STEELCASE INC
Form 10-Q
June 26, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended May 29, 2015
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number 1-13873

STEELCASE INC.
(Exact name of registrant as specified in its charter)

Michigan	38-0819050
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
901 44th Street SE Grand Rapids, Michigan (Address of principal executive offices)	49508 (Zip Code)

(Registrant's telephone number, including area code) (616) 247-2710
None
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of June 19, 2015, Steelcase Inc. had 90,192,901 shares of Class A Common Stock and 31,950,413 shares of Class B Common Stock outstanding.

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FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 29, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

STEELCASE INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(in millions, except per share data)

	Three Months Ended	
	May 29, 2015	May 30, 2014
Revenue	$705.5	$723.1
Cost of sales	485.0	504.5
Restructuring costs (benefits)	3.9	(10.5)
Gross profit	216.6	229.1
Operating expenses	185.1	191.9
Restructuring costs (benefits)	(2.0)	0.8
Operating income	33.5	36.4
Interest expense	(4.4)	(4.4)
Investment income	0.4	0.4
Other income, net	2.0	3.5
Income before income tax expense	31.5	35.9
Income tax expense	11.5	14.9
Net income	$20.0	$21.0
Earnings per share:		
Basic	$0.16	$0.17
Diluted	$0.16	$0.17
Dividends declared and paid per common share	$0.1125	$0.1050

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(in millions)

	Three Months Ended	
	May 29, 2015	May 30, 2014
Net income	$20.0	$21.0
Other comprehensive income (loss), net:		
Unrealized gain on investments	—	0.1
Pension and other post-retirement liability adjustments	(1.1)	(1.3)
Foreign currency translation adjustments	(3.6)	0.7
Total other comprehensive loss, net	(4.7)	(0.5)
Comprehensive income	$15.3	$20.5

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)

	(Unaudited) May 29, 2015	February 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$110.5	$176.5
Short-term investments	45.5	68.3
Accounts receivable, net of allowances of $14.5 and $14.6	331.7	325.6
Inventories	183.7	166.2
Deferred income taxes	34.4	46.4
Prepaid expenses	22.6	16.5
Other current assets	54.8	55.5
Total current assets	783.2	855.0
Property, plant and equipment, net of accumulated depreciation of $944.7 and $1,055.9	394.9	389.5
Company-owned life insurance ("COLI")	161.0	159.5
Deferred income taxes	87.6	100.1
Goodwill	107.1	107.2
Other intangible assets, net of accumulated amortization of $41.5 and $41.1	15.2	14.7
Investments in unconsolidated affiliates	59.2	59.1
Other assets	39.8	34.5
Total assets	$1,648.0	$1,719.6
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$222.0	$215.0
Short-term borrowings and current maturities of long-term debt	2.5	2.5
Accrued expenses:		
Employee compensation	85.3	151.9
Employee benefit plan obligations	17.4	29.4
Customer deposits	29.8	25.1
Product warranties	21.1	22.4
Other	115.0	99.0
Total current liabilities	493.1	545.3
Long-term liabilities:		
Long-term debt less current maturities	279.3	279.6
Employee benefit plan obligations	154.2	158.2
Other long-term liabilities	57.5	72.7
Total long-term liabilities	491.0	510.5
Total liabilities	984.1	1,055.8
Shareholders’ equity:		
Common stock	—	—
Additional paid-in capital	4.9	5.0
Accumulated other comprehensive loss	(34.1)	(29.4)
Retained earnings	693.1	688.2
Total shareholders’ equity	663.9	663.8
Total liabilities and shareholders’ equity	$1,648.0	$1,719.6

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in millions)

	Three Months Ended	
	May 29, 2015	May 30, 2014
OPERATING ACTIVITIES		
Net income	$20.0	$21.0
Depreciation and amortization	16.2	14.7
Deferred income taxes	24.8	13.0
Non-cash restructuring costs (benefits)	1.9	(9.7)
Non-cash stock compensation	8.8	9.6
Equity in income of unconsolidated affiliates	(3.3)	(3.7)
Dividends received from unconsolidated affiliates	3.2	2.3
Other	(1.4)	(1.7)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(5.6)	(15.0)
Inventories	(15.2)	(9.5)
Assets related to derivative instruments	22.5	(1.5)
Other assets	(32.1)	(9.1)
Accounts payable	7.7	7.6
Employee compensation liabilities	(78.5)	(74.4)
Employee benefit obligations	(17.2)	(14.6)
Accrued expenses and other liabilities	12.4	(1.6)
Net cash used in operating activities	(35.8)	(72.6)
INVESTING ACTIVITIES		
Capital expenditures	(24.2)	(15.8)
Proceeds from disposal of fixed assets	4.1	19.0
Purchases of short-term investments	(6.9)	(27.0)
Liquidations of short-term investments	29.7	62.8
Acquisitions, net of cash acquired	(6.6)	—
Other	0.1	9.8
Net cash provided by (used in) investing activities	(3.8)	48.8
FINANCING ACTIVITIES		
Dividends paid	(15.1)	(13.6)
Common stock repurchases	(11.5)	(5.9)
Excess tax benefit from vesting of stock awards	1.5	—
Repayments of long-term debt	(0.5)	(0.6)
Net cash used in financing activities	(25.6)	(20.1)
Effect of exchange rate changes on cash and cash equivalents	(0.8)	0.4
Net decrease in cash and cash equivalents	(66.0)	(43.5)
Cash and cash equivalents, beginning of period	176.5	201.8
Cash and cash equivalents, end of period	$110.5	$158.3

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended February 27, 2015 (“Form 10-K”). The Condensed Consolidated Balance Sheet as of February 27, 2015 was derived from the audited Consolidated Balance Sheet included in our Form 10-K.

As used in this Quarterly Report on Form 10-Q (“Report”), unless otherwise expressly stated or the context otherwise requires, all references to “Steelcase,” “we,” “our,” “Company” and similar references are to Steelcase Inc. and its subsidiaries in which a controlling interest is maintained. Unless the context otherwise indicates, reference to a year relates to the fiscal year, ended in February of the year indicated, rather than a calendar year. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

2. NEW ACCOUNTING STANDARDS

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The update changes the presentation of debt issuance costs to a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. Early adoption is permitted, and the new guidance is to be applied on a retrospective basis to all prior periods. We chose to adopt these provisions in Q1 2016, which impacted our Consolidated Balance Sheet as of February 27, 2015, by reducing Other current assets and Other assets by $0.5 and $1.7, respectively, and decreasing Long-term debt by $2.2 and impacted our Consolidated Statement of Cash Flows as of May 30, 2014 by increasing Operating Activities - Other by $0.1 and decreasing Changes in operating assets and liabilities - Other assets by $0.1.

In May 2014, the FASB issued a new standard on revenue recognition. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

3. EARNINGS PER SHARE

Earnings per share is computed using the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Participating securities represent restricted stock units in which the participants have non-forfeitable rights to dividend equivalents during the performance period. Diluted earnings per share includes the effects of certain performance units in which the participants have forfeitable rights to dividend equivalents during the performance period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Computation of Earnings per Share	Three Months Ended May 29, 2015	Three Months Ended May 30, 2014
Net income	$20.0	$21.0
Adjustment for earnings attributable to participating securities	(0.4)	(0.4)
Net income used in calculating earnings per share	$19.6	$20.6
Weighted-average common shares outstanding including participating securities (in millions)	124.4	125.3
Adjustment for participating securities (in millions)	(2.4)	(2.2)
Shares used in calculating basic earnings per share (in millions)	122.0	123.1
Effect of dilutive stock-based compensation (in millions)	0.9	1.3
Shares used in calculating diluted earnings per share (in millions)	122.9	124.4
Earnings per share:		
Basic	$0.16	$0.17
Diluted	$0.16	$0.17
Total common shares outstanding at period end (in millions)	122.2	123.1
Anti-dilutive performance units excluded from computation of diluted earnings per share (in millions)	0.1	0.1

4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended May 29, 2015:

	Unrealized gain on investments	Pension and other post-retirement liability adjustments	Foreign currency translation adjustments	Total
Balance as of February 27, 2015	$0.8	$ 8.5	$(38.7)	$(29.4)
Other comprehensive income (loss) before reclassifications	—	0.1	(3.6)	(3.5)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1.2)	—	(1.2)
Net current period other comprehensive income (loss)	—	(1.1)	(3.6)	(4.7)
Balance as of May 29, 2015	$0.8	$ 7.4	$(42.3)	$(34.1)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended May 29, 2015 and May 30, 2014:

Detail of Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended		Affected Line in the Condensed Consolidated Statements of Income
	May 29, 2015	May 30, 2014	
Amortization of pension and other post-retirement liability adjustments			
Actuarial losses (gains)	0.1	—	Cost of sales
Actuarial losses (gains)	0.2	0.1	Operating expenses
Prior service cost (credit)	(1.1)	(1.1)	Cost of sales
Prior service cost (credit)	(1.2)	(1.2)	Operating expenses
	0.8	0.9	Income tax expense
Total reclassifications	(1.2)	(1.3)	Net income

5. FAIR VALUE

The carrying amounts for many of our financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities. Our short-term investments, foreign exchange forward contracts and long-term investments are measured at fair value on the Condensed Consolidated Balance Sheets.

Our total debt is carried at cost and was $281.8 and $282.1 as of May 29, 2015 and February 27, 2015, respectively. The fair value of our total debt is measured using a discounted cash flow analysis based on current market interest rates for similar types of instruments and was approximately $320 and $323 as of May 29, 2015 and February 27, 2015, respectively. The estimation of the fair value of our total debt is based on Level 2 fair value measurements.

We periodically use derivative financial instruments to manage exposures to movements in foreign exchange rates and interest rates. The use of these financial instruments modifies the exposure of these risks with the intention to reduce our risk of short-term volatility. We do not use derivatives for speculative or trading purposes.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assets and liabilities measured at fair value in our Consolidated Balance Sheets as of May 29, 2015 and February 27, 2015 are summarized below:

	May 29, 2015			
Fair Value of Financial Instruments	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$110.5	$—	$—	$110.5
Restricted cash	2.5	—	—	2.5
Managed investment portfolio and other investments				
Corporate debt securities	—	16.8	—	16.8
U.S. agency debt securities	—	17.3	—	17.3
Asset backed securities	—	5.2	—	5.2
U.S. government debt securities	5.2	—	—	5.2
Municipal debt securities	—	0.3	—	0.3
Other investments	—	0.7	—	0.7
Foreign exchange forward contracts	—	1.6	—	1.6
Canadian asset-backed commercial paper restructuring notes	—	3.3	—	3.3
Auction rate securities	$—	$—	$9.7	$9.7
	$118.2	$45.2	$9.7	$173.1
Liabilities				
Foreign exchange forward contracts	$—	$(4.6)	$—	$(4.6)
	$—	$(4.6)	$—	$(4.6)

	February 27, 2015			
Fair Value of Financial Instruments	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$176.5	$—	$—	$176.5
Restricted cash	2.5	—	—	2.5
Managed investment portfolio and other investments				
Corporate debt securities	—	30.7	—	30.7
U.S. agency debt securities	—	24.1	—	24.1
Asset backed securities	—	7.7	—	7.7
U.S. government debt securities	4.3	—	—	4.3
Municipal debt securities	—	0.8	—	0.8
Other investments	—	0.7	—	0.7
Foreign exchange forward contracts	—	24.1	—	24.1
Canadian asset-backed commercial paper restructuring notes	—	3.4	—	3.4
Auction rate securities	—	—	9.7	9.7
	$183.3	$91.5	$9.7	$284.5
Liabilities				
Foreign exchange forward contracts	$—	$(3.1)	$—	$(3.1)
	$—	$(3.1)	$—	$(3.1)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the three months ended May 29, 2015:

Roll-Forward of Fair Value Using Level 3 Inputs	Auction Rate Securities
Balance as of February 27, 2015	$9.7
Unrealized gain on investments	—
Other-than-temporary impairments	—
Currency translation adjustment	—
Balance as of May 29, 2015	$9.7

6. INVENTORIES

Inventories	May 29, 2015	February 27, 2015
Raw materials and work-in-process	$99.5	$96.9
Finished goods	104.5	90.4
	204.0	187.3
Revaluation to LIFO	20.3	21.1
	$183.7	$166.2

The portion of inventories determined by the LIFO method was $84.3 as of May 29, 2015 and $78.1 as of February 27, 2015.

7. INCOME TAXES

In Q4 2015, we implemented changes in EMEA to align our tax structure with the management of our globally integrated business. Our U.S. parent company became the principal in a contract manufacturing model with our Steelcase European subsidiaries.

As of February 27, 2015, we maintained a full valuation allowance against our French net deferred tax assets due to the long history of large net operating losses in France, including losses generated in 2015 due to the fact that the contract manufacturing model was not fully implemented in 2015. In Q1 2016, this new model generated taxable income for our French subsidiaries and allowed for partial utilization of the net operating loss carryforwards in France. It is possible that sufficient positive evidence of sustained profitability may become available in 2016 to reach a conclusion that the remaining French valuation allowance which totaled $57.0 as of May 29, 2015, could be reversed by the end of 2016. A change in judgment regarding our expected ability to realize net deferred tax assets would be accounted for as a discrete tax benefit in the period in which it occurs.

