a then inactive publicly held Delaware company. In the merger, the merger subsidiary changed its name to Sona Mobile, Inc. On November 17, 2005, PerfectData Corporation changed its name to Sona Mobile Holdings Corp. The merger was accounted for as a reverse merger with Sona Mobile, Inc. deemed to be the accounting acquirer.

Our principal executive office is located at 825 Third Avenue, 32nd Floor, New York, New York 10022 and our telephone number is (212) 486-8887. Our Web address is www.sonamobile.com. None of the information on our Web site is part of this prospectus.

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The Offering

Securities offered	28,922,673 shares of common stock, including 9,671,657 shares underlying the warrants.
Common stock outstanding	57,767,856 as of October 31, 2006.
Use of proceeds	We will not receive any of the proceeds from the sale of the shares by the selling stockholders, although we may receive up to approximately $9.4 million upon the exercise of the warrants in full at the current exercise price. These proceeds, if any, are expected to be used for working capital. We will pay all of the expenses of this offering, including, without limitation, professional fees, printing expenses and registration fees.
Risk factors	The offering involves a high degree of risk. Please refer to ‘‘Risk Factors’’ beginning on page 8 for a description of the risk factors you should consider.
OTC Bulletin Board symbol	SNMB

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Summary Financial Information

The following summary financial information sets forth certain historical financial data derived from our audited and unaudited financial statements for the periods presented. These historical results are not necessarily indicative of results to be expected for any future period.

You should read the following summary financial information in conjunction with our financial statements and related notes beginning on page F-1 of this prospectus and the discussions under the headings ''Business'' and ''Management's Discussion and Analysis and Plan of Operation'' appearing elsewhere in this prospectus.

Statement of Operations Data:

	Years ended December 31		Six months ended June 30	
	2004	2005	2005 (unaudited)	2006 (unaudited)
Revenue	$ 401,536	$ 565,489	$ 259,006	$ 290,753
Operating expenses	1,008,198	7,281,889	2,066,175	4,739,620
Operating income (loss)	$ (606,662)	$ (6,716,400)	$ (1,807,169)	$ (4,449,167)
Net loss	$ (626,156)	$ (6,746,485)	$ (1,801,166)	$ (4,531,642)
Comprehensive loss	$ (654,108)	$ (6,816,492)	$ (1,737,858)	$ (4,721,699)
Net loss per common share – basic and diluted	$ (0.06)	$ (0.22)	$ (0.07)	$ (0.11)
Weighted average number of common shares – basic and diluted	10,626,442	30,916,820	26,805,195	40,408,581

Balance Sheet Data:

	December 31, 2004	December 31, 2005	June 30, 2006 (unaudited)
Cash and cash equivalents	$ 113,629	$ 1,286,912	$ 618,275
Total assets	$ 780,773	$ 2,008,708	$ 967,364
Total liabilities	$ 891,389	$ 2,201,325	$ 1,568,326
Working capital (deficit)	$ (452,215)	$ 394,432	$ (659,115)
Accumulated (deficit)	$ (740,980)	$ (7,487,465)	$ (12,019,107)
Total stockholders' equity (deficiency)	$ (110,616)	$ (192,617)	$ (600,962)

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors listed below and all other information contained in this prospectus before investing in our common stock. You should also keep these risk factors in mind when you read the forward-looking statements in this prospectus. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us.

If any of the following risks occur, our business, our quarterly and annual operating results or our financial condition could be materially and adversely affected. In that case, the market price of our common stock could decline or become substantially volatile, and you could lose some or all of your investment.

Risks Related to Our Business

Our limited operating history makes evaluation of our business and prospects difficult.

Our limited operating history makes it difficult to evaluate our business and prospects. We have encountered, and expect to continue to encounter, many of the difficulties and uncertainties often faced by early stage companies. You should consider our business and prospects in light of the risks, uncertainties and difficulties frequently encountered by early stage companies, including limited capital, delays in product development, marketing and sales obstacles and delays, inability to gain customer acceptance of our products and services, inability to attract and retain high-quality and talented executives and other personnel and significant competition. We cannot be certain that we will successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer and/or we may be unable to stay in business.

We have a history of losses, our auditors have stated that these losses raise substantial doubt about our ability to continue as a going concern and we expect to continue to operate at a loss and to have negative cash flow from operations for the foreseeable future.

We have a history of continuing losses and negative cash flow from operations. From our inception in November 2003 through June 30, 2006, we had cumulative net losses of approximately $12 million and for our 2005 fiscal year, we had negative cash flow from operations of approximately $5.5 million. We expect that our expenses will increase substantially as we continue to develop our products and services. In addition, as a public company our general and administrative expenses have increased significantly. As a result, we expect to continue to incur losses for the foreseeable future.

Because of our history of continuing losses, our auditors, in their report on our audited financial statements included elsewhere in this report, have stated that these losses raise substantial doubt about our ability to continue as a going concern. The going concern qualification from our auditors could have a negative impact on our future sales to customers, inhibit our ability to obtain financing terms from vendors and may adversely impact our ability to raise additional financing. Accordingly, we cannot assure you that we will ever be profitable. Whether we ever become profitable will depend on many factors, but principally on our ability to raise additional capital and to successfully market our products and services. See ‘‘Management’s Discussion and Analysis and Plan of Operation — Liquidity and Capital Resources’’ appearing elsewhere in this prospectus.

Our operating results may fluctuate dramatically, particularly from quarter to quarter.

We anticipate that our quarterly and annual operating results will fluctuate dramatically over the near terms as a result of a number of factors, including the following:

- volume and timing of orders received;
- the availability and cost of products and components from our suppliers;
- the mix of products and services sold;

- patterns of capital spending by enterprises for technology products and services;
- the timing of new product announcements and releases;
- pricing pressures; and
- general economic conditions.

As a result of these and other factors, we have historically experienced, and may continue to experience, fluctuations in revenues and operating results. In addition, it is possible that in the future our operating results may fall below the expectations of analysts and investors, and as a result, the price of our securities may fall.

Our future success depends on broad market acceptance of wireless technology for data applications, which may not happen.

The market for wireless data application products and services has begun to develop only recently and is characterized by rapid technological change, evolving industry standards and strong customer demand for new products, applications and services. As is typical of a new and rapidly evolving industry, the demand for, and market acceptance of, wireless data application products and services are highly uncertain. We cannot assure you that the use of wireless data application products and services will become widespread. The commercial acceptance of wireless data application products and services may be affected by a number of factors including:

- quality of infrastructure;
- security concerns;
- equipment, software or other technology failures;
- government regulation;
- inconsistent quality of service; and
- lack of availability of cost-effective, high-speed network capacity.

If the market for wireless data application products and services fails to develop, develops more slowly than we anticipate, or if wireless data application products and services products and services fail to achieve market acceptance, our business could be adversely affected.

Our future revenues may depend upon our strategic alliance agreements with Shuffle Master.

Pursuant to our strategic alliance agreements with Shuffle Master, we have agreed to develop a wireless gaming solution for marketing and distribution by Shuffle Master in exchange for a percentage of revenues received from sales. If we are unable to develop the contemplated products, or if we experience delays in development, we may not recoup our investment. In addition, if we breach the agreements with Shuffle Master or those agreements are terminated, our future revenues may suffer and our business could be adversely affected.

Our business depends on the level of capital spending by enterprises for technology products and services.

As a supplier of technology products and services for enterprises, our business depends on the level of capital spending for technology products and services by enterprises in our markets. We believe that an enterprise’s investment in computer network and communications systems and related products and services depends largely on general economic conditions that can vary significantly as a result of changing conditions in the economy as a whole. The market for technology and communications products and services may continue to grow at a modest rate or not at all. If the level of spending by our customers on technology and communications systems and related products and services decreases, our revenue and operating results may be adversely affected.

If we fail to keep up with changes in our industry, we will become less competitive, which will adversely affect our financial performance.

In order to remain competitive and serve our customers effectively, we must respond on a timely and cost-efficient basis to technological changes as well as changes in industry standards and procedures and customer preferences. In some cases these changes may be significant and their cost may be substantial. We cannot assure you that we will be able to adapt to any changes in the future or that we will have the financial resources to keep up with changes in the marketplace. The cost of adapting our products and services may have a material and adverse effect on our operating results.

We have many competitors and expect new competitors to enter our market, which could increase price competition and may affect the amount of business available to us and the prices that we can charge for our products and services.

The markets for our products and services are extremely competitive and may change rapidly. Substantial growth in demand for wireless technology products and services has been predicted and we expect competition to increase as existing competitors enhance and expand their products and services and as new participants enter the wireless data application market. There are relatively few barriers to entry to companies with computer and network experience. A rapid increase in competition could negatively affect the amount of business that we get and the prices that we can charge.

Additionally, many of our competitors and potential competitors have substantially greater financial resources, customer support, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships than we do. We cannot be sure that we will have the resources or expertise to compete successfully. Compared to us, our competitors may be able to:

- develop and expand their products and services more quickly;
- adapt faster to new or emerging technologies and changing customer needs;
- take advantage of acquisitions and other opportunities more readily;
- negotiate more favorable agreements with vendors;
- devote greater resources to marketing and selling their products; and
- address customer service issues more effectively.

Some of our competitors may also be able to increase their market share by providing customers with additional benefits or by reducing their prices. We cannot be sure that we will be able to match price reductions by our competitors.

If we do not become licensed in various gaming jurisdictions, including Nevada, it could limit our ability to generate revenues.

Pursuant to our distribution and licensing agreement with Shuffle Master, we are in the process of obtaining the necessary gaming regulatory licenses and approvals in various jurisdictions deemed necessary for the development, marketing and distribution of the Wireless Gaming Solution. All revenues generated in jurisdictions will be shared with Shuffle Master pursuant to the terms of the distribution and licensing agreement. In the event we are unable to obtain the appropriate license in a particular jurisdiction, Shuffle Master will set aside our portion of the revenues earned until such time the license is obtained. In the event we fail to obtain the license within 24 months, the revenues will revert back to Shuffle Master and we will forfeit those revenues. The loss of these revenues could have an adverse effect on our results of operations.

Our business may suffer from lack of diversification.

Our business is centered solely on providing wireless data application software products and services. The risks associated with focusing on a limited product line are substantial. If consumers do not accept our products and services or if there is a general decline in market demand for, or any

significant decrease in, the perceived need for our products and services, we are not financially or operationally capable of introducing alternative products and services within a short time frame. As a result, lack of acceptance of our products and services or a significant decline in the demand for our products and services could cause us to cease operations.

Our future performance depends on our ability to retain key personnel.

Our future success depends on retaining our existing key employees. Losing any of our key employees could limit our ability to execute our growth strategy, resulting in lost sales and a slower rate of growth.

We depend on the continued efforts of our senior management team, including Shawn Kreloff, Stephen Fellows and Lance Yu. If for any reason, our senior executives do not continue to be active in our business, our business, financial condition or results of operations could be adversely affected. Currently, we do not have employment agreements with any of these executives. Also, we do not carry, nor do we anticipate obtaining, ‘‘key man’’ insurance on them. It would be difficult for us to replace any of these individuals. We cannot assure you that we will be able to continue to retain our senior executives or other personnel necessary for the development of our business.

We may not be able to hire and retain highly skilled technical employees, which would affect our ability to compete effectively and could adversely affect our operating results.

We depend on highly skilled technical personnel for research and development and to market and service our products. To succeed, we must hire and retain employees who are highly skilled in rapidly changing wireless technologies. In particular, as we implement our strategy of focusing on wireless data applications, we will need to:

- hire more employees with experience developing and providing advanced communications products and services;
- train our current personnel to sell wireless data applications products and services; and
- train personnel to service our products.

Because the competition for qualified employees in our industry is intense, hiring and retaining qualified employees is both time-consuming and expensive. We may not be able to hire enough qualified personnel to meet our needs as our business grows or to retain the employees we currently have. Our inability to hire and retain the individuals we need could hinder our ability to sell our existing products, systems, software or services or to develop and sell new ones. If we are not able to attract and retain qualified employees, we will not be able to successfully implement our business plan and our business will be harmed.

We may not be able to manage our growth effectively, which could adversely affect our operations and financial performance.