8. SHARE-BASED COMPENSATION

Performance Units

In Q1 2016, we awarded 265,814 performance units ("PSUs") to our executive officers. Of the PSUs awarded, 132,907 units are earned after a three-year performance period, from 2016 through 2018, based on our total shareholder return relative to a comparison group of companies, which is a market condition, and, if earned, will be issued in the form of shares of Class A Common Stock. The number of shares that may be earned can range from 0% to 200% of the target amount; therefore, the maximum number of shares that can be issued under this award is 265,814. These PSUs are expensed and recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets over the performance period. We used the Monte Carlo simulation model to calculate the fair value of these PSUs on the date of grant. The model resulted in a weighted average grant date fair value of $24.16 per unit for these PSUs, compared to $23.25 and $15.50 per unit for PSUs granted in 2015 and 2014, respectively.

STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The weighted average grant date fair values were determined using the following assumptions:

	2016 Awards	2015 Awards	2014 Awards
Three-year risk-free interest rate (1)	0.8 %	0.7 %	0.3 %
Expected term	3 years	3 years	3 years
Estimated volatility (2)	29.4 %	42.2 %	44.7 %

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(1) Based on the U.S. government bond benchmark on the grant date.

(2) Represents the historical price volatility of the Company's common stock for the three-year period preceding the grant date.

The remaining 132,907 PSUs awarded during Q1 2016 are earned after a three-year performance period, from 2016 through 2018, based on our three-year average return on invested capital, which is a performance condition, and, if earned, will be issued in the form of shares of Class A Common Stock. The number of shares that may be earned can range from 0% to 200% of the target amount; therefore, the maximum number of shares that can be issued under this award is 265,814. These units are expensed and recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets over the performance periods based on the probability that the performance condition will be met. The expense recorded will be adjusted as the estimate of the total number of PSUs that will ultimately be earned changes. The weighted average grant date fair value of these PSUs was $18.68. The fair value is equal to the closing stock price on the date of grant.

For all PSUs awarded in Q1 2016, dividend equivalents are calculated based on the actual number of shares earned at the end of the performance period equal to the dividends that would have been payable on the earned shares had they been held during the entire performance period as Class A Common Stock. At the end of the performance period, the dividend equivalents are paid in the form of cash or Class A Common Stock at the discretion of the Board of Directors. In addition, these awards will be forfeited if the participant leaves the Company for reasons other than retirement, disability or death or if the participant engages in any competition with us, as set forth in the Steelcase Inc. Incentive Compensation Plan ("Incentive Compensation Plan") and the applicable award agreements and as determined by the Administrative Committee in its discretion.

The total PSU expense and associated tax benefit for all outstanding awards for the three months ended May 29, 2015 and May 30, 2014 are as follows:

	Three Months Ended	
Performance Units	May 29, 2015	May 30, 2014
Expense	$2.5	$2.6
Tax benefit	0.9	1.0

As of May 29, 2015, there was $9.9 of remaining unrecognized compensation cost related to nonvested PSUs, which is expected to be recognized over a remaining weighted-average period of 2.3 years.

The PSU activity for the three months ended May 29, 2015 is as follows:

Maximum Number of Shares That May Be Issued Under Nonvested Units	Total	Weighted-Average Grant Date Fair Value per Unit
Nonvested as of February 27, 2015	1,418,312	$16.63
Granted	531,628	21.42
Nonvested as of May 29, 2015	1,949,940	$17.82

Restricted Stock Units

During the three months ended May 29, 2015, we awarded 560,060 restricted stock units ("RSUs"), of which 110,636 were awarded to our executive officers. These RSUs have restrictions on transfer which lapse three years after the date of grant, at which time the units will be issued as unrestricted shares of Class A Common Stock. Holders of RSUs receive cash dividends equal to the dividends we declare and pay on our Class A Common Stock, which are included in Dividends paid on the Condensed Consolidated Statements of Cash Flows. These awards will

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

be forfeited if a participant leaves the Company for reasons other than retirement, disability or death or if the participant engages in any competition with us, as set forth in the Incentive Compensation Plan and the applicable award agreements and as determined by the Administrative Committee in its discretion. RSUs are expensed and recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets over the requisite service period based on the value of the underlying shares on the date of grant.

The RSU expense and associated tax benefit for all outstanding awards for the three months ended May 29, 2015 and May 30, 2014 are as follows:

Restricted Stock Units	Three Months Ended May 29, 2015	Three Months Ended May 30, 2014
Expense	$6.1	$6.7
Tax benefit	2.2	2.4

As of May 29, 2015, there was $13.8 of remaining unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized over a weighted-average period of 2.1 years.

The RSU activity for the three months ended May 29, 2015 is as follows:

Nonvested Units	Total	Weighted-Average Grant Date Fair Value per Unit
Nonvested as of February 27, 2015	2,110,822	$14.61
Granted	560,060	18.65
Vested	(16,469)	11.13
Forfeited	(2,750)	16.19
Nonvested as of May 29, 2015	2,651,663	$15.50

9. REPORTABLE SEGMENTS

Our reportable segments consist of the Americas segment, the EMEA segment and the Other category. Unallocated corporate expenses are reported as Corporate.

The Americas segment serves customers in the U.S., Canada, the Caribbean Islands and Latin America with a portfolio of integrated architecture, furniture and technology products marketed to corporate, government, healthcare, education and retail customers through the Steelcase, Coalesse and Turnstone brands.

The EMEA segment serves customers in Europe, the Middle East and Africa primarily under the Steelcase and Coalesse brands, with an emphasis on freestanding furniture systems, storage and seating solutions.

The Other category includes Asia Pacific, Designtex and PolyVision. Asia Pacific serves customers in Asia and Australia primarily under the Steelcase brand with an emphasis on freestanding furniture systems, storage and seating solutions. Designtex designs and sells surface materials including textiles and wall coverings which are specified by architects and designers directly to end-use customers primarily in North America. PolyVision manufactures ceramic steel surfaces for use in multiple applications, but primarily for sale to third-party fabricators and distributors to create static whiteboards and chalkboards sold in the primary and secondary education markets globally.

Corporate costs include unallocated portions of shared service functions, such as information technology, human resources, finance, executive, corporate facilities, legal and research, plus deferred compensation expense and income or losses associated with COLI. Corporate assets consist primarily of unallocated cash and investment balances and the cash surrender value of COLI.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue and operating income (loss) for the three months ended May 29, 2015 and May 30, 2014 and total assets as of May 29, 2015 and February 27, 2015 by segment are presented below:

	Three Months Ended	
Reportable Segment Statement of Operations Data	May 29, 2015	May 30, 2014
Revenue		
Americas	$519.7	$506.3
EMEA	119.9	147.6
Other	65.9	69.2
	$705.5	$723.1
Operating income (loss)		
Americas	$54.1	$53.2
EMEA	(13.5)	(7.7)
Other	0.9	—
Corporate	(8.0)	(9.1)
	$33.5	$36.4

Reportable Segment Balance Sheet Data	May 29, 2015	February 27, 2015
Total assets		
Americas	$992.0	$956.1
EMEA	272.2	290.2
Other	170.1	163.1
Corporate	213.7	310.2
	$1,648.0	$1,719.6

10. RESTRUCTURING ACTIVITIES

In Q1 2016, we recognized a $2.8 gain in the Americas segment related to the sale of our Corporate Development Center that was closed as part of previously announced restructuring actions.

In Q1 2016, we announced restructuring actions in EMEA related to the establishment of a Learning + Innovation Center in Munich, Germany. We expect to incur between $15 and $17 in restructuring costs in connection with this project, including approximately $8 to $10 in costs associated with employee and equipment moves, retention compensation and consulting costs and approximately $7 in potential separation costs. We incurred $0.7 of business exit and other costs in the EMEA segment in connection with these actions during the three months ended May 29, 2015.

In Q2 2015, we announced restructuring actions in EMEA related to the exit of a manufacturing facility in Wisches, France, and the transfer of its activities to other existing facilities in the EMEA region. As a result of these actions, we expect to incur approximately $36 of cash restructuring costs in connection with this project. We incurred $1.0 of business exit and other costs in the EMEA segment in connection with these actions during the three months ended May 29, 2015. During 2015, we incurred $32.8 of business exit and other costs in the EMEA segment in connection with these actions including $27.3 for a facilitation payment related to the transfer of the facility to a third party.

In Q1 2015, we announced restructuring actions in the Americas to close a manufacturing facility in High Point, North Carolina. In connection with this project, we expect to incur approximately $8 of cash restructuring costs, with approximately $4 relating to workforce reductions and approximately $4 relating to manufacturing consolidation and production moves. We incurred $0.7 of employee termination costs and $0.1 of business exit and other related costs in the Americas segment in connection with these actions during the three months ended May 29, 2015. During 2015, we incurred $1.6 of employee termination costs and $0.7 of business exit and other related cost in the Americas segment in connection with these actions.

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In Q1 2015, we recognized a $12.0 gain related to the sale of an idle manufacturing facility in the Americas segment that was closed as part of previously completed restructuring actions.
In Q3 2014, we announced restructuring actions in EMEA to close a manufacturing facility in Durlangen, Germany, and to establish a new manufacturing location in Stribro, Czech Republic. In connection with this project, we expect to incur approximately $23 of cash restructuring costs, with approximately $17 related to employee termination costs and approximately $6 related to business exit and other related costs. We incurred $1.7 of employee termination costs and $0.4 of business exit and other related costs in the EMEA segment in connection with these actions during the three months ended May 29, 2015. During 2015, we incurred $12.7 of employee termination costs and $1.6 of business exit and other related costs in the EMEA segment in connection with these actions.
Restructuring costs (benefits) are summarized in the following table:

Restructuring Costs (Benefits)	Three Months Ended May 29, 2015	Three Months Ended May 30, 2014
Cost of sales		
Americas	$0.8	$(11.6)
EMEA	3.1	1.1
Other	—	—
	3.9	(10.5)
Operating expenses		
Americas	(2.8)	—
EMEA	0.8	0.8
Other	—	—
	(2.0)	0.8
Total	$1.9	$(9.7)

Below is a summary of the net additions, payments and adjustments to the restructuring reserve balance for the three months ended May 29, 2015:

Restructuring Reserve	Employee Termination Costs	Business Exits and Related Costs	Total
Reserve balance as of February 27, 2015	$13.7	$1.6	$15.3
Additions	2.4	2.2	4.6
Payments	(0.8)	(2.2)	(3.0)
Adjustments	(0.4)	—	(0.4)
Reserve balance as of May 29, 2015	$14.9	$1.6	$16.5

The employee termination costs reserve balance as of May 29, 2015 primarily relates to restructuring actions in EMEA.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:
This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 27, 2015. Reference to a year relates to the fiscal year, ended in February of the year indicated, rather than the calendar year, unless indicated by a specific date. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

Non-GAAP Financial Measures

This item contains certain non-GAAP financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the condensed consolidated statements of income, balance sheets or statements of cash flows of the company. Pursuant to the requirements of Regulation G, we have provided a reconciliation below of non-GAAP financial measures to the most directly comparable GAAP financial measure.

The non-GAAP financial measures used are: (1) organic revenue growth (decline), which represents the change in revenue excluding estimated currency translation effects and the impacts of acquisitions and divestitures, and (2) adjusted operating income (loss), which represents operating income (loss) excluding restructuring costs (benefits). These measures are presented because management uses this information to monitor and evaluate financial results and trends. Therefore, management believes this information is also useful for investors.

Financial Summary

Our reportable segments consist of the Americas segment, the EMEA segment and the Other category. Unallocated corporate expenses are reported as Corporate.

Results of Operations

Statement of Operations Data	Three Months Ended May 29, 2015			Three Months Ended May 30, 2014		
Revenue	$705.5	100.0	%	$723.1	100.0	%
Cost of sales	485.0	68.7		504.5	69.8	
Restructuring costs (benefits)	3.9	0.6		(10.5)	(1.5)	
Gross profit	216.6	30.7		229.1	31.7	
Operating expenses	185.1	26.3		191.9	26.5	
Restructuring costs (benefits)	(2.0)	(0.3)		0.8	0.2	
Operating income	33.5	4.7		36.4	5.0	
Interest expense	(4.4)	(0.6)		(4.4)	(0.6)	
Investment income	0.4	—		0.4	0.1	
Other income, net	2.0	0.3		3.5	0.5	
Income before income tax expense	31.5	4.4		35.9	5.0	
Income tax expense	11.5	1.6		14.9	2.1	
Net income	$20.0	2.8	%	$21.0	2.9	%
Earnings per share:						
Basic	$0.16			$0.17		
Diluted	$0.16			$0.17		

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Q1 2016 Organic Revenue Growth (Decline)	Americas	EMEA	Other	Consolidated
Q1 2015 revenue	$506.3	$147.6	$69.2	$723.1
Divestitures	—	(1.3)	—	(1.3)
Currency translation effects*	(3.9)	(27.2)	(3.0)	(34.1)
Q1 2015 revenue, adjusted	502.4	119.1	66.2	687.7
Q1 2016 revenue, reported	519.7	119.9	65.9	705.5
Organic growth (decline) $	$17.3	$0.8	$(0.3)	$17.8
Organic growth (decline) %	3%	1%	—%	3%

* Currency translation effects represent the estimated net effect of translating Q1 2015 foreign currency revenues using the average exchange rates during Q1 2016.