The ability to manage and operate our business as we execute our growth strategy will require effective planning. Significant rapid growth could strain our internal resources, leading to a lower quality of customer service, reporting problems and delays in meeting important deadlines resulting in loss of market share and other problems that could adversely affect our financial performance. Our efforts to grow have placed, and we expect will continue to place, a significant strain on our personnel, management systems, infrastructure and other resources. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth and a failure to achieve or sustain profitability.

If we are unable to protect our intellectual property rights, our business may be harmed.

Although we attempt to protect our intellectual property through patents, trademarks, trade secrets, copyrights, confidentiality and non-disclosure agreements and other measures, intellectual property is difficult to protect and these measures may not provide adequate protection. Patent filings

by third parties, whether made before or after the date of our patent filings, could render our intellectual property less valuable. Competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by competitors. The failure to protect our intellectual property could seriously harm our business because we believe that developing new products and technology that are unique to us is important to our success. If we do not obtain sufficient international protection for our intellectual property, our competitiveness in international markets could be significantly impaired, which would limit our growth and future revenue.

We may be found to infringe third-party intellectual property rights.

Third parties may in the future assert claims or initiate litigation related to their patent, copyright, trademark and other intellectual property rights in technology that is important to us. The asserted claims and/or litigation could include claims against us or our suppliers alleging infringement of intellectual property rights with respect to our products or components of those products. Regardless of the merit of the claims, they could be time consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. We cannot assure you that licenses will be available on acceptable terms, if at all. Furthermore, because of the potential for significant damage awards, which are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims resulting in large settlements. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results and financial condition could be materially adversely affected.

If we do not accurately predict demand for our products when deciding to invest in new products, we will likely incur substantial capital expenditures that will not benefit our business.

Research and development takes a significant amount of time and requires significant investment in skilled engineering and scientific personnel. We have made these investments, and intend to continue to make such investments based on internal projections of the potential market for our products and services and of our potential profit margins on sales of these products and services. If those projections are inaccurate, we may not be able to obtain an acceptable return on our investment in the development of these products and services. If our projections of the prospects of new products are inaccurate, we may make investments in the development, testing and approval of those products and services that may result in unsatisfactory returns.

General Company Related Risks

We do not intend to pay dividends and, consequently, the only opportunity for investors to achieve a return on their investment is if a trading market develops and investors are able to sell their shares at a profit or if our business is sold at a price that enables investors to recognize a profit.

We will need all of our cash resources to fund our operations, including the development of future products and services. Accordingly, we do not expect to pay cash dividends in the foreseeable future on our common stock. We cannot assure investors any return on their investment, other than in connection with a sale of their shares or a sale of our business. At the present time there is a limited trading market for our shares. Therefore, holders of our securities may be unable to sell them. We cannot assure investors that an active trading market will develop or that any third party would offer to purchase our business on acceptable terms and at a price that would enable our investors to recognize a profit.

Our compliance with the Sarbanes-Oxley Act and the U.S. Securities and Exchange Commission rules concerning internal controls may be time consuming, difficult and costly for us.

Our senior management has limited experience with publicly-traded companies and may not be fully familiar with the requirements of the Sarbanes-Oxley Act and other laws, rules and regulations

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that apply to companies required to file reports with the U.S. Securities and Exchange Commission. It may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal controls and other finance staff in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act, we may not be able to obtain the independent accountant certifications that the Sarbanes-Oxley Act requires publicly-traded companies to obtain.

The public market for our common stock is limited, and stockholders may not be able to resell their shares at or above the purchase price paid by such stockholder, or at all.

There is currently only a limited public market for our common stock. We cannot assure you that an active public market for our common stock will develop or be sustained in the future. The market price of our common stock may fluctuate significantly in response to factors, some of which are beyond our control, such as: the announcement of new products or product enhancements by us or our competitors; developments concerning intellectual property rights and regulatory approvals; quarterly variations in our competitors' results of operations; changes in earnings estimates or recommendations by securities analysts; developments in our industry; and general market conditions and other factors, including factors unrelated to our own operating performance. The stock market in general has recently experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Prospective investors should also be aware that price volatility might be worse if the trading volume of our common stock is low.

We may not be able to attract the attention of major brokerage firms, which could have a material adverse impact on the market value of our common stock.

Security analysts of major brokerage firms may not provide coverage of our common stock since there is no incentive to brokerage firms to recommend the purchase of our common stock. The absence of such coverage limits the likelihood that an active market will develop for our common stock. It also will likely make it more difficult to attract new investors at times when we require additional capital.

We may be unable to list our common stock on Nasdaq or on any securities exchange.

Although we may apply to list our common stock on Nasdaq or the American Stock Exchange in the future, we cannot assure you that we will be able to meet the initial listing standards, including the minimum per share price and minimum capitalization requirements, or that we will be able to maintain a listing of our common stock on either of those or any other trading venue. Until such time as we qualify for listing on Nasdaq, the American Stock Exchange or another trading venue, our common stock will continue to trade on the OTC Bulletin Board or another over-the-counter quotation system, or on the ‘‘pink sheets,’’ where an investor may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our common stock. In addition, rules promulgated by the U.S. Securities and Exchange Commission impose various practice requirements on broker-dealers who sell securities that fail to meet certain criteria set forth in those rules to persons other than established customers and accredited investors. Consequently, these rules may deter broker-dealers from recommending or selling our common stock, which may further affect the liquidity of our common stock. It would also make it more difficult for us to raise additional capital.

Our common stock may be considered a ‘‘penny stock’’ and may be difficult to sell.

The U.S. Securities and Exchange Commission has adopted regulations which generally define a penny stock’’ to be an equity security that has a market price of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to specific exemptions. Although our stockholders have approved a proposal to give the Board of Directors the authority to effect a reverse stock split, the market price of our common stock, if an active trading market develops, may be less than $5.00 per share and, therefore, it may be designated as a ‘‘penny stock’’ according to the Commission’s rules.

This designation requires any broker or dealer selling these securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect the ability of investors to sell their shares.

A significant number of shares of our common stock will be eligible for sale shortly, and such sales could depress the market price of our stock.

Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our Common Stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. As of October 31, 2006, we had 57,767,856 shares of common stock issued and outstanding. Virtually all of these shares are either registered under the Securities Act or saleable under Rule 144(k) promulgated under the Securities Act.

In addition to the shares of our common stock offered hereby,

- if the registration statement of which this prospectus forms a part is not declared by effective by the U.S. Securities and Exchange Commission by November 6, 2006, or if after the registration statement's effective date this registration statement ceases for any reason to be effective for a period of more than an aggregate of 30 trading days (which need not be consecutive), we are obligated under the registration rights agreements entered into with the selling stockholders named in this prospectus that purchased securities in our July 2006 private placement, to issue to those investors an amount in cash, as partial liquidated damages and not as a penalty, equal to 2% of the aggregate investment amount paid by such investor for the securities, which obligation continues on a monthly basis thereafter until the registration statement is declared effective; provided, however, the maximum amount of aggregated liquidated damages payable to an investor shall be 10% of the aggregate investment amount paid by such investor; and
- within the next few months, we expect to register under a Form S-8 registration statement 10,000,000 shares of our common stock reserved for issuance collectively under our Amended and Restated Stock Option Plan of 2000 and 2006 Incentive Plan.

We are controlled by a limited number of shareholders, which will limit your ability to influence the outcome of key decisions.

Our executive officers and directors beneficially own, in the aggregate, shares of our capital stock representing approximately 8.4%, and Shuffle Master and John Bush each own approximately 10%, of the voting power of the issued and outstanding shares of our capital stock that are entitled to vote. As a result, these shareholders will have the ability to exercise substantial control over our affairs and corporate actions requiring shareholder approval, including electing and removing directors, selling all or substantially all of our assets, merging with another entity or amending our articles of incorporation. This de facto control could be disadvantageous to our other shareholders with interests that differ from those of the control group. For example, the control group could delay, deter or prevent a change in control even if a transaction of that sort would benefit the other shareholders. In addition, concentration of ownership could adversely affect the price that investors might be willing to pay in the future for our securities.

As a result of our inclusion of certain securities in a registration statement filed by the company, the U.S. Securities and Exchange Commission has questioned the availability of an exemption from the registration requirements of the Securities Act in connection with the sale of those securities. If the exemption is not available, it could have adverse economic and financial consequences to us.

In January 2006, while a registration statement filed by the company was pending review by the U.S. Securities and Exchange Commission, we entered into a strategic alliance licensing and distribution agreement with Shuffle Master, Inc. under which we agreed to develop certain wireless gaming technology for Shuffle Master. In connection with that agreement, we sold 2,307,693 shares of

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our common stock and warrants to purchase up to an additional 1,200,000 shares of our common stock to Shuffle Master for $3.0 million. The proceeds from the sale of those securities were intended to provide us with the working capital we would need to fulfill our obligations under the agreement. We agreed to register the purchased shares and the shares underlying the warrants, and had included them in a registration statement filed with the Commission.

We were then informed by the staff of the Commission that, because we included those securities in a pending registration statement, they questioned the availability of the exemption from registration that we were claiming. The sale of these securities to Shuffle Master was made in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the ''Securities Act'') as provided in Section 4(2) of the Securities Act. The exemption provided in Section 4(2) is available for transactions by an issuer not involving any public offering. At the time of the transaction with Shuffle Master, we had filed a Form SB-2 and were therefore deemed to be engaged in a public offering at the time of the sale of the securities to Shuffle Master. The availability of the exemption requires that the transaction have a conclusion. Including the Shuffle Master securities in the pending registration statement raised the question as to whether the transaction with Shuffle Master had, in fact, concluded. The Commission suggested that we remove the Shuffle Master securities from the then pending resale registration statement. We complied with that suggestion. However, if a court of competent jurisdiction were to ultimately determine that an exemption was not available, we may have to offer Shuffle Master rescission rights. If Shuffle Master asserted that right and prevailed, we would be required to ''buy back'' the securities from Shuffle Master for $3 million, in which event we may not have the resources to return the consideration and we might have to seek bankruptcy protection. If Shuffle Master no longer desired to be an investor in our company and they could not dispose of these securities in a transaction or transactions in which they would receive in excess of $3 million they might elect to pursue rescission. In addition, we, and possibly some of our officers, may also be subject to penalties. We believe that the Shuffle Master transaction was exempt from the registration requirements of the Securities Act and we would vigorously contest any claim to the contrary. See ''Management's Discussion and Analysis or Plan of Operation.'' We are now registering the total amount of shares sold to Shuffle Master, including the shares underlying the warrants, pursuant to the registration statement of which this prospectus forms a part.

Delaware corporate law and our certificate of incorporation and bylaws contain provisions that could delay, defer or prevent a change in control of our company or our management.

These provisions could discourage proxy contests and make it more difficult for you and other shareholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. For example:

- Without prior shareholder approval, the board of directors has the authority to issue one or more classes of preferred stock with rights senior to those of common stock and to determine the rights, privileges and inference of that preferred stock.
- There is no cumulative voting in the election of directors, which would otherwise allow less than a majority of shareholders to elect director candidates.

USE OF PROCEEDS

All shares of our common stock offered by this prospectus are being registered for the account of the selling stockholders. We will not receive any of the proceeds from the sale of these shares by the selling stockholders. We may receive up to approximately $9.4 million upon the exercise of the warrants in full at the current exercise price. These proceeds, if any, are expected to be used for working capital.

DIVIDEND POLICY

We have not declared or paid any dividends on our common stock since inception and we do not intend to pay any cash dividends in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay dividends on common stock will be at the discretion of our Board of Directors and will be dependent upon our fiscal condition, results of operations, capital requirements and other factors our Board of Directors may deem relevant.

CAPITALIZATION

The following table sets forth our actual capitalization as of June 30, 2006 and on a pro forma basis after taking into account the following:

- the sale of 16,943,323 shares of our common stock on July 7, 2006 for an aggregate purchase price of $10.1 million; and
- the issuance on July 7, 2006 of warrants to purchase 8,471,657 shares of our common stock at an exercise price of $0.83 per share:

	Actual	Pro Forma
	(unaudited)	
Stockholders' equity:		
Preferred stock, 2,000,000 shares authorized, $.01 par value;		
Series A Convertible Preferred Stock, 600,000 shares authorized, no shares issued and outstanding	$ —	$ —
Series B Convertible Preferred Stock, 10,000 shares authorized, no shares issued and outstanding	—	—
Common stock, 10,000,000 shares authorized, $.01 par value, actual; 90,000,000 shares authorized pro forma; issued and outstanding – 41,186,200 shares, actual and 58,129,523 shares pro forma	411,862	581,295
Common stock purchase warrants issued and outstanding – 2,170,728 warrants, actual, 10,642,385 warrants, pro forma	1,620,370	4,734,965
Additional paid-in capital	9,752,630	16,634,601
Unamortized stock based compensation	(81,000)	(81,000)
Accumulated other comprehensive loss	(285,717)	(285,717)
Accumulated deficit	(12,019,107)	(12,019,107)
Total capitalization	$ (600,962)	$ 9,565,037

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is not listed on any stock exchange, but is quoted on the Over-the-Counter Bulletin Board (the ‘‘OTC Bulletin Board’’) under the symbol ‘‘SNMB.’’ The following table sets forth the high and low bid price information for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

Year	Fiscal Quarter Ended	Bid Prices High	Bid Prices Low
2004	March 31, 2004	$ 1.18	$ 0.38
	June 30, 2004	0.85	0.40
	September 31, 2004	0.94	0.33
	December 31, 2004	0.85	0.30
2005			
	March 31, 2005	1.65	0.66
	June 30, 2005	1.90	1.18
	September 30, 2005	1.97	1.15
	December 31, 2005	2.45	1.55
2006			
	March 31, 2006	2.99	1.75
	June 30, 2006	2.00	0.68
	September 30, 2006	0.80	0.45

The approximate number of shareholders of record at October 31, 2006 was 215. The number of stockholders of record does not include beneficial owners of our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read together with ‘‘Management’s Discussion and Analysis or Plan of Operation’’ included elsewhere in this prospectus. The statement of operations data for the years ended December 31, 2004 and 2005 and the balance sheet data at December 31, 2005 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data for the six months ended June 30, 2005 and 2006 and the balance sheet data at June 30, 2006 are derived from our unaudited consolidated financial statements, which have been prepared on a basis consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations. The results of operations for any interim period and historical results are not necessarily indicative of results to be expected in the future.

	Years ended December 31,		Six Months ended June 30,	
	2004	2005	2005	2006
	(audited)		(unaudited)	
Net Revenue	$ 401,536	$ 565,489	$ 259,006	$ 290,753
Operating expenses				
Depreciation and amortization	142,588	439,370	415,936	16,787
General and administrative expenses	174,790	1,348,461	469,963	1,129,706
Professional fees	93,859	927,425	210,809	600,086
Development expenses	211,359	894,289	239,259	753,694

Selling and marketing expenses	385,602	3,672,346	730,208	2,239,647
Total operating expenses	1,008,198	7,281,889	2,066,175	4,739,620
Operating loss	(606,662)	(6,716,400)	(1,807,169)	(4,449,167)
Interest income	1,137	76,415	8,862	36,653
Interest expense	(28,314)	(6,480)	(2,859)	(1,965)
Other income and expense	7,683	(100,020)	—	(117,162)
Net loss	$ (626,156)	$ (6,746,485)	(1,801,166)	(4,531,642)
Foreign currency translation adjustment	(27,952)	(70,007)	63,308	(190,058)
Comprehensive loss	$ (654,108)	$ (6,816,492)	(1,737,858)	(4,721,699)
Net loss per share of common stock – basic and diluted	$ (0.06)	$ (0.22)	(0.07)	(0.11)
Weighted average number of shares of common stock outstanding – basic and diluted	10,626,442	30,916,820	26,805,195	40,408,581

The table below summarizes our balance sheet data as of December 31, 2004 and December 31, 2005. The table also summarizes our balance sheet data as of June 30, 2006.

	December 31, 2004	December 31, 2005	June 30, 2006
	(audited)		(unaudited)
Cash and cash equivalents	$ 113,629	$ 1,286,912	$ 618,275
Total assets	$ 780,773	$ 2,008,708	$ 967,364
Total liabilities	$ 891,389	$ 2,201,325	$ 1,568,326
Working capital deficit	$ (452,215)	$ 394,432	$ (659,115)
Accumulated deficit	$ (740,980)	$ (7,487,465)	$ (12,019,107)
Stockholders' (deficiency)	$ (110,616)	$ (192,617)	$ (600,962)

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MANAGEMENT'S DISCUSSION AND ANALYSIS AND 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 prospectus. 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. See ''Forward Looking Statements'' elsewhere in this prospectus. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.

Background

The company was originally formed in California on June 8, 1976 under the name ''PerfectData Corporation.'' On November 29, 2004, the PerfectData Corporation reincorporated in the State of Delaware.

On April 19, 2005, which we refer to as the ‘‘Merger Date,’’ pursuant to an Agreement and Plan of Merger dated as of March 7, 2005, Sona Mobile, Inc., a State of Washington corporation, was merged with and into PerfectData Acquisition Corporation, a Delaware corporation and a wholly-owned merger subsidiary of PerfectData Corporation. The merger subsidiary simultaneously changed its named to Sona Mobile, Inc. PerfectData Corporation changed its name to Sona Mobile Holdings Corp. upon approval at the annual stockholders’ meeting on November 17, 2005.

Business Overview

We are a wireless software and service provider that specializes in value-added services to data-intensive vertical and horizontal market segments. Through our subsidiaries, we develop, market and sell wireless data application software for mobile devices.

Our mission is to allow widely distributed users and subscribers to use the standards-based SWP, a secure client-server wireless development environment, to achieve real-time secure wireless transactional solutions to their business requirements and customer applications, and to ultimately become the de facto industry standard. We market our products and services principally to two large vertical markets.

- Gaming and entertainment (formerly media, entertainment and gaming). We propose to deliver casino games wirelessly in designated areas on a casino property to offer real-time, multiplayer games that accommodate an unlimited number of players and to deliver games on a play-for-free or wagering basis (where permitted by law) on mobile telephone handsets over any carrier network. 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 software 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 SWP and related end-user wireless application software products made available to enterprises and cellular operators.

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 80% of our revenue for the quarter ended June 30, 2006 resulted from project work and approximately 20% from continuing license subscriptions. The percentages were similar in the second quarter of 2005, when 76% was from project work and 24% from continuing license 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 start to move away 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 alliance with Shuffle Master Inc. 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 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.

Subsequent Event

On July 7, 2006 we sold 16,943,323 shares of our common stock and 8,471,657 warrants to purchase shares of our common stock to accredited investors for an aggregate purchase price of approximately $10.1 million. The warrants have a five-year term, expiring on July 7, 2011, and an exercise price of $0.83 per share, subject to adjustment in certain circumstances, including the failure by the company to achieve certain financial targets. The warrants include a cashless exercise feature under certain circumstances when there is not an effective registration statement available for the resale of the shares of common stock issuable upon exercise of the warrants.

Recent Board and Management Developments

On April 7, 2006, Nicholas H. Glinsman resigned from his positions as Secretary and as a member of the Board of Directors of the company. On May 16, 2006, Michael Castellano and Joseph Vittoria resigned as members of the Board of Directors of the company and Frank Fanzilli resigned as a director effective June 15, 2006. On July 20, 2006, John Bush resigned as a member of the Board of Directors of the company.

On May 5, 2006, John Bush resigned as our President and Chief Executive Officer and Shawn Kreloff, our Chairman, was appointed as his replacement. On May 16, 2006, John Rudy resigned as our Chief Financial Officer and Stephen Fellows, our Corporate Controller, was appointed as his replacement.

On July 6, 2006, M. Jeffrey Branman was appointed to the company’s Board of Directors. In connection with his appointment, Mr. Branman was granted 100,000 shares of restricted stock on July 13, 2006. On August 7, 2006, Michael Fields was appointed to the company's Board of Directors. The Board of Directors currently consists of Shawn Kreloff, Michael Fields, Paul C. Meyer and M. Jeffrey Branman.

Critical Accounting Policies

We prepare our financial statements in accordance with U.S. generally accepted accounting principles (‘‘GAAP’’). 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 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 the Board. 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, impairment of goodwill and other intangible assets, allowance for doubtful accounts, capitalized software, income taxes, stock-based compensation, and contingencies and liabilities, 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.

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 under 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.

Impairment of Goodwill and Other Intangible Assets

Goodwill and intangible assets have generally resulted from our business combinations accounted for as purchases. We are required to test amounts recorded as goodwill or recorded as intangible assets with indeterminate lives, at least annually for impairment. The review of goodwill and indeterminate lived intangibles for potential impairment is highly subjective and requires us to make numerous estimates to determine both the fair values and the carrying values of our reporting units to which goodwill is assigned. If the estimated fair value of an asset is determined to be less than its carrying value, we are required to perform an analysis similar to a purchase price allocation for an acquired business in order to determine the amount of goodwill impairment, if any. This analysis requires a valuation of certain other intangible assets including in-process research and development, and developed technology. Changes in our internal business structure, changes in our future revenue and expense forecasts, and certain other factors that directly impact valuation could result in a future impairment charge. For these purposes, recoverability of these assets is measured by comparing their carrying values to the future undiscounted cash flows the assets are expected to generate. This methodology requires us to estimate future cash flows associated with certain assets or groups of assets. Changes in these estimates could result in impairment losses associated with other intangible assets. As of June 30, 2006, all intangible assets have been written off.

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

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, 2006, we did not have any software development projects where the product being developed meets the criteria for capitalization.

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.

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Stock-Based Compensation

During the first quarter of fiscal 2006, we adopted the provisions of, and account for stock-based compensation in accordance with, the Financial Accounting Standards Board's (''FASB'') Statement of Financial Accounting Standards No. 123 — revised 2004 (''SFAS 123R''), ''Share-Based Payment'' that replaced" Statement of Financial Accounting Standards No. 123 (''SFAS 123''), ''Accounting for Stock-Based Compensation'' and supersedes APB Opinion No. 25 (''APB 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. We 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.

The adoption of SFAS 123R had an expense impact of $67,310 to our consolidated income statement in the second quarter of 2006.

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 on 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 (quarter), and their value is marked to market at the end of each reporting period with the gain or loss recognition recorded against earnings. We continue to revalue these instruments each quarter to reflect their current value in light of the current market price of our common stock. We utilize 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.

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.

Since December 2003, we have focused on two areas: (1) further developing and enhancing the SWP and developing an array of products for the financial services, entertainment and general corporate market that leverage the functionality of the SWP and (2) developing a sales strategy that contemplated building teams that would develop relationships with direct customers, software manufacturers, multi service operators and wireless carriers. Since we have 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 early 2005 — we were able to begin hiring the sales and marketing and administrative personnel necessary to execute on our strategy.

Our revenue results from:

- project work;
- developing and implementing applications based on our SWP; and
- licensing our technology as a one-time license fee, a periodic license fee, or a per user fee.

In project work, we may be asked by a customer to develop an application working off our SWP to deliver certain data or information to the customer’s wireless devices. In the case of a financial services firm, it could be the delivery of real-time market data to wireless devices used by traders. In these instances, we often receive an up-front fixed fee and, in some instances, will charge the customer an hourly rate for our developers. Once the application is developed, tested and deployed, we may receive a one-time license fee, a periodic license fee or a per user fee for its use. In other instances, we may partner with a wireless service provider to develop an application that the wireless service provider can deliver to its customers. In these instances, we may receive an up-front development fee and a license fee, in the form of a one-time fee or a share of the wireless service provider’s user revenue.

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 segments for products, customers and verticals where we previously experienced success.

Comparison of three months ended June 30, 2006 and 2005

For the three months ended June 30, 2006, we had a comprehensive loss of $2.15 million compared to a comprehensive loss of $1.0 million for the three months ended June 30, 2005. Most of this increase is attributable to increased expenses for an expanded sales and marketing effort and additional legal and accounting expenses. The following table compares our consolidated statement of operations data for the three months ended June 30, 2006 and 2005.