Reconciliation of Operating Income to Adjusted Operating Income	Three Months Ended May 29, 2015		May 30, 2014	
Operating income	$33.5	4.7%	$36.4	5.0%
Add: restructuring costs (benefits)	1.9	0.3	(9.7)	(1.3)
Adjusted operating income	$35.4	5.0%	$26.7	3.7%

Overview

In Q1 2016, revenue was $705.5 compared to $723.1 in Q1 2015. Organic revenue growth was 3% compared to the prior year after adjusting for currency translation effects and divestitures, and adjusted operating income was 5.0% of revenue. The Americas posted organic revenue growth of 3%, orders grew 8% compared to the prior year and operating performance in the segment remained strong. EMEA experienced organic revenue growth of 1%, and orders grew 1% (in constant currency) compared to the prior year, which included a large order in France. Organic revenue in the Other category was essentially flat compared with the prior year, as growth in Asia Pacific was offset by declines at PolyVision and Designtex.

We recorded net income of $20.0 in Q1 2016 and $21.0 in Q1 2015. Improvements in adjusted operating income and benefits of a lower effective income tax rate were offset by net restructuring costs in the current year compared to net restructuring benefits in the prior year.

Operating income was $33.5 in Q1 2016 compared to $36.4 in the prior year. Adjusted operating income increased by $8.7 to $35.4 compared to Q1 2015 adjusted operating income of $26.7. The increase was driven by operating improvements in the Americas, partially offset by higher disruption costs and inefficiencies in EMEA.

Cost of sales was 68.7% of revenue in Q1 2016, which represented a 110 basis point improvement compared to Q1 2015. The improvement was driven by benefits of improved pricing, continued cost reduction efforts and lower freight, distribution and warranty costs in the Americas, which were partially offset by an unfavorable shift in business mix in the Americas and an increase in disruption costs and inefficiencies of $3 compared to Q1 2015 associated with manufacturing footprint changes in EMEA. Disruption costs and inefficiencies include labor premiums paid to employees during transition periods and labor inefficiencies caused by work stoppages or slowdowns resulting from restructuring activities. They also include incremental logistics costs caused by split shipments (linked to labor inefficiencies) and interim supply chains during production moves. Lastly, these costs include duplicate labor and overhead at the new Czech Republic facility and other plants impacted by production moves. We believe these costs are temporary and will be eliminated once the manufacturing changes in EMEA are complete and the industrial model returns to normal levels of operating efficiency.

Operating expenses in Q1 2016 of $185.1 represented a decrease of $6.8 and 20 basis points as a percent of revenue compared to Q1 2015. The decrease in dollars was driven by favorable currency translation effects.

We recorded net restructuring costs of $1.9 in Q1 2016 primarily related to actions in EMEA including costs associated with the exit of a manufacturing facility in Wisches, France and the closure of a manufacturing facility in Durlangen, Germany, partially offset by a gain in the Americas segment related to the sale of our Corporate Development Center. In Q1 2015, we recorded net restructuring benefits of $9.7 driven by a gain related to the sale of an idle manufacturing facility in the Americas segment, partially offset by costs in EMEA primarily related to the closure of a manufacturing facility in Durlangen, Germany.

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Our Q1 2016 effective tax rate was 36.5% compared to the Q1 2015 effective tax rate of 41.5%. The decrease was primarily driven by implementing a new transfer pricing model in EMEA in Q4 2015. Our U.S. parent company became the principal in a contract manufacturing model with our Steelcase European subsidiaries. This new model generated taxable income for our Steelcase European subsidiaries in Q1 2016 and allowed for partial utilization of net operating loss carryforwards in Europe which reflected valuation allowances. See Note 7 to the condensed consolidated financial statements for additional information.

Interest Expense, Investment Income and Other Income, Net

	Three Months Ended
Interest Expense, Investment Income and Other Income, Net	May 29, 2015
Interest expense	$(4.4)
Investment income	0.4
Other income (expense), net:	
Equity in income of unconsolidated ventures	3.2
Foreign exchange loss	(0.6)
Miscellaneous, net	(0.6)
Total other income, net	2.0

General and administrative expenses for 2005 were $1,348,461 compared to $174,790 for 2004, a 671% structure required to support our sales and marketing and development efforts in 2005. We hired addition $503,000 in 2005 from $13,000 in 2004. We leased office space for a new corporate headquarters, sales

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office in New York, a sales office in London and a development facility in Boulder, Colorado, increasin and office space, our expenses for office expenses, communication, insurance and other related expense in 2005 from $31,000 in 2004. Our insurance expense increased to $81,000 in 2005 from $4,000 in 200 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 i attributable to the preparation and filing of public company documents with the SEC. Accounting fees in additional accounting work required for the public company filings in 2005. Other professional fees of $

investor relations consultant, transfer agent fees, architectural fees paid in connection with the new offic
granted 40,000 shares of restricted stock. The fair market value of this stock was amortized over the peri
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% in
development expenses. The increase is predominantly due to the hiring of additional developers to suppo
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% incre
2005 to raise awareness of the SWP and related products in our two large vertical markets, (a) media, en
we believe hold the greatest opportunities. We hired additional sales personnel, sales consultants and cus
million in 2005 from $271,000 in 2004. Our travel and entertainment expenses related to sales and mark
also substantially increased our marketing and advertising efforts, including development of marketing l
advertising targeted to specific industries within the market segments where we focus. Our marketing, ac
2004.

Interest Income

Before the Merger, we had limited capital. As a result, we had only nominal interest income of $1,137 in
Sona-Washington, the accounting acquirer, acquired PerfectData's net cash assets, which were in excess
series B preferred stock at the end of the second quarter. Interest income is derived from investing these

Interest Expense

Interest expense decreased from $28,314 in 2004 to $6,480 in 2005. In 2004, approximately two thirds o

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attributable mainly to bank fees and vendor interest. In 2005, the interest expense is entirely due to bank

Other income and expense

In 2005, other expense consisted of $100,020 relating to the December 31, 2005 revaluation of warrants
relates to a Canadian tax credit for research and development. Under Canadian tax law, Innovations is en
research and development expenses as reflected on its tax returns. The 2005 tax return has not yet been f
research and development expenses reflected on its tax return for 2003. Our policy is to record and recog

Loss on Currency Translation

The balance sheet of Innovations, our Canadian subsidiary, is translated into U.S. dollars on the date the
during the period are translated into U.S. dollars on the date of the transaction based on the official excha
or loss during the period due to currency translation. The fact that the loss was higher in the 2005 period

the Canadian dollar. Balances payable from Innovations to us are denominated in U.S. dollars and accou

Liquidity and Capital Resources

Because of our limited capital, we depend on external sources of financing to support our working capita private securities transactions to satisfy our financing needs. Through March 31, 2006, we had accumula sales of equity securities. At the Merger Date, we had a net book value of approximately $1.146 million consummated the following financing transactions:

- In March 2005, (i) the holder of a $100,000 convertible promissory note issued by us in June 2004 converted that note into 1,162,655 shares of our common stock. Those shares were converted into shares of our Series A Preferred Stock in the Merger and (ii) we sold 250,000 shares of our common stock for $475,000, which shares were subsequently converted into 25,000 shares of our Series A Preferred Stock in the merger.
- In June 2005, we sold 3,848.7 shares of our Series B Preferred Stock and warrants to purchase 962,175 shares of our common stock. The gross proceeds from the sale of the Series B Preferred Stock and the warrants were approximately $5.05 million.
- In January 2006, we sold 2,307,693 shares of our common stock and issued a warrant to purchase 1,200,000 shares of our common stock to Shuffle Master for $3.0 million. This warrant has an exercise price of $2.025 per share and expires on July 12, 2007. 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.

At March 31, 2006 and December 31, 2005, we had total cash and cash equivalents of $2.2 million and $

Our working capital at March 31, 2006 and December 31, 2005 was approximately $1.3 million and $34 $452,000 at March 31, 2005 and December 31, 2004, respectively. Our current ratio at March 31, 2006 v current ratio at December 31, 2005

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was 1.3 to 1 compared to our current ratio of 0.4 to 1 at December 31, 2004. The current ratio is derived sources to assess our ability to repay short-term liabilities.

Overall, for the quarter ended March 31, 2006, we had a net cash increase of $932,000 attributable prima offset by net cash used in operating activities of $2.1 million. For the fiscal year ended December 31, 20 provided by investing and financing activities of $6.8 million offset by net cash used in operating activit loss adjusted for non-cash expenses, such as depreciation and amortization, and the changes in accounts financing activities was the proceeds from the Shuffle Master option exercise with accompanying warrar

There were no capital expenditures for the quarter ended March 31, 2006. Capital expenditures for the y primarily of computers and communication devices.

At March 31, 2006, we had no indebtedness, other than accrued salaries from 2004 in the amount of $56 indebtedness, other than accrued salaries owing to two employees, including $104,000 owing to our chie

At March 31, 2006 and December 31, 2005, we had commitments relating to office leases in New York
some small amounts for office equipment leases. The current Toronto lease expires in April 2007. In Ne
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 i
common stock at an exercise price of $2.025 per share. The sale of these shares and the issuance of the w
agreement between us and Shuffle Master.

In addition to raising additional capital in July 2006, we have centralized expense control by directing th
excess of $5,000. We have also made significant reductions in our work force and continually review ot
continue to aggressively market our products and services, particularly to existing and former customers
increase our revenue and reduce our expenses.

Our consolidated financial statements included elsewhere in this report have been prepared assuming tha
have generated minimal revenue and have incurred net losses. Accordingly, we have not generated cash
common stock and the Series B Preferred Stock financing to fund our operations. In view of our continu
have stated that these continuing losses raise substantial doubt about our ability to continue as a going co

The consolidated financial statements do not include any adjustments to reflect the possible future effect
of liabilities that may result from the possible inability of the company to continue as a going concern.

Commitment and Contingencies

At March 31, 2006, we had offices in Toronto, Canada, New York, New York, Boulder, Colorado and L
We also have equipment leases. These leases have been classified as operating leases. Future lease comm

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Future Lease Commitments by Year
(US$)

	2006	2007	2008	2009	2
Office Space Leases:					
United States	$ 372,997	$ 500,915	$ 67,938	$ 74,732	$ 6
Canada	61,049	27,133	—	—	
Total Office Space	434,046	528,048	67,938	74,732	6
Office Equipment	39,104	52,139	51,804	11,050	
Total Lease Commitments	$ 473,150	$ 580,187	$ 119,742	$ 85,782	$ 6

Office lease payments for the first quarters of 2006 and 2005 were approximately $158,000 and $99,000
2005 were approximately $5,000 and $1,000 respectively.

In January 2006, while a selling security holding registration statement was pending review by the Secur
distribution agreement with Shuffle Master under which we agreed to develop certain wireless gaming te

2,307,693 shares of our common stock and warrants to purchase up to an additional 1,200,000 shares of
of those securities were intended to provide us with the working capital we would need to fulfill our obli
the shares underlying the warrants, we included them in the pending registration statement. We were sub
securities in a pending registration statement, they were questioning the availability of the exemption fro
that the transaction have a conclusion. Including the Shuffle Master securities in the pending registration
concluded. The Commission suggested that we remove the Shuffle Master securities from the pending re
effective April 24, 2006.

Notwithstanding that removal, if a court of competent jurisdiction were to ultimately determine that an e
In addition, we, and possibly some of our officers, may also be subject to penalties. However, we believe
requirements of the Securities Act as a valid private placement transaction under Sections 4(2) and 4(6)
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.

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BUSINESS

Introduction

We are a wireless software and service provider that specializes in value-added applications to data-inter
Through our subsidiaries, we develop, market and sell wireless data application software for mobile devi
over cellular or Wi-Fi networks, and is compatible with most wireless devices that are Internet enabled.
gaming side, and corporations in the data-intensive verticals on the enterprise side. Our revenues consist
Platform™ (SWP) and related vertical wireless application software products.

We are a Delaware corporation. Our predecessor, Sona Mobile, Inc., commenced operations in Novemb
Agreement and Plan of Merger dated as of March 7, 2005, Sona Mobile, Inc. merged with and into Perfe
merger subsidiary of PerfectData Corporation, a then inactive publicly held Delaware corporation. In co

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All but one of PerfectData's directors and officers resigned and Sona's nominees were elected 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 changed its name to Sona Mobile, Inc. and, on November 17, 2005, we changed our corporate name fron

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 ope at 825 Third Avenue, 32nd Floor, New York, New York 10022 and our telephone number is (212) 486-

Growth Strategy

We believe that the two essential components for long-term success in the highly competitive wireless a 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 ou

- 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, hors 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 secur wireless transactional solutions to their business requirements and consumer applications, and to ultimat

We have identified specific market segments in the wireless arena that demand secure real-time, live and interaction with this information. These markets include but are not limited to wireless gaming and enter applications to their mobile work force.

We are committed to providing solutions that would generate new revenue streams and cost saving oppo 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 SW functionality of their current wireless devices.

Our software products are developed from the ‘‘ground up’’ using the standards based SWP, a secure cli client-side and server-side software development kits (SDKs). These SDKs work together to produce co performance using our Mobile Multi-Threading™ technology on host devices without compromising pe

We intend to continue our development and implementation of the SWP in a manner that will enable a m 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 appli administration and billing. The kernel of this framework exists in the form of the SWP and new element

Gaming and Entertainment

In January 2006, we entered into a strategic alliance distribution and licensing agreement with Shuffle M distribute and market ‘‘in casino’’ wireless handheld gaming content and delivery systems to gaming ve develop a Shuffle Master-branded wireless gaming platform powered by Sona’s SWP for in-casino use, content as well as other popular public domain casino games. These products are in development and cu

Casino On Demand™

The Casino On Demand wireless gaming delivery system will enable both in-casino wireless gaming, as
gaming is permitted. Casino On Demand will include a variety of table game selections including severa
offering. Built on the award-winning SWP, Casino On Demand realistically replicates table game play o
increase the gaming activity taking place. We believe this will provide a versatile, efficient way for casin

MobileTV™ and Sona MediaPlayer™ for Blackberry®

Using our patent pending mobile media player and Multi-Threading™ technology, we have made it possib
content on their handheld device. Our entertainment application software products also give content prov
customers in a mobile format that is true to their programming. The key differentiator of our entertainme
supplied through the use of our Multi-Threading™ technology. We believe that particular types of informa
clips, full length sporting events, entertainment news, music videos, etc. In addition, we believe that ther
analyst calls, morning market calls, and other time-sensitive financial markets news. By partnering with
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 applic
generation of RIM devices. It is designed for near TV quality playback of synchronized video and audio
multimedia files.

Financial Services

Financial markets are open 24 hours a day, five days a week, and are often prone to volatility. Financial
day, seven days a week, as well as cost-effective mobile solutions, in order to increase information visib
profitability. For these enterprises, we have developed application software products that deliver in real-
including traders, risk managers, investment bankers and stock brokers. Such information takes the form

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and risk systems, research, internal Web casts, as well as trade execution and regulatory compliance. Wi
there is now an opportunity to deliver financial and business data services in a wireless format, which m

In the wireless data market place, there are many technology companies providing solutions. However, v
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 tr industry. This suite provides real-time market data, quotes, graphs, portfolios, watch lists, news and trad ''out-of-the-box'' product enabling mobile access to business-critical information previously only availa access point for a full array of financial services comprised of carefully selected technologies, including and more, all combined into one device and benefiting from complete synergy with a user's workplace s 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 f function is to enable traders to execute trades in real-time from their wireless devices. However, we beli transaction (wireless payments, interacting with corporate systems, etc.).

Enterprise Software

Our wireless enterprise software products allow mobile workers to access all their critical applications fr Whether involving replication of corporate help desk software, capturing inspection data or transmitting 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 ap applications and transact with them while in the field providing increased efficiency, productivity, emplo

We believe that our software products can be seamlessly integrated with existing infrastructure and creat administrative tasks as follows:

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- 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 P forms or on costly industrial notebook computers on a regular basis, with a need to update enterprise dat mobile electronic forms for hand-held devices effortlessly. This application eliminates the cumbersome 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,™ S
customer relations manager and Help Desk/™Service Desk™ software applications. We believe that these n
sales force automation software packages like Remedy, Peregrine, salesforce.com and Siebel software to

We believe that Sona Service Desk™ provides the mobile foundation for an integrated, ''end-to-end'' appr
a mobile work force to submit, monitor, and manage help desk cases, change tasks, and asset and invento
by a given incident or problem by sending trouble tickets to your wireless device of choice. Sona Servic
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 i
world and seamlessly delivers the applications of an enterprise to wireless devices in a personalized fash
With Sona Service Desk,™ information technology staff can wirelessly access the same help desk they kno
Multi-Threading™ technology, users can run Mobile Help Desk in the background while accessing other k
services (SMS), e-mail and voice services.

SalesMaster™

Sona's SalesMaster™ application software is designed to give sales executives mobile access to their sales
believe it will

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easily integrate into the most widely used SFA/CRM systems — be it hosted / on-demand or deployed, i

We recognize the value in mobilizing business processes, rather than simply mobilizing applications. W
application'' perspective, we approach mobilizing SFA from a business process perspective, with the ai
some of which are addressed by particular SFA applications. Our SalesMaster™ product is device agnosti
and is easy to install and manage.

Technology

We provide ''end-to-end'' wireless software products to our customers. Our products rely on standards-
Software Developer Kit (SDK) and SonaSlim™ Client Plug-ins to provide ''end-to-end encryption,'' avoi
technologies. We believe that this ''direct connect'' approach, using ''slim'' client technology, dramati

The SWP platform is deliverable to partners as a ''plug-and-play'' system that includes all necessary ha
needs and integrates seamlessly with legacy systems and all content and presentation requirements, nota

- 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), loo and feel' etc. We are actively marketing four core wireless building-block products that ride or 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. Wit world, we believe that we have an appreciation and understanding of what network operators require. As transposing necessary data, i.e. changes, updates etc, which we believe results in a lower cost of ownersh

Our expertise has earned us the 2004 Frost & Sullivan Award for Technology Innovation of the Year for accreditation by Research in Motion (RIM), Microsoft, Palm Source, Vodafone, O2, and Cingular.

Sales and Marketing

We market our products to some of the leading casino, race track and cruise ship operators as well as mi services and insurance industries. We utilize a comprehensive distribution channel strategy in order to pe number of users, while seeking to keep resource consumption low. Our channel partners represent an ess and reseller arrangements with the following categories of businesses:

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- 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 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 tr processes and procedures that we believe surpass requirements of the typical business environment in ou worldwide in a flexible architecture. This flexible approach allows clients to select the approach best sui hosting capability we believe to be world class. Our solutions are supported by industry leading systems

Our products undergo rigorous stress-testing and quality assurance cycles internally before deployment. their own standards. To validate this philosophy, the SWP has been submitted to several quality assuranc Laboratories, Philadelphia, PA, USA) to analyze and accredit the SWP's performance on the Vodafone process, we are the first third party software vendor accredited on the Vodafone network and on RIM de

In early 2005, PalmSource, Inc., the developer of the Palm OS mobile device operating system, requeste enabled Palm devices. This application program was tested and approved for distribution to Treo users. were approved for usage on the Cingular Wireless data network. Most recently, Sona Mobile Help Desk application, has been submitted for accreditation by BMC Software's third party testing contractor, Prod 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 performan independent testing and verification. We believe that this distinguishes us from competing wireless softw

With production proven installation processes, installing our SWP can be done by the client. The installa steps and testing procedures.

Competition

We compete in the highly competitive business of wireless enterprise application software, mobile and v competition is

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from a broad range of both large and small domestic and international corporations. Most of our competi

In the mobile gaming and entertainment industry, our competition includes but is not limited to, Cantor Fiber Corporation. In the enterprise and financial services sector, our competitors include @Hand Corp,

We believe that our principal competitive advantages are our partners, our focus and our expertise. We a technology and how best to leverage wireless technology to create new revenue streams for our custome to us are our technology, development and engineering expertise, subject matter expertise, customer sup include, but are not, limited to, technology, engineering capability, customer support, breadth and depth leverage the quality of our development team, the depth and breadth of our customer relationships, and c successful.

Research and Development

We maintain our research and development operations in Toronto, Canada and Boulder, Colorado. At Ju engineering. We find it advantageous to have the majority of our research and development activities in engineers in addition to the favorable tax conditions associated with software research and development approximately $384,000 for the three months ended March 31, 2006, $894,000 for the year ended Decen

Intellectual Property

Our success and ability to compete effectively are dependent in part upon our standards based and propri
pending, trademark and trade secret laws, as well as nondisclosure agreements and other contractual rest

Employees are required to execute confidentiality and non-use agreements that transfer any rights they m
to entering into discussions with potential business partners or customers regarding our business and tech
agreements with us. If these discussions result in a license or other business relationship, we also genera
obligations include provisions for the protection of our intellectual property rights. For example, the stan
and copyrights in our technologies and requires our customers to display our copyright and trademark no

''Sona'' is a registered trademark of ours. We have filed a patent application on the Sona MediaPlayer™ **for** B
have applied. In addition, we have applied for federal registration of other marks. However, we may not
applied.

In addition, pending provisional patents may not provide us with any competitive advantages and may be
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 aspect
Our

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steps to protect our proprietary technology may not be adequate to prevent misappropriation of such tech
products with functionality or features similar to our products. If we fail to protect our proprietary techno
significantly.

Companies in the software and wireless application services and wireless industries have frequently reso
enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope
in the future, notice of claims of infringement of others' proprietary rights. Any such claims could be tim
product or service release delays, require us to redesign our products or services or require us to enter int
against us and we could not develop non-infringing technology or license the infringed or similar techno

Employees

At July 20, 2006, we had 32 full-time employees. Approximately nine of our employees are engaged in s
finance and administration, and nineteen in engineering. No employees are covered by a collective barga
employees.

Properties

We lease a total of approximately 11,000 square feet of office space for sales, support, research and deve

- 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 5,500 square feet in New York, New York, for our corporate headquarters and sales and support functions under a lease expiring in December 2007, at an annual rental of approximately $432,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building; 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.

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MANAGEMENT

Executive Officers and Directors

The following table sets forth the names, ages and principal position of our executive officers and direct

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
Bryan Maizlish	44	Director
Paul C. Meyer	59	Director
M. Jeffrey Branman	50	Director

Shawn Kreloff, 43, was appointed Chief Executive Officer on May 5, 2006. Mr. Kreloff has been our Ch September 2004, and from 2001 to September 2002, he served as a managing director of, and investor in executive vice president of sales, marketing and business development of Predictive Systems, Corp. (Na Systems was sold to INS in June 2003. Mr. Kreloff was a founding investor of Insight First, a company t TFSM) in 2003. From 1999 to 2002, he served as executive vice president of business development of C acquired by Artemis International Solutions (OTC: AMSI) in 2002. From September 2004 to January 20 Kreloff also served on the board of directors of Hudson Williams, a computer consulting firm, from 199 From 1996 through 1998 Mr. Kreloff served as founder, Chairman and CEO of Gray Peak Technologies 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 Sona Mobile from 3Com Corporation where he was Director of Finance of the corporate accounting gro Finance & Operations of 3Com's Canadian subsidiary. Mr. Fellows joined 3Com from Pennzoil Corpora Houston, Texas, as well as four years as controller for Pennzoil Canada. Mr. Fellows holds a Bachelor o ON, Canada and earned his Chartered Accountants designation while articling with Arthur Andersen &

Lance, Yu, 36, has been our Senior Vice President and Chief Technology Officer since our inception in President — Technology of Sona Innovations, Inc. which was purchased by Sona-Washington from Bal organization based in Toronto, Canada, first as a Senior Project Manager and then as Vice President —

Bryan Maizlish, 44, was a director of PerfectData from March 31, 2000 through the Merger Date and ha
Lockheed Martin Corporation in August 2000 and has held various managerial positions since then. He i
Integrated Systems and Solutions Division of Lockheed Martin Corporation. Prior to joining Lockheed M
services company and its affiliate, Noor Group Ltd., a full service Internet solutions and infrastructure pr

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networking, hosting, and Internet service provision to web-based services and entertainment based in Ca
Chief Strategy Officer and Chief Financial Officer. Prior thereto, he held various managerial and consult
as MCA Inc., Gulf Western Corporation and Gene Roddenberry's Norway Corporation.

Paul, C. Meyer, 59, was appointed to the Board on March 28, 2006. He has served as President of Shuffl
2003 and was appointed as Shuffle Master's chief operating officer in February 2004. Mr. Meyer served
Corporation from December 2000 until October 2003.

M. Jeffrey Branman, 50, is the President and owner of Interactive Commerce Partners LLC, a provider o
and content, merchandising, and direct marketing businesses. Mr. Branman founded Interactive Commer
served as President and founder of Interactive Technology Services, a subsidiary of Comcast Corporatio
Technology Services served as financial advisor to Interactive Technology Holdings, LLC, a joint ventu
in interactive commerce technology and content companies. Portfolio companies, where Mr. Branman se
Commerce Technologies, Inc. and Scene7, Inc. From March 1996 to February 2000, Mr. Branman was S
athletic footwear and apparel, and additionally was Chief Executive Officer of FootLocker.com, the inte
2000. Mr. Branman currently serves on the board of directors of GSI Commerce.

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 responsibil

Audit Committee

The Audit Committee reviews our accounting functions, operations and management, our financial repo
internal auditing methods and procedures. The Audit Committee represents the Board in overseeing our
independent public accountants and with personnel from our internal audit and financial staffs with resp
Committee recommends to the board the appointment of our independent public accountants and is resp
of the Audit Committee are M. Jeffrey Branman (Chairman) and Paul C. Meyer. The Audit Committee h

Audit Committee Financial Expert

The Board has determined that M. Jeffrey Branman qualifies as an ''audit committee financial expert,''
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 compens
employee compensation and benefits and administer our various stock option plans and other incentive

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compensation arrangements. The Committee will also seek to identify individuals qualified to become m
elected by stockholders or to be appointed to fill vacancies on the Board. The current members of the Co
Maizlish 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 th
Financial Officer and financial managers. The Code provides written standards that we believe are reaso
including the ethical handling of actual or apparent conflicts of interests between personal and professio
reports and documents that we file with or submit to the SEC or in other public communications we mak
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 serv
persons who served as our Chief Executive Officer and our Senior Vice President and Chief Technology
officer earned salary and bonus in excess of $100,000 during the fiscal year ended December 31, 2005. S
consulting fees paid and options granted to certain officers in fiscal 2005.