	Three months ended June 30,	
	2006	2005
Net Revenue	$ 165,429	$ 123,971
Operating expenses		
Depreciation and amortization	8,950	215,644
General and administrative expenses	525,925	324,261
Professional fees	302,180	100,702
Development expenses	370,029	140,557
Selling and marketing expenses	938,663	396,014
Total operating expenses	2,145,747	1,177,178
Operating loss	(1,980,318)	(1,053,207)
Interest income	19,638	8,862
Interest expense	(1,013)	(1,777)
Other income and expense	29,493	—
Net loss	$ (1,932,200)	$ (1,046,122)
Foreign currency translation adjustment	(215,462)	41,325
Comprehensive loss	$ (2,147,662)	$ (1,004,797)

Revenue

Revenue in the second quarter of 2006 was $165,000 compared to revenue of $124,000 for the second quarter of 2005, an increase of 33%. 2006 revenue included $157,000 of licensing fees and $8,000 of maintenance fees. Approximately 20% of the revenue is attributable to continuing license subscriptions and the balance relates to new projects begun this quarter and recognition of deferred revenue for projects in progress. We believe continuing increases in wireless IT spending and our continuing sales and marketing efforts will help drive revenue through the remainder of 2006.

Operating expenses

Total operating expenses for the second quarter of 2006 were $2.14 million compared to $1.18 million for the second quarter of 2005. The increased operating expenses are primarily attributable to the growth in sales, marketing and software development staff to support an expanded effort to market and sell the SWP and related products. The increased professional fees relate to the preparation and filing of required forms with the Security and Exchange Commission including our quarterly reports on Form 10-QSB, as well as general corporate governance related to being a public company.

Depreciation and amortization

Depreciation and amortization expenses for the second quarter of 2006 were $9,000 compared to $216,000 in the second quarter of 2005. In 2005, this expense related primarily to amortization of the software acquired in connection with the acquisition of Innovations in late 2003 which was fully written off in the second quarter of 2005. The depreciation and amortization expense for the second quarter of 2006 was composed of depreciation of fixed assets.

General and Administrative expenses

General and administrative expenses for the second quarter of 2006 were $526,000 compared to $324,000 for the comparable quarter in 2005, a 62% increase. The increased expenses are attributable to the increased overhead structure required to support our sales and marketing and development efforts in 2006. We hired additional administrative, finance and accounting personnel, increasing our payroll related expenses to $291,000 in 2006 from $189,000 in 2005. We leased office space for a new corporate headquarters, sales and customer support office in New York and a development facility in Boulder, Colorado, increasing our rent to $177,000 in the second quarter of 2006 from $32,000 in the second quarter of 2005. As a result of increased staff and office space, our expenses for office related costs, communication, insurance and other administrative expenses also increased. Our communication expenses increased to $26,000 in the second quarter of 2006 from $17,000 in the second quarter of 2005. Our stock compensation expense in this category for the second quarter of 2006 was $125,000 compared to zero in the second quarter of 2005 consisting of expenses related to the expensing of stock options under FAS 123R which were granted in October 2005 and amortization of restricted stock. General and administrative expenses were reduced in the second quarter of 2006 by an exchange gain of $201,000 versus an exchange loss of $25,000 in the 2005 comparable quarter. The gain in 2006 relates to the appreciation of the Canadian dollar against the U.S. dollar and the fact that the inter company loans on the Canadian subsidiary are denominated in U.S. dollars.

Professional fees

Professional fees for the second quarter of 2006 were $302,000 compared to $101,000 for the comparable 2005 quarter, a 200% increase. Legal fees increased to $218,000 in 2006 from $6,000 in the second quarter of 2005. A large portion of the Q2 2006 legal expenses related to legal fees associated with the filing of the recently finalized prospectus, as well as the normal legal costs associated with the quarterly public company filings and costs associated with the recently completed financing transaction. Accounting fees decreased to $63,000 in 2006 from $89,000 in 2005. Other professional fees of $21,000 were incurred in the second quarter of 2006 for stock transfer agent fees and directors' fees.

Development expenses

Research and development expenses for the second quarter of 2006 were $370,000 compared to $141,000 for the comparable 2005 quarter, a 163% increase. Payroll and related expenses comprise 85% of the total research and development expenses in 2006 and over 90% in 2005. The increase in total R&D expenses is predominantly due to the hiring of additional developers to support the increased sales and marketing effort, which has produced a substantial increase in development projects.

Selling and marketing expenses

Sales and marketing expenses for the second quarter of 2006 were $939,000 compared to $396,000 for 2005, a 137% increase. The increased expenses are attributable to the significant effort undertaken in 2006 to raise awareness of the SWP and related products in the two large vertical markets, (a) gaming and entertainment and (b) financial services and enterprise software, which we believe hold the greatest opportunities. We hired additional sales personnel and customer support personnel increasing our personnel expenses to $704,000 in the second quarter of 2006 from $306,000 in 2005. Our travel and entertainment expenses related to sales and marketing decreased slightly to $77,000 in 2006, from $97,000 in 2005. We also increased our marketing and advertising efforts including participation in trade shows, attendance at trade conferences and investor and public relations.

Other income and expense

The other income amount in 2006 consists of a gain of approximately $615,000 due to the revaluation of the warrants previously carried as a liability on the balance. Upon the effectiveness of the resale registration statement on April 24, 2006, which included the shares of common stock underlying the warrants issued in the Series B Financing, the warrants were valued as of that date and the gain was charged to other income. 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 $12,000 in other income relating to the adjustment of the tax credits receivable balance in association with the filing of the 2004 tax returns.

Interest income

Interest income is derived from investing unused cash balances funds in short-term liquid investments. Average cash balances for the second quarter were higher in 2006 than in 2005, resulting in a higher level of interest income.

Interest expense

The small amounts of interest expense in the second quarters of both 2006 and 2005 relates primarily to bank charges and wire fees.

Foreign currency translation adjustment

The balance sheet of Innovations, a Canadian subsidiary of Sona Mobile, is translated into U.S. dollars on the date thereof using the official exchange rate on that date. Transactions that take place during the period are translated into U.S. dollars on the date of the transaction based on the official exchange rate on that date. The resulting difference in period income is treated as gain or loss due to currency translation during the period. The fact that there was a loss of $215,000 in the second quarter of 2006 reflects the weakening of the U.S. dollar relative to the Canadian dollar during the period. Prior period retained earnings on Innovations are translated at historical exchange rates while the rest of the financial statement line items are translated at current period rates, causing the foreign currency translation adjustment for the current period.

Comparison of six months ended June 30, 2006 and 2005

For the six months ended June 30, 2006, we had a comprehensive loss of $4.72 million compared to a comprehensive loss of $1.74 million for the six months ended June 30, 2005. Most of this increase is attributable to increased expenses for an expanded sales and marketing effort, including the related development and administrative costs of a larger company, as well as to the professional fees associated with quarterly and annual public company filings. The following table compares our consolidated statement of operations data for the six months ended June 30, 2006 and 2005:

	Six months ended June 30,	
	2006	2005
Net Revenue	$ 290,753	$ 259,006
Operating expenses		
Depreciation and amortization	16,787	415,936
General and administrative expenses	1,129,706	469,963
Professional fees	600,086	210,809
Development expenses	753,694	239,259
Selling and marketing expenses	2,239,647	730,208
Total operating expenses	4,739,620	2,066,175
Operating loss	(4,449,167)	(1,807,169)
Interest income	36,653	8,862
Interest expense	(1,965)	(2,859)
Other income and expense	(117,162)	—
Net loss	$ (4,531,642)	$ (1,801,166)
Foreign currency translation adjustment	(190,058)	63,308
Comprehensive loss	$ (4,721,699)	$ (1,737,858)

Revenue

Revenue for the six months ended June 30, 2006 was $291,000 compared to revenue of $259,000 for the six months ended June 30, 2005, an increase of 12%. Approximately 23% of the 2006 year to date revenue is attributable to continuing license subscriptions and the balance relates to new projects begun this year and recognition of deferred revenue for projects in progress.

Operating expenses

Total operating expenses for the six months ended June 30, 2006 were $4.74 million compared to $2.07 million for the six months ended June 30, 2005. The increased operating expenses are primarily attributable to the growth in sales, marketing and software development, in addition to increased professional fees related to being a public company.

Depreciation and amortization

Depreciation and amortization expenses for the six months ended June 30, 2006 were $17,000 compared to $416,000 in the six months ended June 30, 2005. In 2005, this expense related primarily to amortization of the software acquired in connection with the acquisition of Innovations in late 2003, which was fully written off in the six months ended June 30, 2005. The depreciation and amortization expense for the six months ended June 30, 2006 was composed of depreciation of fixed assets.

General and Administrative expenses

General and administrative expenses for the six months ended June 30, 2006 were $1,130,000 compared to $470,000 for the comparable quarter in 2005, a 140% increase. The increased expenses are attributable to the increased overhead structure required to support our sales and marketing and development efforts in 2006. We hired additional administrative, finance and accounting personnel, increasing our payroll related expenses to $456,000 in 2006 from

$225,000 in 2005. We leased office

space for a new corporate headquarters, sales and customer support office in New York and a development facility in Boulder, Colorado, increasing our rent to $335,000 in the six months ended June 30, 2006 from $40,000 in the six months ended June 30, 2005. As a result of increased staff and office space, our expenses for office related costs, communication, insurance and other administrative expenses also increased. Our communication expenses increased to $68,000 in the six months ended June 30, 2006 from $30,000 in the six months ended June 30, 2005. Our stock compensation expense in this category for the six months ended June 30, 2006 was $212,000 compared to zero in the six months ended June 30, 2005 consisting of expenses related to the expensing of stock options under FAS 123R and amortization of restricted stock grants. These options were granted in October 2005. General and administrative expenses were reduced in the six months ended June 30, 2006 by an exchange gain of $170,000 versus an exchange loss of $72,000 in the 2005 comparable period. The gain in 2006 relates to the appreciation of the Canadian dollar against the U.S. dollar and the fact that the inter company balances payable by the Canadian subsidiary to the U.S. parent are denominated in U.S. dollars.

Professional fees

Professional fees for the six months ended June 30, 2006 were $600,000 compared to $211,000 for the comparable 2005 first half, a 185% increase. Legal fees increased to $340,000 in 2006 from $104,000 in the six months ended June 30, 2005. A large portion of the legal expenses in the first half of 2006 related to legal fees associated with the filing of the recent registration statement that was declared effective in April 2006, as well as the normal legal costs associated with the quarterly public company filings and legal costs associated with the recently completed financing transaction. Accounting fees decreased slightly to $93,000 in 2006 from $101,000 in 2005. Other professional fees of $58,000 were incurred in the six months ended June 30, 2006 for stock transfer agent fees, directors' fees and recruiting expenses, as well as $107,000 of stock compensation expense related to the amortization of restricted stock granted to external board members.

Development expenses

Research and development expenses for the six months ended June 30, 2006 were $754,000 compared to $239,000 for the comparable 2005 quarter, a 215% increase. Payroll and related expenses comprised approximately 90% of the total research and development expenses in the first half of 2006, as well as the comparable period in 2005. The increase in total R&D expenses is predominantly due to the hiring of additional developers to support the increased sales and marketing effort, which has produced a substantial increase in the number of development projects.

Selling and marketing expenses

Sales and marketing expenses for the six months ended June 30, 2006 were $2.24 million compared to $730,000 for 2005, a 207% increase. The increased expenses are attributable to the significant effort undertaken in 2006 to raise awareness of the SWP and related products in the two large vertical markets, (a) gaming and entertainment and (b) financial services and enterprise software, which we believe hold the greatest opportunities. We hired additional sales personnel and customer support personnel increasing our personnel expenses to $1,573,000 in the six months ended June 30, 2006 from $512,000 in 2005. Our travel and entertainment expenses related to sales and marketing increased to $276,000 in 2006, from $132,000 in 2005. We also increased our marketing and advertising efforts to $150,000 in the first half of 2006 from $33,000 in 2005. This included participation in trade shows, attendance at conferences as well as investor and public relations expenses.