Summary Compensation Table

	Annual Compensation		Long-Term Compensation Securities Underlying	All Other Compensatio
Name and Principal Position	Year	Salary ($)	Options (#)	($)
John Bush, President and Chief Executive Officer [(1)]	2005	$ 190,479	87,665	$ 106,666(
	2004	0	—	$ 37,574(
	2003	0	—	0
Lance Yu, Senior Vice President – Chief Technology Officer [(3)]	2005	$ 137,946	150,000	$ 5,453(
	2004	$ 54,645	—	0
	2003	$ 5,883	—	0

(1) Mr. Bush served as our President and Chief Executive Officer from November 12, 2003 (inception)
May 5, 2006. On July 17, 2006, we entered into a Mutual Separation Agreement and a Consulting
Agreement with Mr. Bush. See ‘‘Certain Relationships and Related Party Transactions’’ for informa

regarding these agreements.

(2)For 2005, represents payment of consulting fees earned in 2004 and paid in 2005 and for 2004, represents consulting fees earned and paid in 2004.

(3)Mr. Yu has served as our Senior Vice President and Chief Technology Officer since our inception in November 2003.

(4)Represents payment of a vehicle expense allowance.

Option Grants, Exercises and Values

The following table provides certain summary information concerning the granting of options during our Executive Officer and our Senior Vice President — Chief Technology Officer during that fiscal year:

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Option Grants In Last Fiscal Year

Name	Number of Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share	Expiration Date
John Bush	87,665	5.09%	$ 1.76	10/13/2010
Lance Yu	150,000	8.71%	$ 1.60	10/13/2010

The following table provides certain summary information concerning the exercise of options during the of such fiscal year by the persons who served as our Chief Executive Officer and Senior Vice President -

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year End Option Values

Name	Shares Acquired On Exercise	Value Realized	Number of Unexercised Options Held at Fiscal Year End Exercisable/Unexercisable	Value of Unexerci In-the-Money Optio FY-End[1] Exercisable/Unexerc
John Bush	-0-	-0-	29,221/58,444	$5,844/$11,689
Lance Yu	-0-	-0-	50,000/100,000	$10,000/$20,00

(1)Value is based upon the market value of the common stock as of December 31, 2005, less the exerci price payable per share under such options.

Compensation of Directors

During the 2005 fiscal year prior to the Effective Date, each of the directors of PerfectData then serving
directors to purchase 25,000 shares of common stock. In addition, each director was eligible to receive $
expenses, and $250 for each meeting attended telephonically.

On July 19, 2005, our Board adopted a new compensation plan for directors. Under the new plan, each n
Board, receives 40,000 shares of common stock, of which 20,000 shares will vest immediately and 20,00
director leaves the Board for any reason, voluntarily or involuntarily, before the first anniversary of his c
pursuant to an amendment to the compensation plan for directors adopted on August 3, 2006, any Chairn
expert'' will receive an additional 60,000 restricted shares upon his or her appointment as such, 30,000 c
of his or her appointment. Each non-employee director also receives an annual director's fee of $5,000 a
exercisable in equal quarterly installments and $250, plus reimbursement for actual out-of-pocket expens
attended telephonically.

The Chairmen of the Audit Committee and the Compensation and Nominating Committee each receive a
the Audit Committee and the Compensation and Nominating Committee receives $250, plus reimbursem
person and $125 for each committee meeting attended telephonically, unless the committee meeting imn
members will receive $150, for attending the committee meeting in person and $75.00 if they attend the

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For the years ended December 31, 2005 and December 31, 2004, we paid aggregate consulting fees of $
respectively, to Mr. Glinsman. In addition, relocation expense of $32,884 was incurred by us in 2005 for
employee at an annual salary of $150,000, increasing to $240,000 for 2006. We also granted options exp
250,000 shares of our common stock at an exercise price of $1.60.

During the first quarter of 2006, we paid consulting and management fees to shareholders and directors o
fees of $65,332 to Nicholas Glinsman, a former director and the former Secretary of our company.

On July 18, 2005, we entered into a two-year consulting agreement with Mr. Frank Fanzilli, a former dir

In January 2006, we entered into a strategic alliance licensing and distribution agreement with Shuffle M
for Shuffle Master. Pursuant to this agreement we are entitled to receive 40% of the gross revenue receiv
to customers of, or sourced by, Shuffle Master and 45% of the gross revenues received by Shuffle Maste
sourced by us. The agreement has a term of five years and will automatically be renewed for additional f
annualized basis, based on the gross revenues in the final quarter prior to the expiration of each such five
million then Shuffle Master may terminate the agreement. One of our directors, Mr. Paul Meyer, is the P

On July 17, 2006, the company entered into a mutual separation agreement and a consulting agreement w
company. Pursuant to the terms of the separation agreement, Mr. Bush will receive $150,000 as severanc
representing previously earned but unpaid compensation. Mr. Bush will also be entitled to reimbursemen
receive medical insurance through May 31, 2007. The separation agreement contains a non-competition
the foregoing, Mr. Bush has provided the company with a general release of claims. The separation agre
further provides that, any termination under the separation agreement will automatically terminate the co

Pursuant to the terms of the consulting agreement, Mr. Bush, among other things, has been engaged to d
for the company's products and services. The term of the agreement is for a period of one year commenc
representations and warranties and a non-competition and non-solicitation provision during the term of t
receive a consulting fee equal to $7,500 per month. In addition to the monthly consulting fee, Mr. Bush s
to customers. The consulting agreement contains certain termination rights for both the company and Mr
shall automatically terminate the separation agreement.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of July 20, 2006, certain information regarding the beneficial ownershi

- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our outstanding common stock;
- each of our directors and director nominees:
- each executive officer named in the Summary Compensation Table above; and
- all of our directors and executive officers as a group.

Except as otherwise indicated, the persons listed below have sole voting and investment power with resp
shares of our common stock were outstanding.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)(2)	Percentag of Common Stock Beneficial Owned(2
Shawn Kreloff c/o Sona Mobile Holdings Corp. 825 Third Avenue, 32nd Floor New York, NY 10022	3,088,244(3)	5.3%
Bryan Maizlish 9705 Conestoga Way Potomac, MD 20854	108,006(4)(5)(6)	*
Paul C. Meyer c/o Shuffle Master, Inc. 1006 Palms Airport Drive Las Vegas, NV 89119	42,500(5)(7)	*
M. Jeffrey Branman 935 First Avenue King of Prussia, PA 19406	190,000(8)	*
	1,228,734(9)	2.1%

Lance Yu c/o Sona Mobile Holdings Corp. 44 Victoria Street, Suite 801 Toronto, Ontario M5C1Y2		
All directors and officers as a group (Six)	4,815,817(10)	8.2%
Thomas R. Ellis c/o P.T. Houston, LLC 2323 North 30th Street, Suite 100 Tacoma, WA 98403	3,761,171(11)	6.5%
Steven L. Martin c/o Slater Asset Management, LLC 825 Third Avenue, 33rd Floor New York, NY 10022	4,685,694(12)	7.9%

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)(2)	Percentage of Common Stock Beneficially Owned(2)
Shuffle Master, Inc. 1106 Palms Airport Drive Las Vegas, NV 89119	6,007,692(13)	10.0%
Brendan O'Neil c/o Enable Capital Partners One Ferry Building, Suite 255 San Francisco, CA 94111	3,000,000(14)	5.1%
John Bush P.O. Box.236 Nobleton, ON L0G 1N0, Canada	5,612,798(15)	9.6%

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*Less than 1%.

(1) Effect is given, pursuant to Rule 13-d(1)(i) promulgated under the Exchange Act, to shares issuable the exercise of options or warrants currently exercisable or exercisable within 60 days of the date of prospectus.

(2) As of July 20, 2006, 58,129,523 shares of our common stock were outstanding.

(3) Includes 83,333 shares underlying currently exercisable options and 41,666 shares underlying curre exercisable five-year warrants.

(4) The shares reported in the table include 60,000 shares issuable upon the exercise of options which e on April 19, 2008 and 3,750 director options which expire on November 17, 2010.

(5) Includes 40,000 shares issued to the security holder upon his appointment to the Board, of which 20 vested immediately and 20,000 will vest one year from the date of grant.

(6) Includes 3,750 shares underlying options currently exercisable or exercisable within 60 days of the d
of this prospectus.

(7) Includes 2,500 shares underlying options currently exercisable or exercisable within 60 days of the d
of this prospectus.

(8) Includes 100,000 shares issued to the security holder upon his appointment to the Board, of which 50,000 vested immediately and 50,000 will vest one year from the date of grant, and 30,000 shares underlying currently exercisable five-year warrants.

(9) Includes 50,000 shares underlying exercisable options.

(10) Includes 299,583 shares underlying options granted to these directors and officers.

(11) All shares are registered in the name of PT Houston LLC, of which Mr. Ellis is the sole member and manager.

(12) Includes shares owned directly by Mr. Martin (611,418) as well as shares he is deemed to beneficial own through his wife (8,000), through his IRA (152,400) and through his wife's IRA (76,200); 1,07 shares underlying warrants held by Mr. Martin, certain of the entities mentioned in this footnote and wife's IRA. Mr. Martin also has voting and investment control over shares owned by Slater Equity Partners, L.P. (1,372,000), Slater Equity Partner's Offshore Fund Ltd. (762,200) and Slater FF&E F LLC (652,400) by virtue of the fact that he is the Manager and controlling owner of Slater Asset Management, L.L.C. (SAM) and Slater Capital Management, L.L.C. (SCM). SAM is the general pa of investment limited partnerships of which SCM is the investment advisor, including Slater Equity Partners, L.P. SCM is also the investment advisor to Slater Equity Partners Offshore Fund Ltd. and manager of Slater FF&E Fund, LLC.

(13) Includes 2,033,333 shares underlying warrants. Dr. Mark L. Yoseloff and Messrs. Ken Robson, Gar W. Saunders, Louis Castle and Todd Jordan are all members of Shuffle Master's Board of Directors as such, have shared voting and investment control over these securities. The named individuals disc beneficial ownership of these securities.

(14) Includes 1,000,000 shares underlying currently exercisable options.

(15) The shares of our common stock reported in the table reflect 5,503,409 shares owned by Mr. Bush, including 29,221 shares underlying currently exercisable options, and 80,168 shares owned by his w

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DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 92,000,000 shares, including 90,000,000 shares of common stoc $0.01 per share. Our Board of Directors may designate the rights and preferences of the preferred stock. delay or prevent a takeover of the company. At July 20, 2006, we had 58,129,523 shares of our common

The authorized but unissued shares of common stock and preferred stock are available for future issuanc variety of corporate purposes, including future public offerings to raise additional capital, corporate acqu common stock and preferred stock could render more difficult or discourage an attempt to obtain control

The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the of incorporation or bylaws, unless the corporation's certificate of incorporation or bylaws, as the case ma any super-majority vote requirements.

Common Stock

Under our Certificate of Incorporation, as amended, shares of our common stock are identical in all resp
enjoyed by other holders and is subject to the same qualifications, limitations and restrictions as apply to

Holders of our common stock are entitled to one vote for each share held of record on all matters submit
voting rights. Accordingly, subject to any voting rights of the holders of any other preferred stock that m
present at a meeting at which a quorum is present are able to elect all of the directors eligible for electio

The presence of a majority of the voting power of our outstanding capital stock constitutes a quorum.

The holders of our common stock are entitled to dividends when and if declared by our Board of Directo
to share pro rata in any distribution to stockholders upon our liquidation or dissolution.

None of the shares of our common stock:

- have preemptive rights;
- are redeemable;
- are subject to assessments or further calls;
- have conversion rights; or
- have sinking fund provisions.

Preferred Stock

We are currently authorized to issue 2,000,000 shares of preferred stock in one or more series, of which
have been designated as Series B Convertible Preferred Stock. Our Board of Directors may determine th
issuance without action by our stockholders. The terms of any issuance of preferred stock may include:

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- voting rights, including the right to vote as a series on particular matters, which could be superior to those of our common stock;
- preferences over our common stock as to dividends and distributions in liquidation;
- conversion and redemption rights, including the right to convert into shares of our common stock; and
- sinking fund provisions.

Outstanding Options and Warrants

At July 20, 2006, we had outstanding stock options granted to employees and consultants to purchase 4,
$0.52 to $3.43 per share, with an average weighted exercise price of $0.96, and expire between April 18
vested and currently exercisable. We also had outstanding non-compensatory warrants issued to purchas
exercise price of $1.5421 (as adjusted) and expire on June 21, 2009, 1,200,000 warrants have an exercis
exercise price of $0.83 per share and expire on July 7, 2011.

Registration Rights

We have not granted any registration rights, other than the registration rights with respect to the shares o

Transfer Agent

The transfer agent and registrar for our common stock is U.S. Stock Transfer Corporation, 1745 Gardena

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SELLING STOCKHOLDERS

The following table sets forth certain information known to us with respect to the ownership of our comm
shares of our common stock then outstanding. The share numbers in the column labeled ‘‘Number of Sh
this prospectus. The table assumes that each selling stockholder exercises all of his or its Warrants and s
exact number of shares that actually will be sold. We do not know how long the selling stockholders wil
stockholders to maintain the effectiveness of the registration statement of which this prospectus forms a
understandings with the selling stockholders regarding the sale of any of their shares.