Other income and expense

The other expense amount of $117,000 in 2006 consists of other expense of approximately $598,000 related to the previously described write-off of purchased technology and $468,000 of other income relating to the revaluation of warrants carried as a liability on the balance sheet in accordance with EITF-0019. There is also a small other income amount of $12,000 relating to the adjustment of the tax credits receivable balance in association with the filing of the 2004 tax returns.

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Interest income

The interest income balance of $37,000 in the first half of 2006 is derived from investing unused cash balances in short-term liquid investments versus interest income of $9,000 in the first half of 2005. Average cash balances for the second quarter were higher in 2006 than in 2005, resulting in a higher level of interest income.

Interest expense

The small amounts of interest expense in the second quarters of both 2006 and 2005 relates primarily to bank charges and wire fees.

Foreign currency translation adjustment

The fact that there was a $190,000 loss in the first half of 2006 reflects the weakening of the U.S. dollar relative to the Canadian dollar during the period. Prior period retained earnings on Innovations are translated at historical exchange rates while the rest of the financial statement line items are translated at current period rates, causing the foreign currency translation adjustment for the current period. This compares to a gain of $63,000 for the first half of 2005, when the U.S. dollar strengthened against the Canadian dollar.

Comparison of the Year Ended December 31, 2005 and 2004

For the year ended December 31, 2005, we had a comprehensive loss of $6.8 million compared to a comprehensive loss of $654,000 for the year ended December 31, 2004. Our increased loss is attributable to building an organization and infrastructure to support our expanded sales and marketing effort and additional legal and accounting expenses related to becoming a public company. The following table compares our consolidated statement of operations data for the year ended December 31, 2005 and 2004.

	Year ended December 31	
	2005	2004
Net Revenue	$ 565,489	$ 401,536
Operating expenses:		

Depreciation and amortization	439,370	142,588
General and administrative expenses	1,348,461	174,790
Professional fees	927,425	93,859
Development expenses	894,287	211,359
Selling and marketing expenses	3,672,346	385,602
Total operating expenses	7,281,889	1,008,198
Operating income/(loss)	$ (6,716,400)	$ (606,662)
Interest income	76,415	1,137
Interest expense	(6,480)	(28,314)
Other income and expense	(100,020)	7,683
Net income/(loss)	$ (6,746,485)	$ (626,156)
Gain/(loss) on currency translation	(70,007)	(27,952)
Comprehensive income/(loss)	$ (6,816,492)	$ (654,108)

Revenue

Revenue in 2005 was $565,489 compared to revenue of $401,536 for 2004, an increase of 40.8%. 2005 revenue included $157,000 of licensing fees and $408,000 of project and support fees. Approximately 28% of the revenue is attributable to continuing license subscriptions and the balance relates mostly to new projects begun this year. Our new version of Sona Wireless Platform, MobileMarkets™ Enterprise Edition is currently in trials in 10 major financial institutions. We believe continuing increases in wireless IT spending and our continuing sales and marketing efforts will help drive revenue into 2006.

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Operating Expenses

Total operating expenses for 2005 were $7.3 million compared to $1.0 million for 2004. The increased operating expenses are primarily attributable to the growth in sales, marketing, and software development staff to support an expanded effort to market and sell the SWP and related products. The increased legal and accounting fees relate to the preparation and filing of required reports with the SEC including the Form 8-K/A, the proxy, our quarterly reports on Form 10-QSB, our annual report on Form 10-KSB and general corporate governance related to being a public company.

Depreciation and Amortization Expenses

Depreciation and amortization expenses, relating primarily to the cost of acquiring, developing and enhancing our suite of software products, including the SWP, MobileMarkets™ and ServiceDesk™, was $439,370 for 2005 compared to $142,588 for 2004, a 208% increase. The increase reflects the write-off of $416,000 representing the unamortized balances of the software rights and deferred development costs resulting from the acquisition of Innovations in November 2003. Depreciation expense for 2005 is $23,000.

General and Administrative Expenses

General and administrative expenses for 2005 were $1,348,461 compared to $174,790 for 2004, a 671% increase. The increased expenses are attributable to the increased overhead structure required to support our sales and marketing and development efforts in 2005. We hired additional administrative, finance and accounting personnel, increasing our payroll to $503,000 in 2005 from $13,000 in 2004. We leased office space for a new corporate headquarters, sales and customer support office in New York, a sales office in London and a development facility in Boulder, Colorado, increasing our rent to $278,000 in 2005 from $30,000 in 2004. As a result of increased staff and office space, our expenses for office expenses, communication, insurance and other related expenses also increased. Most notably, our communication expenses increased to $111,000 in 2005 from $31,000 in 2004. Our insurance expense increased to $81,000 in 2005 from $4,000 in 2004. General and administrative expenses also include the write-off of intangible assets in the amount of $85,000 in 2005 from the acquisition of the assets of SmartVideo.

Professional Fees

Professional fees for 2005 were $927,425 compared to $93,859 for 2004, an 888% increase. Legal fees increased to $497,000 in 2005 from $49,000 in 2004. The increase is mostly attributable to the preparation and filing of public company documents with the SEC. Accounting fees increased to $143,000 in 2005 from $44,000 in 2004. This increase is attributable to additional accounting work required for the public company filings in 2005. Other professional fees of $159,000 were incurred in 2005 relating to recruitment of new employees, an investor relations consultant, transfer agent fees, architectural fees paid in connection with the new office space and directors fees. Additionally, each new director elected in 2005 was granted 40,000 shares of restricted stock. The fair market value of this stock was amortized over the period of vesting. Professional fees expense includes a charge of $123,000 relating to the amortization of deferred stock based compensation for 2005.

Development Expenses

Research and development expenses for 2005 were $894,287 compared to $211,359 for 2004, a 323% increase. Payroll and related expenses comprise 92% of the total research and development expenses. The increase is predominantly due to the hiring of additional developers to support the increased sales and marketing effort, which has produced a substantial increase in development projects.

Sales and Marketing Expenses

Sales and marketing expenses for 2005 were $3,672,346 compared to $385,602 for 2004, an 852% increase. The increased expenses are attributable to the significant effort undertaken in 2005 to raise

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awareness of the SWP and related products in our two large vertical markets, (a) media, entertainment and gaming and (b) financial services, and enterprise software, which we believe hold the greatest opportunities. We hired additional sales personnel, sales consultants and customer support personnel increasing our payroll and related expenses to $2.2 million in 2005 from $271,000 in 2004. Our travel and entertainment expenses related to sales and marketing increased proportionately to $539,000 in 2005, from $38,000 in 2004. We also substantially increased our marketing and advertising efforts, including development of marketing literature, participation in trade shows, attendance at trade conferences, and advertising targeted to specific industries within the market segments where we focus. Our marketing, advertising and licensing expenses increased to $678,000 in 2005 from $1,600 in 2004.

Interest Income

Before the Merger, we had limited capital. As a result, we had only nominal interest income of $1,137 in 2004. Interest income of $76,415 in 2005 reflects the fact that, in the Merger, Sona-Washington, the accounting acquirer, acquired PerfectData's net cash assets, which were in excess of $1 million, and subsequently raised in excess of $5 million through the sale of series B preferred stock at the end of the second quarter. Interest income is derived from investing these funds in short-term liquid investments.

Interest Expense

Interest expense decreased from $28,314 in 2004 to $6,480 in 2005. In 2004, approximately two thirds of the interest expense related to interest on the convertible note with the remainder attributable mainly to bank fees and vendor interest. In 2005, the interest expense is entirely due to bank fees and vendor interest. We had no interest bearing debt in 2005.

Other income and expense

In 2005, other expense consisted of $100,020 relating to the December 31, 2005 revaluation of warrants carried as a liability on the balance sheet. The other income amount in 2004, relates to a Canadian tax credit for research and development. Under Canadian tax law, Innovations is entitled to a research and development tax credit equal to approximately 20% of its research and development expenses as reflected on its tax returns. The 2005 tax return has not yet been filed. The credits of $7,683 reflected for the 2004 period are based on Innovations' research and development expenses reflected on its tax return for 2003. Our policy is to record and recognize the tax credits at the time we file our tax return.

Loss on Currency Translation

The balance sheet of Innovations, our Canadian subsidiary, is translated into U.S. dollars on the date thereof, using the official exchange rate on that date. Transactions that take place during the period are translated into U.S. dollars on the date of the transaction based on the official exchange rate on that date. The resulting difference in period income is treated as gain or loss during the period due to currency translation. The fact that the loss was higher in the 2005 period compared to the 2004 period reflects the weakening of the U.S. dollar relative to the Canadian dollar. Balances payable from Innovations to us are denominated in U.S. dollars and account for the majority of the exchange loss in 2005.

Liquidity and Capital Resources

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 cash flow from operations. We have relied primarily on the sale of shares of equity to fund our operations. In view of our continuing losses and limited cash flow, our auditors in their report on our December 31, 2005

consolidated financial statements (included in our 2005 Annual Report on form 10-KSB) have stated that these continuing losses raise substantial doubt about our ability to continue as a going concern. 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. Based on our current level of operating expenses, we believe that the net proceeds from this financing, approximately $9.4 million, will be sufficient to fund our operations and capital requirements for the next 12 months. However, if our operating assumptions are incorrect or if we are required to increase our level of spending due to unforeseen circumstances, we may be required to seek an additional financing within that time frame.

Because of our limited revenue and cash flow from operations, we depend on financing transactions to support our working capital and capital expenditure requirements. Through June 30, 2006, we had accumulated losses of approximately $12 million, which were financed primarily through sales of equity securities. Since our inception in November 2003 through June 30, 2006, we have raised approximately $10.8 million in equity financing, including 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 have an exercise price of $2.025 per share and expire on July 12, 2007. The sale of these shares and the issuance of the warrants were in connection with a 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 for gross proceeds of approximately $10.1 million before payment of commissions and expenses.

At June 30, 2006, we had total cash and cash equivalents of $618,000 held in current and short-term deposit accounts. In addition, to raising additional capital in July 2006, we have centralized expense control by directing the chief financial officer to approve all travel expenses and all other expenses in excess of $5,000. We have also made significant reductions in our work force and continually review other operating expenses such as telecommunications and rent. At the same time, we continue to aggressively market our products and services, particularly to existing and former customers.

Our working capital at June 30, 2006 was negative $659,000, compared to our working capital of $5.1 million at June 30, 2005 shortly after the Series B financing for $5 million. Our current ratio at June 30, 2006 was 0.6 to 1 compared to our current ratio of 8.7 to 1 at June 30, 2005. 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 six months ended June 30, 2006, we had a net cash decrease of $668,000 attributable primarily to net cash used in operating activities of $3.6 million offset by net cash provided by investing and financing activities of $3.0 million. The primary components of our operating cash flows are net loss adjusted for non-cash expenses, such as depreciation and amortization, and the changes in accounts receivable, and accounts payable. The largest component of cash flow provided by financing activities was the proceeds from the Shuffle Master option exercise with accompanying warrants, which generated $3 million in gross proceeds.

There were minimal capital expenditures of $4,000 for the six months ended June 30, 2006. Approximately $94,000 of fixed assets was converted to operating leases in the first quarter of 2006..

At June 30, 2006, we had no indebtedness, other than accrued salaries from 2004 in the amount of $58,000 owing to our former chief executive officer.

At June 30 31, 2006 and December 31, 2005, we had commitments relating to office leases in New York City and Boulder, Colorado in the United States and Toronto, Canada, as well as some small amounts for office equipment leases. The current Toronto lease expires in April 2007. In New York, we have an office lease which runs through December 2007 and in London, a short-term lease, which ran to March 2006 and now continues on a month to month basis.

In January 2006, we sold 2,307,693 shares of our common stock to Shuffle Master for $3.0 million and issued to Shuffle Master an 18-month warrant to purchase 1,200,000 shares of our common stock at an exercise price of $2.025 per share. The sale of these shares and the issuance of the warrant were in connection with a strategic alliance distribution and licensing agreement between us and Shuffle Master.