Selling Stockholders	Number of Shares Owned Before the Offering	Number of Shares Offered	Number of Shares Owned After the Offering	Perce of C of S
BTG Investments, LLC(1)	2,499,999(2)	2,499,999	—	
Alexandra Global Master Fund, Ltd.	2,499,999(2)	2,499,999	—	
Narragansett Offshore, Ltd.	649,999(3)	649,999	—	
Narragansett I, LP	600,000(4)	600,000	—	
Jonathan Schloss	62,499(5)	62,499	—	
AJW Partners, LLC	61,249(6)	61,249	—	
AJW Offshore, Ltd.	381,249(7)	381,249	—	
AJW Qualified Partners, LLC	174,375(8)	174,375	—	
New Millennium Capital Partners II, LLC	8,124(9)	8,124	—	
Enable Growth Partners LP	2,250,000(10)	2,250,000	—	
Enable Opportunity Partners LP	450,000(11)	450,000	—	
Pierce Diversified Strategy Master Fund LLC	300,000(12)	300,000	—	
Action Gaming, Inc.	3,000,000(13)	3,000,000	—	
Shuffle Master, Inc.	6,007,692(14)	6,007,692	—	
Heller Capital Investments, LLC	1,249,999(15)	1,249,999	—	
CGM as C/F Ronald I. Heller IRA	625,000(16)	625,000	—	
David S. Nagelberg CGM IRA	624,999(16)	624,999	—	
Precept Capital Master Fund, G.P.	1,584,999(15)	1,249,999	335,000	
Potomac Capital Partners(17)	1,046,699(18)	542,499	504,200	
Potomac Capital International Ltd.(17)	634,100(19)	330,000	304,100	
Pleiades Investment Partners-R, LP(17)	712,499(20)	377,499	335,000	
Slater FF&E Fund LLC(21)	902,400(22)	750,000	152,400	
Steven L. Martin(21)	778,084(23)	499,999	278,085	
Smithfield Fiduciary, LLC(23)	1,250,001(25)	1,250,001	—	
Irwin Lieber	624,999(16)	624,999	—	
Woodland Partners	375,000(26)	375,000	—	

Woodland Venture Fund	124,999(27)	124,999	—	
Brookwood Partners, L.P.	124,999(27)	124,999	—	
Bristol Investment Fund, Ltd.	624,999(16)	624,999	—	
Braventures Limited	499,999(28)	249,999	250,000	
Shawn Kreloff	3,088,244(29)	124,999	2,963,245	5.
M. Jeffrey Branman	190,000(30)	90,000	100,000	
Peter Shoebridge	475,000(31)	75,000	400,000	
The Thundering Herd LLC	462,499(32)	62,499	400,000	

* Less than 1%.

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(1)Each of Byron Roth and Gordon Roth has voting and dispositive power with respect to the shares to resold by BTG Investments LLC. BTG Investments LLC, an affiliate of a broker-dealer, acquired th securities included for registration herein in the ordinary course of business, and at the time of the acquisition, had no agreements or understandings, directly or indirectly, with any person to distribut securities.

(2)The common stock reported includes 833,333 shares of common stock issuable upon the exercise of certain warrants.

(3)The common stock reported includes 216,666 shares of common stock issuable upon the exercise of certain warrants.

(4)The common stock reported includes 200,000 shares of common stock issuable upon the exercise of certain warrants.

(5)The common stock reported includes 20,833 shares of common stock issuable upon the exercise of certain warrants.

(6)The common stock reported includes 20,416 shares of common stock issuable upon the exercise of certain warrants.

(7)The common stock reported includes 127,083 shares of common stock issuable upon the exercise of certain warrants.

(8)The common stock reported includes 58,125 shares of common stock issuable upon the exercise of certain warrants.

(9)The common stock reported includes 2,708 shares of common stock issuable upon the exercise of ce warrants.

(10)The common stock reported includes 750,000 shares of common stock issuable upon the exercise of certain warrants.

(11)The common stock reported includes 150,000 shares of common stock issuable upon the exercise of certain warrants.

(12)The common stock reported includes 100,000 shares of common stock issuable upon the exercise of certain warrants.

(13)The common stock reported includes 1,000,000 shares of common stock issuable upon the exercise certain warrants.

(14)Paul Meyer, President and Chief Operating Officer of Shuffle Master, Inc., is a member of the boar directors of the company. The common stock reported includes 2,033,333 shares of common stock issuable upon the exercise of certain warrants.

(15)The common stock reported includes 416,666 shares of common stock issuable upon the exercise of certain warrants.

(16)The common stock reported includes 208,333 shares of common stock issuable upon the exercise of certain warrants.

(17)P.J. Solit has voting and investment control over these securities because he is the sole managing member of Potomac Capital Management LLC (PCM LLC) and the president and sole shareholder of Potomac Capital Management Inc. (PCM Inc.). PCM LLC is the general partner of Potomac Capital Partners L.P. PCM Inc. is the investment manager of Potomac Capital International Ltd. and Pleiade Investment Partners-R LP.

(18)The common stock reported includes 180,833 shares of common stock issuable upon the exercise of certain warrants.

(19)The common stock reported includes 110,000 shares of common stock issuable upon the exercise of certain warrants.

(20)The common stock reported includes 125,833 shares of common stock issuable upon the exercise of certain warrants.

(21)Steven L. Martin has voting and investment control over these securities because he is the manager a controlling owner of Slater Capital Management, L.L.C. (SCM). SCM is the manager of Slater FF& Fund, LLC.

(22)The common stock reported includes 250,000 shares of common stock issuable upon the exercise of certain warrants.

(23)The common stock reported includes 166,666 shares of common stock issuable upon the exercise of certain warrants.

(24)Highbridge Capital Management, LLC is the trading manager of Smithfield Fiduciary LLC and has voting control and investment discretion over securities held by Smithfield Fiduciary LLC. Glenn D and Henry Swieca control Highbridge Capital Management, LLC. Each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca disclaims beneficial ownership of the securities by Smithfield Fiduciary LLC.

(25)The common stock reported includes 416,667 shares of common stock issuable upon the exercise of certain warrants.

(26)The common stock reported includes 125,000 shares of common stock issuable upon the exercise of certain warrants.

(27)The common stock reported includes 41,666 shares of common stock issuable upon the exercise of certain warrants.

(28)The common stock reported includes 83,333 shares of common stock issuable upon the exercise of certain warrants.

(29)Shawn Kreloff was appointed Chief Executive Officer of the Company on May 5, 2006. He has bee Chairman of the Board and a director since 2004. The common stock reported includes 41,666 share common stock issuable upon the exercise of certain warrants.

(30)M. Jeffrey Branman was appointed to the Board of Directors of the Company on July 6. 2006. The common stock reported includes 30,000 shares of common stock issuable upon the exercise of certa warrants.

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(31)Peter Shoebridge is Vice President, Development of the Company. The common stock reported incl 400,000 shares of common stock owned by Digital Wasabi LLC, of which Mr. Shoebridge is a prin and 25,000 shares of common stock issuable upon the exercise of certain warrants.

(32)Andrew Brandt, is Vice President, Technology of the Company. Mr. Brandt holds voting and dispos
power with respect to the shares held by The Thundering Herd LLC. The common stock reported
includes 400,000 shares of common stock owned by Digital Wasabi LLC, of which Mr. Brandt is a
principal, and 20,833 shares of common stock issuable upon the exercise of certain warrants.

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PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, donees, transferees, assignees and successors-in-inte
stock exchange, market or trading facility on which the shares are traded or in private transactions. Thes
one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits Investors;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may positio and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- to cover short sales made after the date that this Registration Statement is declared effective b the Commission;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares in transactions exempt from the registration requirements o
under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate i
stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in am
and discounts to exceed what is customary in the types of transactions involved.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the S
obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time
424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockho
stockholders under this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter
may in turn engage in short sales of the common stock in the course of hedging the positions they assum
deliver these securities to close out their short positions, or loan or pledge the common stock to broker-d
into option or other transactions with broker-dealers or other financial institutions or the creation of one
other financial institution of shares offered by this prospectus, which shares such broker-dealer or other f
amended to reflect such transaction).

Upon the company being notified in writing by a selling stockholder that any material arrangement has b
trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or

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dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Secur
participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares
allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any in
prospectus, and (vi) other facts material to the transaction. In addition, upon the company being notified
500 shares of common stock, a supplement to this prospectus will be filed if then required in accordance

The selling stockholders also may transfer the shares of common stock in other circumstances, in which
beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be
with such sales. In such event, any commissions received by such broker-dealers or agents and any profi
commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar sel
the selling stockholder and/or the purchasers. Each selling stockholder has represented and warranted to
the ordinary course of such selling stockholder's business and, at the time of its purchase of such securit
indirectly, with any person to distribute any such securities.

The company has advised each selling stockholder that it may not use shares registered on this Registrat
which this Registration Statement shall have been declared effective by the Commission. If a selling stoc
the prospectus delivery requirements of the Securities Act. The selling stockholders will be responsible t
and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as ap
shares under this Registration Statement.

The company is required to pay all fees and expenses incident to the registration of the shares, but the co
company has agreed to indemnify the selling stockholders against certain losses, claims, damages and lia

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LEGAL MATTERS

The validity of 25,414,980 of the shares of common stock offered by this prospectus have been passed u
remaining 3,507,693 shares of common stock offered by Shuffle Master pursuant to this prospectus have
York.

EXPERTS

Our consolidated financial statements as of December 31, 2004 and 2005 included in this prospectus hav
accounting firm, as stated in their report dated February 28, 2006. Such consolidated financial statement
accounting and auditing.

COMMISSION POSITION ON INDEMNIFICATION
FOR SECURITIES ACT LIABILITIES

Our certificate of incorporation, as amended, provides that none of our directors will be personally liable
director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of the law;
- under section 174 of the Delaware General Corporation Law for the unlawful payment of dividends; or
- for any transaction from which the director derives an improper personal benefit.

These provisions require us to indemnify our directors and officers unless restricted by Delaware law an
from a director for breach of his fiduciary duty of care as a director except in the situations described ab
our stockholders to seek non-monetary remedies, such as an injunction or rescission, against a director f

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directo
been advised that in the opinion of the Securities and Exchange Commission, such indemnification is ag
unenforceable.

WHERE YOU CAN FIND MORE INFORMATION

Currently, we are not required to deliver our annual report to security holders. However, we will volunta
stockholder that requests it. We are subject to the information and reporting requirements of the Securiti
reports, proxy statements and other information with the Commission. You may read and copy any repo
located at 100 F Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330
Commission also maintains an Internet site at www.sec.gov that contains reports, proxy and information
electronically file documents with the Commission.

This prospectus is part of a registration statement filed by us with the Commission. Because the Commis
statement from this prospectus, this prospectus does not contain all the information set forth in the regist
with, or incorporated

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therein by reference in, the registration statement for further information regarding us and the shares of c
prospectus as to the contents of any contract or any other document are summaries of the material terms
documents filed, or incorporated therein by reference, as an exhibit to the registration statement, we refe
registration statement and its exhibits may be inspected at the Commission's Public Reference Room at t

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Sona Mobile Holdings Corp. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Sona Mobile Holdings Corp. and Sub
consolidated statements of operations and comprehensive loss, stockholders' deficiency, and cash flows
consolidated financial statements are the responsibility of the Company's management. Our responsibili
audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (U
reasonable assurance whether the consolidated financial statements are free of material misstatement. An
disclosures in the financial statements. An audit also includes assessing the accounting principles used a
financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material resp
December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the two

principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as
has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a
described in Note 1. The financial statements do not include any adjustments that might result from the o

As discussed in Note 21 to the consolidated financial statements, during the fourth quarter of 2005, the C

/s/ Horwath Orenstein LLP
Toronto, Canada Chartered Accountants

February 28, 2006, except for Note 20, as
to which the date is March 28, 2006

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As at December 31, 2005	As at December 31, 2004
Assets		
Current:		
Cash and cash equivalents	$ 1,286,912	$ 113,629
Accounts receivable (net of allowance for doubtful accounts of $37,479 and $0, respectively)	413,122	131,630
Tax credits receivable	30,929	90,433
Prepaid expenses & deposits	114,691	17,852
Total current assets	1,845,654	353,544
Property and equipment:		
Computer equipment	152,686	9,761
Furniture and equipment	29,761	5,469
Less: accumulated depreciation	(19,393)	(3,936)
Total property and equipment	163,054	11,294
Software rights, net	—	415,935
Total assets	$ 2,008,708	$ 780,773
Liabilities and Stockholders' Equity		
Current:		
Accounts payable	$ 619,729	$ 93,027
Accrued liabilities	701,206	375,975
Note Payable and other short term notes	—	55,325
Redeemable Preferred Shares	—	280,000
Deferred revenue	130,287	1,432
Total current liabilities	1,451,222	805,759

Convertible note payable	—	85,630
Common stock purchase warrants carried as a liability – 962,175 issued and outstanding (see Note 21)	750,103	-
Total Liabilities	2,201,325	891,389
Stockholders' equity:		
Common Stock – 90,000,000 shares authorized, par value $.01 per share – 37,907,350 and 11,413,232 shares issued and outstanding respectively	379,074	775,697
Additional paid-in capital	7,064,433	205,555
Unamortized stock based compensation	(53,000)	(325,237)
Accumulated other comprehensive income	(95,659)	(25,651)
Accumulated deficit	(7,487,465)	(740,980)
Total stockholders' deficiency	(192,617)	(110,616)
Total liabilities and stockholders' equity	$ 2,008,708	$ 780,773

See accompanying notes to consolidated financial statements.

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Year ended December 31, 2005	Year ended December 3 2004
Net Revenue	$ 565,489	$ 401,53
Operating expenses		
Depreciation and amortization	439,370	142,58
General and administrative expenses	1,348,461	174,79
Professional fees	927,425	93,85
Development expenses	894,287	211,35
Selling and marketing expenses	3,672,346	385,60
Total operating expenses	7,281,889	1,008,19
Operating loss	(6,716,400)	(606,66
Interest income	76,415	1,13
Interest expense	(6,480)	(28,31
Other income and expense	(100,020)	7,68
Net loss	$ (6,746,485)	$ (626,15
Foreign currency translation adjustment	(70,007)	(27,95
Comprehensive loss	$ (6,816,492)	$ (654,10
Net loss per share of common stock – basic and diluted	$ (0.22)	$ (0.0
Weighted average number of shares of common stock outstanding – basic and diluted	30,916,820	10,626,44

See accompanying notes to consolidated financial statements.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

	Common Stock		Series A & Series B Convertible Preferred Stock		Additional paid-in Capital	Unamortized Based Compensation	Ac Co
	Shares	Amount	Shares	Amount			
Balance at December 31, 2003	6,812,010	$ 35,000	—	$ —	$ —	$ —	$
Issuance of shares for cash	4,601,222	368,997					
Value of conversion option of convertible note					30,555		
Cash received in advance for common stock subscriptions					175,000		
Deferred stock based compensation		371,700				(325,237)	
Foreign exchange translation							
Net loss							
Balance at December 31, 2004	11,413,232	775,697	—	—	205,555	(325,237)	
Sona common stock issued prior to reverse merger	14,758,233	683,707					
Convertible note conversion	1,162,655	70,420					
Common stock acquired in the reverse merger	6,584,530	65,845			1,146,433		
Recapitalization and exchange of stock pursuant to merger	(27,334,120)	(1,529,823)			1,478,905	325,237	

Issuance of Series A Convertible Preferred Stock pursuant to merger				568,140	5,681		
Issuance of Series B Convertible Preferred Stock				3,849	38	4,365,049	
Conversion of Series A and Series B Convertible Preferred Stock into common stock	31,182,820		311,828	(571,989)	(5,719)	(306,109)	
Deferred stock based compensation	140,000		1,400			174,600	(53,000)
Foreign exchange translation							
Net loss							
Balance at December 31, 2005	37,907,350	$	379,074	0	0	$7,064,433	($53,000)

See accompanying notes to consolidated financial statements.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2005	Year ended December 31 2004
Cash provided by (used in):		
Operating activities		
Net loss	$ (6,746,485)	$ (626,156)
Adjustments for:		
Depreciation and amortization	439,370	142,588
Amortization of deferred interest	15,210	16,185
Revaluation of stock purchase warrants	100,020	
Changes in non-cash working capital assets and liabilities:		
Accounts receivable	(272,578)	(122,571)
Tax credits receivable	59,504	69,184
Prepaid expenses & deposits	(96,839)	(11,659)
Accounts payable	534,041	(67,929)

Accrued liabilities	330,882	244,263
Deferred revenue	128,855	1,432
Net cash provided by (used in) operating activities	$ (5,508,020)	$ (354,663)
Investing activities		
Capital expenditures	(167,217)	(2,155)
Net cash provided by (used in) investing activities	$ (167,217)	$ (2,155)
Financing activities		
Convertible note payable, net	—	100,000
Redeemable preferred shares	150,000	130,000
Proceeds from the sale of common stock	683,707	368,997
Proceeds from stock based compensation	53,000	46,463
Proceeds from deposits on share subscriptions	—	175,000
Cash acquired in reverse merger	1,101,858	-
Proceeds from the issuance of Series B Preferred Stock	4,365,087	-
Proceeds from the issuance of common stock purchase warrants	650,083	-
Repayment of note payable and other loans	(55,325)	(322,274)
Net cash provided by financing activities	$ 6,948,410	$ 498,186
Effect of exchange rate changes on cash	(99,890)	(27,952)
Change in cash during the period	1,173,283	113,416
Cash, beginning of period	113,629	213
Cash, end of period	$ 1,286,912	$ 113,629

There were no amounts paid in cash for taxes or interest in 2005 or 2004. There were several non-cash fi
note in the principal amount of $100,000 was converted to 1,162,655 shares of Common Stock. On Nov
automatically converted to 31,182,820 shares of Common Stock upon authorization of the increase in th

See accompanying notes to consolidated financial statements.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

Note 1. Going Concern and Management's Plans

The accompanying consolidated financial statements have been prepared assuming that the Company wi
generated minimal revenue and have incurred substantial losses. Accordingly, we have not generated cas
Common Stock and the Series B Preferred Stock financing to fund our operations. These conditions rais

The consolidated financial statements do not include any adjustments to reflect the possible future effect
of liabilities that may result from the possible inability of the Company to continue as a going concern.

As of December 31, 2005, the Company had cash and cash equivalents of approximately $1.3 million. C
$3,000,000 in proceeds received subsequent to year end from the sale of shares to Shuffle Master, will b
we will have to raise additional capital during 2006. We currently plan to raise capital to finance our pla
sale of additional shares of our Common Stock or preferred stock or the issuance of options or warrants.

capital in a timely manner. If we are not successful in raising additional capital in a timely manner, our l
adversely affected. Such a financing could dilute the interests of our existing shareholders or increase ou
are also unable to secure additional financing, we may have to significantly curtail our operations or tak

Note 2. Basis of Presentation

The accompanying audited consolidated financial statements of Sona Mobile Holdings Corp. (the ''Com
accordance with U. S. generally accepted accounting principles (''GAAP''). The audited consolidated fi
subsidiary, Sona Mobile, Inc. (''Sona Mobile'') and Sona Mobile's wholly-owned subsidiary, Sona Inn
subsidiary of the Company formed in the United Kingdom in September 2005. All material inter-compa

Recently issued accounting pronouncements

In December 2004, the Financial Accounting Standards Board (''FASB'') issued Statement of Financial
the accounting for share-based payment transactions. SFAS No. 123 (R) eliminates the ability to accoun
requires instead that such transactions be accounted and recognized in the statement of income based on
as small business issuers as of the first interim period in fiscal years that begin after December 15, 2005.
number and terms of options that may be granted in future periods, management believes that the imple
statements.

In May 2003, the FASB issued SFAS No. 150, ''Accounting for Certain Financial Instruments with Cha
issuer classifies and measures certain financial instruments with characteristics of both liabilities and eq

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

150 requires that an issuer classify a financial instrument that is within its scope, which may have previo
Mandatorily redeemable instruments (i.e. instruments issued in the form of shares that unconditionally o
to be reported as liabilities by their issuers. This statement does not affect the classification or measurem
conditionally redeemable. The provisions of SFAS No. 150 are generally effective for all financial instru
relating to mandatorily redeemable non-controlling interests, which have been deferred. The Company h
2003. If the deferred provisions of SFAS No. 150 are finalized in their current form, management does n
results of operations.

Note 3. Company Background and Description of Business

PerfectData Corporation (''PerfectData'') was incorporated in the State of California on June 8, 1976. O
reincorporated in the State of Delaware.

On April 19, 2005 (the ''Merger Date''), pursuant to an Agreement and Plan of Merger dated as of Marc
corporation (''Sona-Washington''), was merged with and into PerfectData Acquisition Corporation, a D
(the ''Merger''). Merger Sub simultaneously changed its named to Sona Mobile, Inc. The Company's na
stockholders' meeting on November 17, 2005.

As contemplated by the Merger Agreement, on the Merger Date, four of PerfectData's five directors resi
three designees of Sona-Washington to fill those vacancies. Also, on the Merger Date the Company's ch
Sona-Washington as the Company's new executive officers.

In the Merger, the Sona-Washington shareholders received an aggregate of 539,733 shares of the Compa
ratio for the Series A Stock was 48.11159 to one — meaning each share of Series A Stock was convertib
(the ''Common Stock''), or a total of 25,967,413 shares of Common Stock. Sona Mobile's financial adv
convertible into 1,366,706 shares of Common Stock. The holders of the Series A Stock vote together wi
the Company's shareholders on an as converted basis. As a result, the holders of the Series A Stock had
shares of Common Stock will be issued to the original holders of the Series A Stock and the Series B St
the Company, on a consolidated basis, has revenues of at least $3,000,000 and a gross profit margin of a
aggregate revenues for 2005 and 2006 are at least $12,000,000 and the Company's gross profit margin, c
at least 50%.

The Series A Preferred Stock converted automatically into Common Stock at the time as the Company's
that increased the number of authorized shares of Common Stock to an amount that would permit the co
November 17, 2005, the Company's stockholders approved an amendment to the Company's

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

Certificate of Incorporation increasing the number of authorized shares of Common Stock from 10,000,0
568,140 shares of the Series A Stock were automatically converted into 27,334,120 shares of Common S

Upon completion of the Merger, the Company's only business was the historical business of Sona-Wash
Accordingly, the Merger was accounted for as a reverse acquisition of a public shell and a recapitalizatio
and the costs were accounted for as a reduction of additional paid-in-capital. The pre-Merger financial st
the combined companies. The historical financial statements of PerfectData prior to the Merger are not p
acquirer, its historical stockholders' equity has been adjusted to reflect the new capital structure. Immedi
assets (primarily cash) of approximately $1.1 million.

Sona-Washington was organized on November 12, 2003 in the State of Washington for the purpose of a
(''Innovations''). The acquisition was completed in December 2003. The Company operates as one busi

The Company develops and markets wireless data applications for mobile devices in the rapidly growing
Service Provider specializing in value-added services to data-intensive vertical market segments. The Co
Wireless Development Platform(TM) (''SWP'') and related end-user wireless application software prod

The Company markets its products and services principally to two large vertical markets:

- 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 are delivered in compliance with the current regulatory environment.

One of the Company's primary focuses is to develop wireless software applications for the data-intensive investment banking community and client-facing applications for the retail banking industry.

• Media, entertainment and gaming. Sona Mobile delivers content via significant channel partners and content partners, including live streaming television, digital radio, specific theme phones, and gaming applications.

Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist prima not collateralized and, as a result, management continually monitors the financial condition of its custom 90 days are considered delinquent. The Company maintains reserves for potential credit losses based up to collect a receivable have failed, the receivable is written off against the allowance. Such losses have b concentration of credit risk as it relates to specific industry segments, as historically its customers have b 2004, one customer comprised approximately 18% and 31%, respectively, of the Company's revenue. S some credit risk due to a high concentration of revenues from individual

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

customers. In 2005, there were two individual customer projects that made up 31% and 20% of annual r customer projects that made up 16% and 10% of annual revenues.

We had a balance of $37,479 in our Allowance for Doubtful Accounts provision as of December 31, 200 debt write offs against the provision in 2005.

Note 5. Summary of Significant Accounting Policies

These consolidated financial statements are presented in United States dollars and have been prepared in

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsid Sona Innovations Inc., and the accounts of the Company's wholly owned subsidiary in the United Kingd eliminated in consolidation.

(b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and term deposits with original maturity dates of less t market value, and are concentrated in two major financial institutions.

(c) Foreign currency translation

The functional currency is the U.S. dollar. In accordance with the provisions of SFAS No. 52, ''Foreign been translated at the period end rate of exchange. Revenue and expense items have been translated at th

(Canada) as its functional currency, the resulting translation adjustments are included in other comprehe
are reflected in earnings.

(d) Property and equipment

Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estin

(e) Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to
liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and th
results could differ from these estimates. These estimates are reviewed periodically and, as adjustments l
known.

(f) Software rights

Software rights were recorded at the excess of the purchase price for Innovations, purchased in 2003, ov
2005, the software rights were amortized on a straight-line basis assuming a four-year life. As at Decemb
which these

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

software rights were originally acquired. Accordingly, the software rights were written off as of Decemb
included in Depreciation and Amortization expense in the financial statements.

(g) Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, ''Accounting for Income Ta
reporting for income taxes. Deferred income tax assets and liabilities are computed periodically for diffe
will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable t
Valuation allowances are established when necessary to reduce deferred tax assets to the amount expecte
period plus or minus the change during the period in deferred tax assets and liabilities.

(h) Revenue recognition

The Company derives revenue from license and service fees related to customization and implementatio
Statement of Position (''SOP'') 97-2, ''Software Revenue Recognition,'' as amended by SOP 98-4 and
Performance of Construction-Type and Certain Production-Type Contracts.'' Service fees are recorded
not reliable estimates of the costs to complete the work can be obtained. License fees are recognized ove
fixed or determinable and collection of the receivable is probable. The deferred revenues are amounts re

(i) Research and development costs

The Company incurs costs on activities that relate to research and the development of new products. Res
where applicable.

Development costs to establish the technological feasibility of software applications developed by the Co
costs incurred subsequent to achieving technological feasibility are capitalized. Accordingly, a portion o
wireless software development and enhancement activities are capitalized. Costs associated with concep
are expensed as incurred. Capitalized costs are amortized based on current or future revenue for each pro
economic lives of the applications, not to exceed 5 years and are periodically evaluated for impairment.

Development costs for the years ended December 31, 2005 and 2004 were $894,000 and $211,000 respe

(j) Stock based compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principl
related interpretations including FASB

Interpretation No. 44, ''Accounting for Certain Transactions Involving Stock Compensation, and Interpr
stock

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

options. Under this method, compensation expense is recorded on the date of grant only if the current ma
''Accounting for Stock-Based Compensation,'' established accounting and disclosure requirements usin
plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-ba
requirements of SFAS No. 123.