In addition to raising additional capital in July 2006, we have centralized expense control by directing the Chief Financial Officer to approve all travel expenses and all other expenses in excess of $5,000. We have also made significant reductions in our work force and continually review other operating expenses such as telecommunications and rent. At the same time, we continue to aggressively market our products and services, particularly to existing and former customers. We cannot assure you that we will be able to successfully implement our plans to increase our revenue and reduce our expenses.

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 and have incurred net losses. Accordingly, we have not generated cash flow from operations and have primarily relied upon the sale of shares of our common stock and the Series B Preferred Stock financing to fund our operations. In view of our continuing losses, our auditors, in their report on our consolidated financial statements, have stated that these continuing losses raise substantial doubt about our 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.

Commitment and Contingencies

At June 30, 2006, we had commitments relating to office leases in New York City and Boulder, Colorado in the United States and Toronto, Canada, as well as some amounts for office equipment leases. The current Toronto office lease expires in April 2007. In New York, we have an office lease which runs through December 2007. Office lease payments, including additional variable operating expense charges, for the second quarters of 2006 and 2005 were approximately $202,000 and $32,000 respectively. Office equipment lease expenses for the second quarters of 2006 and 2005 were approximately $18,000 and $0 respectively.

Future lease commitments by year are as follows (2006 amounts are for six months):

Future Lease Commitments by Year
(US$)

	2006	2007	2008	2009	2010
Office Space Leases:					
United States (New York and Boulder)	$ 248,890	$ 500,915	$ 67,938	$ 74,732	$ 62,059
Canada	42,586	28,391	—	—	—
Total Office Space	291,476	529,306	67,938	74,732	62,059
Office Equipment	26,727	53,455	53,104	11,379	616

Total Lease Commitments	$ 318,203	$ 582,761	$ 121,042	$ 86,110	$ 62,675

In January 2006, while a selling security holding registration statement was pending review by the Securities and Exchange Commission, we entered into a strategic alliance licensing and distribution agreement with Shuffle Master under which we agreed to develop certain wireless gaming technology for Shuffle Master. In connection with that agreement, we sold 2,307,693 shares of our common stock and warrants to purchase up to an additional 1,200,000 shares of our common stock to Shuffle Master for $3.0 million. The proceeds from the sale of those securities were intended to provide us with the working capital we would need to fulfill our obligations under the agreement. Since we agreed to

register the purchased shares and the shares underlying the warrants, we included them in the pending registration statement. We were subsequently informed by the staff of the Commission that, because we included those securities in a pending registration statement, they were questioning the availability of the exemption from registration that we were claiming. The availability of the exemption requires that the transaction have a conclusion. Including the Shuffle Master securities in the pending registration statement raised the question whether the transaction with Shuffle Master ever concluded. The Commission suggested that we remove the Shuffle Master securities from the pending resale registration statement, which we did and the registration statement became effective April 24, 2006.

Notwithstanding that removal, if a court of competent jurisdiction were to ultimately determine that an exemption was not available, we may have to offer Shuffle Master rescission rights. In addition, we, and possibly some of our officers, may also be subject to penalties. However, we believe the sale of securities to Shuffle Master was exempt from the registration requirements of the Securities Act as a valid private placement transaction under Sections 4(2) and 4(6) of the Securities Act and will vigorously contend any claim to that contrary. Our belief is based on a variety of factors, including the following:

- Shuffle Master is a sophisticated accredited investor that paid for and took possession of legended securities;
- the negotiation of the strategic alliance agreement, including the sale of shares of our common stock to Shuffle Master, began before the registration statement was filed;
- the sale of the shares and the issuance of the warrant were effected in connection with the strategic alliance agreement and the proceeds of the sale were intended to assist us in our development of the technology we agreed to develop for Shuffle Master in accordance with that agreement;
- although we agreed to register the shares sold to Shuffle Master and the shares underlying the warrant we issued to Shuffle Master, we did not specifically agree to include those securities in the pending registration statement;
- we had not been soliciting or marketing any of the securities covered by the registration statement;
- the shares sold to Shuffle Master and those underlying the warrant were removed from the registration statement.

BUSINESS

Introduction

We are a wireless software and service provider that specializes in value-added applications to data-intensive vertical and horizontal market segments including the gaming industry. Through our subsidiaries, we develop, market and sell wireless data application software for mobile devices which enables secure execution of real time transactions on a flexible platform over cellular or Wi-Fi networks, and is compatible with most wireless devices that are Internet enabled. Our customer base includes casinos, race track and cruise ship operators on the gaming side, and corporations in the data-intensive verticals on the enterprise side. Our revenues consist of project, licensing and support fees generated by our flagship Sona Wireless Platform™ (SWP) and related vertical wireless application software products.

We are a Delaware corporation. Our predecessor, Sona Mobile, Inc., commenced operations in November 2003. On April 19, 2005, which we refer to as the ''Merger Date,'' pursuant to an Agreement and Plan of Merger dated as of March 7, 2005, Sona Mobile, Inc. merged with and into PerfectData Acquisition Corporation, a Delaware corporation and a wholly-owned merger subsidiary of PerfectData Corporation, a then inactive publicly held Delaware corporation. In connection with the merger with PerfectData, on the Merger Date,

- All but one of PerfectData's directors and officers resigned and Sona's nominees were elected to our Board of Directors; and officers designated by Sona were elected by our Board; and
- the former shareholders of Sona received shares of our Series A Convertible Preferred Stock, convertible into shares of our common stock representing approximately 76% of our then issued and outstanding common stock on a fully diluted basis.

As a result, the merger has been accounted for as a reverse merger with Sona Mobile, Inc. deemed to be the accounting acquirer. In connection with the merger, the merger subsidiary changed its name to Sona Mobile, Inc. and, on November 17, 2005, we changed our corporate name from PerfectData to Sona Mobile Holdings Corp.

We market our products and services principally to two large vertical markets:

- Gaming and entertainment. We propose to deliver casino games wirelessly in designated areas on a casino property to offer real-time, multiplayer games that accommodate an unlimited number of players and to deliver games on a play-for-free or wagering basis (where permitted by law) on mobile telephone handsets over any carrier network. 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 software for the data-intensive investment banking community and client-facing applications for the retail banking industry.

We have sales offices in New York, New York and Toronto, Canada and research and development operations in Boulder, Colorado and Toronto. Our principal executive office is located at 825 Third Avenue, 32nd Floor, New York, New York 10022 and our telephone number is (212) 486-8887. Our Web address is www.sonamobile.com.

Growth Strategy

We believe that the two essential components for long-term success in the highly competitive wireless application software market, are focus and expertise. Our strategy is to leverage our unique expertise in secure, real-time mobile solutions and be singularly focused on developing advanced

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wireless applications aimed at increasing productivity, efficiency and revenue generating potential of our customers. Our growth strategy includes the following key components:

- To take advantage of the growth and the latest trends in the gaming and entertainment market by leveraging our expertise in wireless applications. Table games, sports books, lotteries, horse racing, and other types of gaming are all portable and are expected to be increasingly offered in wireless format.
- To develop and market best-of-breed wireless gaming and entertainment applications that provide additional revenue sources and content distribution channels to casino operators and other businesses in the gaming and entertainment sector.
- To partner with leading content providers in the gaming and entertainment space enabling delivery of comprehensive solutions combining advanced wireless technology with popular content to our customers.
- To form strong and lasting business relationships, directly and through our strategic partners, with the leading casino operators in the world and work closely with them in aligning our wireless gaming solutions to the needs of their end-users.
- To leverage our technology across a wide range of end-markets. While our primary focus will remain on gaming and entertainment markets, we will continue pursuing select applications in the enterprise space capitalizing on the increasingly mobile nature of modern work force and necessity to expand PC-based corporate applications to a mobile device.
- To continuously search for best-of-breed technology to be incorporated into our products so that these products will remain adaptable as market requirements change.
- To increase our international presence based on wide acceptance of wireless gaming and favorable legal environment in several large international markets, including Macau, Europe and Asia.

Mission Statement

Our mission is to allow widely distributed users and subscribers to use the standards based SWP, a secure client-server wireless development environment, to achieve real-time secure wireless transactional solutions to their business requirements and consumer applications, and to ultimately become the de facto industry standard.

We have identified specific market segments in the wireless arena that demand secure real-time, live and accurate information, and which also require transactional capabilities and interaction with this information. These markets include but are not limited to wireless gaming and entertainment, financial services, and businesses that require extension of enterprise applications to their mobile work force.

We are committed to providing solutions that would generate new revenue streams and cost saving opportunities to our customers in gaming, financial and enterprise sectors by allowing them to securely extend data access and transaction capabilities to end users and employees.

Our approach is to aggregate best-of-breed technology, data and content into our device-independent SWP and application software, which we believe will enable customers to extend the functionality of their current wireless devices.

Our software products are developed from the ‘‘ground up’’ using the standards based SWP, a secure client-server wireless development environment. The SWP consists of distinct client-side and server-side software development kits (SDKs). These SDKs work together to produce compelling, intelligent client application software that deliver optimum wireless performance using our Mobile Multi-Threading™ technology on host devices without compromising performance or security.

We intend to continue our development and implementation of the SWP in a manner that will enable a multitude of separate and distinct applications to co-exist and function seamlessly on hand held business devices across a service provider’s global network.

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To enable this functionality, we intend to extend the Sona Wireless Application Framework across applications and devices with a common core, allowing for security, transport, administration and billing. The kernel of this framework exists in the form of the SWP and new elements and connectors are being prioritized and launched on an ongoing basis.

Gaming and Entertainment

In January 2006, we entered into a strategic alliance distribution and licensing agreement with Shuffle Master, Inc., 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 have agreed to develop a Shuffle Master-branded wireless gaming platform powered by Sona’s SWP for in-casino use, which would feature handheld versions of Shuffle Master's proprietary table game content as well as other popular public domain casino games. These products are in development and currently expected to be commercially available in late 2006.

On September 1, 2006, the company entered into a Private Label Partner Agreement with Symbol Technologies, Inc. pursuant to which the company can purchase certain wireless solution products to support the company's development of a secure wireless handheld gaming system. In connection therewith, Symbol will provide sales and technical education and certification training to the company.

Casino On Demand™

The Casino On Demand wireless gaming delivery system will enable both in-casino wireless gaming, as well as off-property wagering from mobile devices within areas where mobilized gaming is permitted. Casino On Demand will include a variety of table game selections including several of Shuffle Master's proprietary titles as well as a robust race and sports book offering. Built on the award-winning SWP, Casino On Demand realistically replicates table game play on secure handheld devices while providing casinos with the ability to dramatically increase the gaming activity taking place. We believe this will provide a versatile, efficient way for casinos to expand their gaming services without increasing their gaming floors.

MobileTV™ and Sona MediaPlayer™ for Blackberry®

Using our patent pending mobile media player and Multi-Threading™ technology, we have made it possible for users to access and view live TV and on-demand video, news and music content on their handheld device. Our entertainment application software products also give content providers a new platform to sell market and distribute their broadcast content to customers in a mobile format that is true to their programming. The key differentiator of our entertainment strategy is wrapping the entire viewing experience with interactive data points supplied through the use of our Multi-Threading™ technology. We believe that particular types of information will be purchased by retail customers, including: headline news clips, sports clips, full length sporting events, entertainment news, music videos, etc. In addition, we believe that there is significant demand in the financial services sector for wireless access to analyst calls, morning market calls, and other time-sensitive financial markets news. By partnering with content providers, we plan to offer the ability to view streamed video in real-time on most wireless devices (JAVA phones, PDAs, and SmartPhones).

We have developed what we believe to be the first-ever Media Player™ for BlackBerry®, a software application designed exclusively to offer multimedia applications on the latest generation of RIM devices. It is designed for near TV quality playback of synchronized video and audio files. Users can take advantage of a download-and-play method to receive multimedia files.

Financial Services

Financial markets are open 24 hours a day, five days a week, and are often prone to volatility. Financial institutions and professionals are demanding market related information 24 hours a day, seven days a week, as well as cost-effective mobile solutions, in order to increase information visibility,

service availability, productivity, risk management and, ultimately, profitability. For these enterprises, we have developed application software products that deliver in real-time information that may be required by professionals in the finance sector, including traders, risk managers, investment bankers and stock brokers. Such information takes the form of live market data and news, proprietary data and risk systems, research, internal Web casts, as well as trade execution and regulatory compliance. With the convergence of technologies, devices, connectivity, availability and pricing, there is now an opportunity to deliver financial and business data services in a wireless format, which meets the needs of the end users in both the professional and retail space.

In the wireless data market place, there are many technology companies providing solutions. However, we believe most of these providers lack an accurate understanding of their customers' requirements, resulting in the following flaws:

- Technology driven. Many technology companies provide their clients with complex technology products rather than solutions that meet their unique requirements — ease-of-use, timely data and reliability.

- Single technology delivery. Most technology companies offer only one common technology to deliver such data, whereas varying types of data will require different modes of delivery.
- Narrow product. Competitors offer narrow products rather than robust and customer-driven products. These narrow products are designed to meet only specific requirements, leaving the customer to cobble together an array of products on varying platforms to replicate the workplace environment.

As an alternative, we offer financial services companies the following products and services:

Sona Mobile Markets™

Sona Mobile Markets™ is a suite of application software programs that we believe answers the needs of trading, corporate finance and research professionals in the financial services industry. This suite provides real-time market data, quotes, graphs, portfolios, watch lists, news and trading transactions for the financial marketplace. Sona Mobile Markets™ is an ‘‘out-of-the-box’’ product enabling mobile access to business-critical information previously only available to financial market professionals on the trading floor. This product serves as an access point for a full array of financial services comprised of carefully selected technologies, including: real-time streaming of prices, up-to-the-second news, market analysis, research and more, all combined into one device and benefiting from complete synergy with a user’s workplace systems. While Sona Mobile Markets™ currently targets the financial services market, we believe that it can rapidly be modified to deliver content to different markets.

Sona TransAct™

Sona TransAct™ is an application software program that allows wireless device users to perform look-up functions and process transactions in a secure environment. TransAct’s primary function is to enable traders to execute trades in real-time from their wireless devices. However, we believe that this application program can be modified to enable any type of wireless transaction (wireless payments, interacting with corporate systems, etc.).

Enterprise Software

Our wireless enterprise software products allow mobile workers to access all their critical applications from their handheld device and interact with enterprise data systems from anywhere. Whether involving replication of corporate help desk software, capturing inspection data or transmitting any proprietary programs and information, we believe that our wireless enterprise application software product make working outside the office simple and efficient.

The emergence of a new generation of mobile computers has compelled enterprises to deploy mobile applications software in many areas. Mobile employees can access enterprise data and

applications and transact with them while in the field providing increased efficiency, productivity, employee satisfaction, and responsiveness.

We believe that our software products can be seamlessly integrated with existing infrastructure and create efficiency gains by allowing employees in the field to spend less time on administrative tasks as follows:

• User interface features such as pre-populated fields, check-boxes and selectable menus reduce time requirements.
• Data is captured once and transmitted to a central repository immediately via a wireless data connection or through an end-of-day synchronization.
• Client history or site information may be pre-loaded for reference for faster response.
• Custom features are easily incorporated into any application, including scheduling, route planning and employee visibility.

Sona Mobile Workflow and Mobile Forms™

This application software allows organizations with mobile workers to capture data anywhere utilizing PDAs, Rugged PDAs and SmartPhones instead of entering data into paper based forms or on costly industrial notebook computers on a regular basis, with a need to update enterprise databases. Sona Mobile Forms™ allows companies to simplify the process of building mobile electronic forms for hand-held devices effortlessly. This application eliminates the cumbersome effort of transferring traditional paper based forms into electronic formats across Palm, Pocket PC, RIM Blackberry or Tablet PC platforms.

Sona Service Desk™

As an example of the modular flexibility of our technology, we have combined the Mobile Workflow,™ Sona TransAct™ and our Mobile Array Technology™ software to launch our mobile customer relations manager and Help Desk/™ Service Desk™ software applications. We believe that these new programs extend the functionality of market leading trouble management and sales force automation software packages like Remedy, Peregrine, salesforce.com and Siebel software to RIM Blackberry, Symbian and Pocket PC devices.

We believe that Sona Service Desk™ provides the mobile foundation for an integrated, ‘‘end-to-end’’ approach to information technology service management. This product wirelessly enables a mobile work force to submit, monitor, and manage help desk cases, change tasks, and asset and inventory records. Sona Service Desk™ also indicates which business services are impacted by a given incident or problem by sending trouble tickets to your wireless device of choice. Sona Service Desk™ allows the user to determine priorities based on business need and respond within seconds to address those priorities.

The value proposition for Sona Service Desk™ is the following:

• Increases the adoption of Help Desk features for better trouble shooting.
• Improves productivity and effectiveness of field service representatives.
• Improves the product data quality for forecasting, ordering, performance evaluation and customer service requests.
• Is scalable and adaptable to customer requirements.

Sona Service Desk™ takes the capabilities of the enterprise’s ‘‘help desk’’ software and builds a tailored interface for the wireless handheld device of choice. This product is designed for the real world and seamlessly delivers the applications of an enterprise to wireless devices in a personalized fashion. We believe that this product minimizes downtime and maximizes productivity. With Sona Service Desk,™ information technology staff can wirelessly access the same help desk they know and use in their office from wherever they may be located. By utilizing our Multi-Threading™ technology, users can run Mobile Help Desk in the background while accessing other key information and applications on their wireless devices, such as short messaging services (SMS), e-mail and voice services.

SalesMaster™

Sona's SalesMaster™ application software is designed to give sales executives mobile access to their sales force automation application (SFA). Our product is built on the SWP and we believe it will easily integrate into the most widely used SFA/CRM systems — be it hosted / on-demand or deployed, including salesforce.com, Siebel (in prototype) and NetSuite (in prototype).

We recognize the value in mobilizing business processes, rather than simply mobilizing applications. Whereas most of our competitors approach mobilizing SFA from a pure ''mobilize the application'' perspective, we approach mobilizing SFA from a business process perspective, with the aim of creating a product that addresses all of the needs of the mobile sales executive, some of which are addressed by particular SFA applications. Our SalesMaster™ product is device agnostic, has on-line and off-line capabilities, integrates seamlessly to back-end systems and is easy to install and manage.

Technology

We provide ''end-to-end'' wireless software products to our customers. Our products rely on standards-based, proprietary J2EE-based SWP, Applications Programming Interfaces (API), Software Developer Kit (SDK) and SonaSlim™ Client Plug-ins to provide ''end-to-end encryption,'' avoiding the need to decrypt and re-encrypt sensitive data, as is required by competing technologies. We believe that this ''direct connect'' approach, using ''slim'' client technology, dramatically increases application security and speed, thus enhancing the customer experience.

The SWP platform is deliverable to partners as a ''plug-and-play'' system that includes all necessary hardware and software. We believe that the SWP platform is configured to our clients' needs and integrates seamlessly with legacy systems and all content and presentation requirements, notably:

- Wireless connection with existing terrestrial networks with no fundamental changes to back-end systems;
- API Integration to any back-end trading, billing or other legacy systems;
- API Integration to most third party systems or applications (profiling, IM, chat, CRM, etc.);
- Integration of any defined content;
- Creation or modification of required features;
- Full customization on the terminal side: special features, graphical user interface (GUI), look and feel' etc. We are actively marketing four core wireless building-block products that ride on the SWP. Each of these building blocks is targeted to specific markets; however, each can be modified easily to address similar needs in different markets;
- Compatibility with most wireless devices that are Internet enabled.

Incumbent in all of our products is the notion that technological development follows many threads. With the experience of working for and with various mobile networks around the world, we believe that we have an appreciation and understanding of what network operators require. As a result, our software products are designed to be 'network friendly', only transposing necessary data, i.e. changes, updates etc, which we believe results in a lower cost of ownership and a better utilization of network resources and bandwidth.

Our expertise has earned us the 2004 Frost & Sullivan Award for Technology Innovation of the Year for the SWP, version 2.5 and the Sona Mobile Markets™ product set as well as accreditation by Research in Motion (RIM), Microsoft, Palm Source, Vodafone, O2, and Cingular.

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Sales and Marketing

We market our products to some of the leading casino, race track and cruise ship operators as well as mid and large size enterprises in the data intensive verticals including the financial services and insurance industries. We utilize a comprehensive distribution channel strategy in order to penetrate our target markets as rapidly as possible and to reach a significantly high number of users, while seeking to keep resource consumption low. Our channel partners represent an essential component of our sales and marketing strategy. We pursue sales alliances and reseller arrangements with the following categories of businesses:

- Providers of gaming hardware and content;
- Cellular telephone operators, who could take SonaMobile Markets™, Sona Mobile TV™ and the SWP to their client bases, satisfying both the needs of their enterprise clients in this vertical space and their own need to increase revenues and usage of data services;
- IT systems integration and hosting companies — firms that can add our products to their integration services in their geographic regions;
- Wireless device marketing and distribution companies;
- Hardware and operating systems software vendors;
- Vertical specific channel companies having significant client bases and brands in the financial services vertical space; and
- Technology providers.

We cannot assure you that our marketing and sales efforts will result in definitive business arrangements with any of these companies or if we do enter into any such arrangements, that such arrangements will be advantageous or profitable for us.

Product Development Strategy

We seek to operate according to the stringent requirements for providing secure execution of real time transactions over wireless delivery systems. We have developed implementation processes and procedures that we believe surpass requirements of the typical business environment in our target vertical markets. Our strategy seeks to deliver our software products worldwide in a flexible architecture. This flexible approach allows clients to select the approach best suited to them. We have combined a straightforward installation process with a hosting capability we believe to be world class. Our solutions are supported by industry leading systems integrators and support teams.

Our products undergo rigorous stress-testing and quality assurance cycles internally before deployment. We also seek to have our business and technology partners measure the SWP by their own standards. To validate this philosophy, the SWP has been submitted to several quality assurance procedures. In 2004, Vodafone contracted National Software Testing Laboratories, Philadelphia, PA, USA) to analyze and accredit the SWP’s performance on the Vodafone wireless data network as well as RIM devices. Having successfully completed this process, we are the first third party software vendor accredited on the Vodafone network and on RIM devices.

In early 2005, PalmSource, Inc., the developer of the Palm OS mobile device operating system, requested that Sona Mobile Markets™ be tested and accredited for performance on wirelessly enabled Palm devices. This application program was tested and approved for distribution to Treo users. Upon successful completion of an in-house accreditation procedure, our products were approved for usage on the Cingular Wireless data network. Most recently, Sona Mobile Help Desk,™ a trouble ticketing application for BlackBerry devices based on the Remedy application, has been submitted for accreditation by BMC Software's third party testing contractor, Product Quality Partners, Inc. (Pleasanton, CA, USA). Sona's BlackBerry module passed the Quality Assurance test and has been officially endorsed by BMC Software.

We are committed to deploying software products that surpass not only industry standards for performance and resilience, but also meet the expectations of our partners through independent testing and verification. We believe that this distinguishes us from competing wireless software providers.

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With production proven installation processes, installing our SWP can be done by the client. The installation processes are documented in the Installation Guide Box with easy to follow steps and testing procedures.

Competition

We compete in the highly competitive business of wireless enterprise application software, mobile and wireless telecommunications, systems integration and professional services. The competition is from a broad range of both large and small domestic and international corporations. Most of our competitors have far greater financial, technical and marketing resources than we do.

In the mobile gaming and entertainment industry, our competition includes but is not limited to, Cantor Fitzgerald, Diamond I, FortuNet, International Game Technology, and Phantom Fiber Corporation. In the enterprise and financial services sector, our competitors include @Hand Corp, Dexterra, Defywire, Sybase, Infowave Systems and Novarra.

We believe that our principal competitive advantages are our partners, our focus and our expertise. We are focused on wireless applications based on our broad understanding of wireless technology and how best to leverage wireless technology to create new revenue streams for our customers and increase their productivity and efficiency. The competitive factors important to us are our technology, development and engineering expertise, subject matter expertise, customer support, distribution channel and customer relationships. Industry competitive factors include, but are not, limited to, technology, engineering capability, customer support, breadth and depth of strategic relationships, financial condition, and marketing initiatives. We seek to leverage the quality of our development team, the depth and breadth of our customer relationships, and our ability to respond quickly to change and respond in order to be competitive and successful.

Research and Development

We maintain our research and development operations in Toronto, Canada and Boulder, Colorado. At October 31, 2006, we employed 18 persons in research and development and engineering. We find it advantageous to have the majority of our research and development activities in Toronto due to the abundance of available, affordable and talented software engineers in addition to the favorable tax conditions associated with software research and development in Canada. Total costs incurred in research and development amounted to approximately $370,000 for the three months ended June 30, 2006, $894,000 for the year ended December 31, 2005 and $211,000 for the year ended December 31, 2004.

Intellectual Property

Our success and ability to compete effectively are dependent in part upon our standards based and proprietary technology. We rely on a combination of copyright, provisional patent pending, trademark and trade secret laws, as well as nondisclosure agreements and other contractual restrictions, to establish and protect our proprietary rights.

Employees are required to execute confidentiality and non-use agreements that transfer any rights they may have in copyrightable works or patentable technologies to us. In addition, prior to entering into discussions with potential business partners or customers regarding our business and technologies, we generally require that such parties enter into nondisclosure agreements with us. If these discussions result in a license or other business relationship, we also generally require that the agreement setting forth the parties' respective rights and obligations include provisions for the protection of our intellectual property rights. For example, the standard language in our agreements provides that we retain ownership of all patents and copyrights in our technologies and requires our customers to display our copyright and trademark notices.

''Sona'' is a registered trademark of ours. We have filed a patent application on the Sona MediaPlayer™ for Blackberry®, however, we may not be successful obtaining the patent for which we have applied. In addition, we have applied for federal registration of other marks. However, we may not be successful in obtaining the service marks and trademarks for which we have applied.

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In addition, pending provisional patents may not provide us with any competitive advantages and may be challenged by third parties. Our practice is to affix copyright notices on our software and product literature in order to assert copyright protection for these works.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to duplicate aspects of our products or to obtain and use information that we regard as proprietary. Our steps to protect our proprietary technology may not be adequate to prevent misappropriation of such technology, and may not preclude competitors from independently developing products with functionality or features similar to our products. If we fail to protect our proprietary technology, our business, financial condition and results of operations could be harmed significantly.

Companies in the software and wireless application services and wireless industries have frequently resorted to litigation regarding intellectual property rights. We may have to litigate to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of others' proprietary rights. From time to time, we have received, and may receive in the future, notice of claims of infringement of others' proprietary rights. Any such claims could be time-consuming, result in costly litigation, divert management's attention, cause product or service release delays, require us to redesign our products or services or require us to enter into royalty or licensing agreements. If a successful claim of infringement were made against us and we could not develop non-infringing technology or license the infringed or similar technology on timely and cost-effective basis, our business could suffer.

Employees

At October 31, 2006, we had 30 full-time employees. Approximately eight of our employees are engaged in sales, sales support and marketing, four are engaged in executive management, finance and administration, and eighteen in engineering. No employees are covered by a collective bargaining agreement. We believe that we have a good relationship with all of our employees.

Properties

We lease a total of approximately 6,000 square feet of office space for sales, support, research and development, accounting and administrative functions. Of this total, we lease

- approximately 2,800 square feet in Toronto, Canada for sales, research and development, administrative and accounting functions under a lease expiring in April 2007, at an annual rental of approximately $84,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building;
- approximately 500 square feet in New York, New York, for our corporate headquarters and sales and support functions which we currently lease on a month-to-month basis, at a monthly rent of approximately $12,000. The Company was released from its prior lease obligation in New York, New York at the end of September 2006. This lease previously ran to December 2007; and
- approximately 2,600 square feet of office space in Boulder, Colorado for research and development under a lease expiring in October, 2010, at annual rental of approximately $61,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building.

MANAGEMENT

Executive Officers and Directors

The following table sets forth the names, ages and principal position of our executive officers and directors as of October 31, 2006:

Name	Age	Position
Shawn Kreloff	43	Chief Executive Officer, Chairman of the Board and Director
Stephen Fellows	40	Chief Financial Officer
Lance Yu	36	Senior Vice President and Chief Technology Officer
Paul C. Meyer	59	Director
M. Jeffrey Branman	51	Director
Michael Fields	46	Director

Shawn Kreloff, 43, was appointed Chief Executive Officer on May 5, 2006. Mr. Kreloff has been our Chairman of the Board and a director since September 2004. From 2003 to September 2004, and from 2001 to September 2002, he served as a managing director of, and investor in, Jumpstart Capital Partners, From September 2002 to June 2003, Mr. Kreloff was executive vice president of sales, marketing and business development of Predictive Systems, Corp. (Nasdaq:PRDS), a network infrastructure and security consulting company. Predictive Systems was sold to INS in June 2003. Mr. Kreloff was a founding investor of Insight First, a company that provides web analytics software, which was sold to 24/7 Media (Nasdaq: TFSM) in 2003. From 1999 to 2002, he served as executive vice president of business development of Opus360 Corporation (Nasdaq:OPUS), as well a founding investor, Opus360 was acquired by Artemis International Solutions (OTC: AMSI) in 2002. From September 2004 to January 2006, Mr. Kreloff served on the board of directors of Secured Services, Inc. Mr. Kreloff also served on the board of directors of Hudson Williams, a computer consulting firm, from 1999 through 2004, when it was acquired by Keynote Systems. (Nasdaq: KEYN). From 1996 through 1998 Mr. Kreloff served as founder, Chairman and CEO of Gray Peak Technologies, Inc. Gray Peak was sold to USWEB (Nasdaq: USWB) in 1998 for over $100 Million. Mr. Kreloff holds a BS degree in Operations Management from Syracuse University, 1984.

Stephen Fellows, 40, was appointed Chief Financial Officer on May 16, 2006. Mr. Fellows joined Sona Mobile in August 2005 as VP Finance & Corporate Controller. Mr. Fellows joined Sona Mobile from 3Com Corporation where he was Director of Finance of the corporate accounting group in Marlborough, MA. Prior to that Mr. Fellows spent 5 years as the Director of Finance & Operations of 3Com's Canadian subsidiary. Mr. Fellows joined 3Com from Pennzoil Corporation where he spent time in the international mergers and acquisitions group in Houston, Texas, as well as four years as controller for Pennzoil Canada. Mr. Fellows holds a Bachelor of Business Administration degree from Wilfrid Laurier University in Waterloo, ON, Canada and earned his Chartered Accountants designation while articling with Arthur Andersen & Company in Toronto.

Lance, Yu, 36, has been our Senior Vice President and Chief Technology Officer since our inception in November 2003. From January 2002 through November 2004, he was the Vice President — Technology of Sona Innovations, Inc. which was purchased by Sona-Washington from Baldhead Systems, a professional services, web design and business consulting organization based in Toronto, Canada, first as a Senior Project Manager and then as Vice President — Technology.

Paul, C. Meyer, 59, was appointed to the Board on March 28, 2006. He has served as President of Shuffle Master, Inc., a publicly traded casino gaming supply company, since October 2003 and was appointed as Shuffle Master's chief operating officer in February 2004. Mr. Meyer served as president of the Integrated Solutions Division of Concurrent Computer Corporation from December 2000 until October 2003.

M. Jeffrey Branman, 51, is the President and owner of Interactive Commerce Partners LLC, a provider of financial advisory services to companies in the interactive commerce technology and

content, merchandising, and direct marketing businesses. Mr. Branman founded Interactive Commerce Partners in March 2005. From April 2000 through March 2005, Mr. Branman served as President and founder of Interactive Technology Services, a subsidiary of Comcast Corporation, a developer, manager and operator of broadband cable networks. Interactive Technology Services served as financial advisor to Interactive Technology Holdings, LLC, a joint venture of Comcast Corporation and QVC, Inc. which made venture capital investments in interactive commerce technology and content companies. Portfolio companies, where Mr. Branman served on the board of directors, included GSI Commerce, Inc. [NASDAQ: GSIC], Commerce Technologies, Inc. and Scene7, Inc. From March 1996 to February 2000, Mr. Branman was Senior Vice President Corporate Development of Foot Locker, Inc., a retailer of athletic footwear and apparel, and additionally was Chief Executive Officer of FootLocker.com, the internet and direct marketing subsidiary of Foot Locker from October 1988 to February 2000. Mr. Branman currently serves on the board of directors of GSI Commerce.

Michael Fields, 46, was appointed to the Board on August 7, 2006. He is currently the Executive Vice President of Action Gaming, Las Vegas, where he is responsible for maintaining a multi-million dollar recurring revenue stream as well as expanding video poker boundaries to the legal aspects of the internet. Prior to working with Action Gaming, Mr. Fields held, from February 2001 to December 2005, the position of Director of Product Marketing with International Game Technology, Las Vegas, where he was responsible for oversight and strategic planning and development of video poker products and popular wide-area progressive games. Mr. Fields holds a degree in Business Administration from the University of South Carolina.

There are no family relationships among our directors or among our executive officers.

Committees of the Board of Directors

Our Board of Directors has established two standing committees to assist it in discharging its responsibilities: the Audit Committee and the Compensation and Nominating Committee.

Audit Committee

The Audit Committee reviews our accounting functions, operations and management, our financial reporting process and the adequacy and effectiveness of our internal controls and internal auditing methods and procedures. The Audit Committee represents the Board in overseeing our financial reporting processes, and, as part of this responsibility, consults with our independent public accountants and with personnel from our internal audit and financial staffs with respect to corporate accounting, reporting, and internal control practices. The Audit Committee recommends to the board the appointment of our independent public accountants and is responsible for oversight of our independent public accountants. The current members of the Audit Committee are M. Jeffrey Branman (Chairman) and Paul C. Meyer. The Audit Committee held eight meetings during 2005.

Audit Committee Financial Expert

The Board has determined that M. Jeffrey Branman qualifies as an ‘‘audit committee financial expert,’’ as defined in the Item 401(e)(1) of Regulation S-B, and is independent for purposes of Item 401(e)(1) (ii) of Regulation S-B.

Compensation and Nominating Committee

The function of the Compensation and Nominating Committee is to review and recommend the compensation and benefits payable to our officers, review general policy matters relating to employee compensation and benefits and administer our various stock option plans and other incentive compensation arrangements. The Committee will also seek to identify individuals qualified to become members of the Board and make recommendations to the Board of nominees to be elected by stockholders or to be appointed to fill vacancies on the Board. The current members of the Compensation and Nominating Committee are Paul C. Meyer (Chairman) and M. Jeffrey Branman.

Code of Ethics

Our Board has adopted a Code of Ethics that applies to all of our employees, and certain provisions of the Code are particularly directed to our Chief Executive Officer, our Chief Financial Officer and financial managers. The Code provides written standards that we believe are reasonably designed to deter wrongdoing and promote: honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interests between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents that we file with or submit to the SEC or in other public communications we make; compliance with applicable laws, rules and regulations; prompt reporting of internal violations of the Code; and accountability for the adherence to the Code.

EXECUTIVE COMPENSATION

The following table provides certain summary information concerning the compensation earned for services rendered to us in all capacities during each of the fiscal years indicated by the persons who served as our Chief Executive Officer and our Senior Vice President and Chief Technology Officer during the fiscal year ended December 31, 2005. No other executive officer earned salary and bonus in excess of $100,000 during the fiscal year ended December 31, 2005. See ''Certain Relationships and Related Party Transactions'' for information as to consulting fees paid and options granted to certain officers in fiscal 2005.

Summary Compensation Table

	Annual Compensation		Long-Term Compensation Securities Underlying	All Other Compensation
Name and Principal Position	Year	Salary ($)	Options (#)	($)
John Bush, President and Chief Executive Officer[1]	2005	$ 190,479	87,665	$ 106,666(2)
	2004	0	—	$ 37,574(2)
	2003	0	—	0
Shawn Kreloff, Chairman, Chief Executive Officer and President[3]	2005	$ 9,808	250,000	$ 140,808(4)
	2004	$ 0	—	—
Lance Yu, Senior Vice President – Chief Technology Officer[5]	2005	$ 137,946	150,000	$ 5,453(6)
	2004	$ 54,645		