SFAS No. 123, as amended by SFAS No. 148, permits companies to recognize, as expense over the vest
Black-Scholes option valuation model was developed for use in estimating the fair value of traded option
Company's stock-based compensation plan has characteristics significantly different from those of trade
affect the fair value estimate, management believes that the existing option valuation models do not nece
Therefore, as permitted, the Company applies the existing accounting rules under APB No. 25 and provi
the year as if the fair value method defined in SFAS No. 123, as amended, had been applied.

The following table illustrates the effect on net loss as if the Company had applied the fair value recogni
value of these options was estimated at the date of grant using a Black-Scholes option-pricing model, ass
and no expected dividend rate. There were no options issued in 2004.

(000's, except per share amounts)

	2005
Net loss, as reported	$ (6,746,48

Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards	502,12
Pro forma net loss	$ (7,248,61
Basic and diluted net loss per common share:	
As reported	$ (0.2
Pro forma	$ (0.2

(k) Reclassifications

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

(l) Derivatives

We follow the provisions of SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activ ''Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's C Convertible Debt Instrument' in Issue No. 00-19'' (''EITF 05-2''). SFAS No. 133 requires every derivat be recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in t accounting criteria are met. We value these derivative securities under the fair value method at the end o

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

marked to market at the end of each reporting period, with the gain or loss recognition recorded against e current value in light of the current market price of our Common Stock. We utilize the Black-Scholes op option-pricing model include applicable volatility rates, risk-free interest rates and the instruments expec

Note 6. Schedule of Stockholders' Equity

The schedule of stockholders' equity reflects the Merger, which was treated as a reverse acquisition with Washington as of December 31, 2003, and the schedule reflects the issuance of Common Stock pursuant

Series B Financing

In June 2005, the Company sold 3,848.7 shares of its Series B Convertible Preferred Stock, $.01 per sha Common Stock (the ''Warrants''). The gross proceeds from the sale of the Series B Preferred Stock and related costs of approximately $34,000. The Series B Stock ranked pari passu with the Series A Preferre except that each share of Series B Preferred Stock converted into 1,000 shares of Common Stock, or 3,8 of Common Stock.

At the annual shareholders meeting on November 17, 2005, the Company's stockholders approved an ar authorized shares of Common Stock from 10,000,000 to 90,000,000. In accordance with the terms of the automatically converted into 3,848,700 shares of Common Stock at that date.

Note 7. Earnings per Share

Basic earnings per share are computed by dividing income available to common shareholders by the wei
earnings per share considers the potential dilution that could occur if securities or other contracts to issue
the issuance of Common Stock that shared in the earnings of the entity.

The calculation of diluted earnings per share did not include 1,925,000 shares of the Company's Commo
issuable upon exercise of the Common Stock warrants, as their inclusion would be anti-dilutive.

Note 8. Lease Commitments

The Company leases office space in Toronto, Ontario, New York, New York, Boulder, Colorado and Lo
leases have been classified as operating leases. Lease commitments by year are as follows:

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

Future Lease Commitments by Year
(US$)

	2006	2007	2008	2009
Office Space Leases:				
United States	$ 497,104	$ 500,915	$ 67,938	$ 74,732
Canada	81,740	27,247		
United Kingdom	5,446			
Total Office Space	584,291	528,162	67,938	74,732
Office Equipment	7,558	7,558	7,221	5,442
Total Lease Commitments	$ 591,849	$ 535,720	$ 75,159	$ 80,174

Office lease payments for 2005 and 2004 were approximately $139,000 and $29,000 respectively. Office
$3,000 respectively.

Note 9. Convertible note payable

In July 2004, the Company issued a note for proceeds of $100,000, its face value. The note was due Janu
note's due date, 355,250 common shares were to be issued to the note holder. The note was convertible t
2005, the note was converted to 1,162,655 shares of the Company's Common Stock.

In accordance with EITF 98-5, the fair value of the conversion option on the date of issuance was nil as t
The obligation to issue the underlying shares has been valued at the market price at the time of issue in t
stockholder's equity and the related note discount, netted against the note payable. Interest and amortiza
2005, the holder of the note exercised the conversion option. The other paid-in capital and the carrying v
$21,580, have been recorded as proceeds for the issue of the 1,162,655 shares.

Note 10. Share Capital

On the Merger Date, the Company issued 568,140 shares of its Series A Stock in connection with the M
stockholders approved an amendment to the Company's Certificate of Incorporation increasing the numb
accordance with the terms of the Merger Agreement, the 568,140 shares of the Series A Stock were auto

In June 2005, the Company sold 3,849 shares of its Series B Preferred Stock and 962,175 Common Stoc
Financing were $5,049,466. All of the Series B Preferred Stock subscription amounts were received by I
Black-Scholes option pricing formula based upon a four year term, a volatility factor of 65%, a risk free
the Series B Financing. The Warrants expire four years from their date of issuance and have a per share
2005. At the annual shareholders meeting on November 17, 2005, the Company's stockholders approve
of authorized shares of Common Stock from

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

10,000,000 to 90,000,000. In accordance with the terms of the Series B financing, the 3,848.7 shares of t
Common Stock at that date.

Between January 1, 2004 and December 31, 2004, the Company issued 4,601,222 shares of its Common
its Common Stock outstanding. An additional 14,758,233 shares were issued for cash between January 1
On March 2, 2005, 1,162,655 shares were issued upon conversion of a note payable (see Note 9). Betwe
Common Stock to convert 568,140 shares of its Series A Preferred Stock, 3,848,700 shares of its Comm
shares of restricted Common Stock to the four newly elected outside directors for their services, of whic

Note 11. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and notes p
to the extent that debtors do not meet their obligations. The Company monitors the age of its accounts re
not meet payment terms. The fair value of all financial instruments approximates book values.

The Company is subject to foreign currency risk with respect to financial instruments denominated in a f

Note 12. Income Taxes

Deferred tax benefits arising from net operating loss carry forwards were determined using the applicabl
of approximately $2,539,000 arising from net operating loss (NOL) carry forwards. The NOL carry forw
2010 if not utilized and expire in varying amounts through 2024. These deferred taxes benefits are fully
earn sufficient future profits to utilize the loss carry forwards.

The net operating loss carry forward balances vary from the applicable percentages of net loss due to exp
accepted accounting principles, but not deductible for tax purposes.

	2005	2004	2003	
United States loss	2,537,265	216,285	114,823	2
Canada loss	3,782,636	409,871	—	4
United Kingdom loss	326,564	—	—	
Amortization of intangibles	(415,935)	(138,647)	—	
Net loss for tax purposes	6,230,530	487,509	114,823	6
Expected statutory rate	37.2%	36.7%	40.0%	
Expected recovery of taxes	2,314,916	179,048	45,929	2
Valuation reserve	(2,314,916)	(179,048)	(45,929)	(2
Net tax asset	—	—	—	

Note 13. Commitments

On December 29, 2004, Innovations signed a letter of intent to acquire the assets and employee contracts
of $4,160

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

($5,000 Canadian) was paid as at December 31, 2004, a second payment of $42,500 ($50,000 Canadian)
Canadian) was paid in the fourth quarter of 2005. The assets included in the purchase had negligible valu
employment contracts. The goodwill was estimated to have no future value as of December 31, 2005 and
2005.

Note 14. Amounts due to Affiliated Parties

Accrued liabilities at December 31, 2005 include an amount of approximately $82,000 due to an officer
employee of the Company. At December 31, 2004, these balances were approximately $164,000 and $4
2004.

Note 15. Related Party Transactions

During 2005 and 2004, the Company paid consulting and management fees to shareholders and directors
included payments for the years ended December 31, 2005 and December 31, 2004 for consulting fees o
respectively, to Mr. Glinsman. In addition, relocation expense of $32,884 was incurred by us in 2005 for
each of Messrs. Kreloff and Glinsman to purchase up to 250,000 shares of our Common Stock at an exer
agreement with Mr. Frank Fanzilli, a director, under which we pay him $5,000 per month for consulting
connection with their appointment to our Board of Directors in 2005, 40,000 shares of our Common Sto
compensation plan described under ''Executive Compensation — Compensation of Directors'' elsewher
Directors in 2005 and who resigned from the Board effective March 6, 2006, was also awarded 40,000 s
in the plan, forfeited 20,000 shares by reason of his resignation from the Board. We also granted options
2005 in connection with their appointment to our Board of Directors.

As of December 31, 2005, Accrued Liabilities includes the balance due to shareholders of $103,778, wh

In 2004, the Company's subsidiary shared premises with the former majority shareholder of Innovations
During 2004, the Company paid rent to the former majority shareholder in the amount of $22,590 on a n

Note 16. Option Grants

Option /SAR Grants in Last Fiscal Year

(1) 2000 Option Plan

In May 2000, the Board of Directors of the Company adopted the Stock Option Plan of 2000 (the ''2000
Option Plan and ratified options previously granted. The Company registered under the Securities Act of
options granted or to be granted pursuant to the 2000 Option Plan in a Registration Statement on Form S
under the Securities Act, an

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

optionee under options registered under such registration statement who is not an affiliate of the Compan
and an optionee who is an affiliate (i.e., a director or an executive officer) may resell pursuant to the exe
period under paragraph (d) of Rule 144.

The 2000 Option Plan provided for the grant of options to purchase shares of the Common Stock to dire
options may be granted to directors, officers, employees and consultants. Incentive stock options, as such
The term of the 2000 Option Plan was for ten years and it provided for the grant of options to purchase u
initially provided for the grants of options to purchase an aggregate of 2,000,000 shares of Common Sto
exercised. The 2000 Option Plan was administered by the Board during the first half of 2005 and in prio

On November 12, 2005, the Company's stockholders approved the Amended and Restated Option Plan o
Option Plan amends and restates the 2000 Option Plan and, among other things, increases the number of
5,000,000 shares and gives the Plan administrator the flexibility to grant various types of equity incentiv
restricted stock awards, stock appreciation rights and others., among other things, increases the number o
5,000,000 shares and gives the Plan administrator the flexibility to grant various types of equity incentiv
restricted stock awards, stock appreciation rights and others.

The Amended and Restated Option Plan provides that the exercise price of an incentive stock option sha
except that, if the employee owns stock possessing more than 10% of the total combined voting power o
fair market value of Common Stock on the date of grant and the incentive stock option cannot be exercis
option to be granted under the 2000 Option Plan may have, a term in excess of ten years. The exercise pr
on the date of grant.

The number of shares subject to an outstanding option and the exercise price thereof are subject to adjus
combination of shares, change in corporate structure or similar events. No fractional shares will be issue
share.

Options granted prior to the reverse acquisition on April 19, 2005 were not exercisable during the first y
of 25% each. Although the 2000 Option Plan permits some options to be granted to employees to have p
granted to date has such provision. Stock options granted subsequent to April 19, 2005 had vesting provi
years, with the exception of the director stock options, which vest at a rate of 25% at the end of each qua

Options granted under the 2000 Option Plan are non-transferable and not immediately exercisable. How
became immediately exercisable, even if not already exercisable, and their expiration date became April

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

The provisions described in this paragraph are applicable to future options: If the optionee's employmen
may, for a period of up to three months, exercise the option to the extent exercisable upon the date of ter
permanent disability (as defined in the Code), the optionee will have 12 months within which he or she c
termination. In the event of other disability causing termination, the optionee may have six months (thre
as an incentive stock option) to exercise the stock option to the extent exercisable upon the date of termi
exercisable upon the date of death of the optionee, whether it occurred during the initial term or during t
event may a stock option be exercised beyond its original expiration date. Similar provisions are applica

For a consultant to be eligible to receive a grant of a stock option under the Amended and Restated Opti
Company must be of a bona fide nature and not in connection with the offer or sale of securities of the C
maintain a market for the Company's securities.

At the Merger Date, options covering a total of 249,000 shares of the Common Stock were outstanding u
share.

During fiscal 2005, each of the five external directors was granted a stock option under the 2000 Option
appointment or re-election to the board. These grants vest over a one year period with 25% vesting at th

On October 13, 2005, 1,697,665 options were granted to officers, employees and independent contracto

During fiscal 2005, options covering an aggregate of 46,665 shares of Common Stock were cancelled.

The Company has never granted any stock appreciation rights (SARs).

Option, Grants, Exercises and Values

A summary of option transactions under the plan for fiscal 2005 is as follows:

	Number of Shares	Weighted Average Exercise Pri

Outstanding at April 19, 2005 (Merger Date)	249,000	1.003
Granted to directors	25,000	1.340
Granted to officers	737,665	1.600
Granted to employees & contractors	960,000	1.600
Canceled	(46,665)	1.600
Outstanding, December 31, 2005	1,925,000	$ 1.519

There were no option exercises in fiscal 2005 subsequent to the Merger Date.

Note 17. Segmented Information

The Company operates in Canada and the United States. All revenues are currently from the Canadian su
States and the United Kingdom.

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

Property and equipment by geographic region are as follows:

	December 31,	
	2005	200
Property and Equipment		
United States	$ 105,699	$
Canada	57,355	11,
Total	$ 163,054	$ 11,

Property and equipment includes only assets held for use, and is reported by geography based on the phy
property and equipment were held only in the United States and Canada.

Note 18. Stock Based Compensation

In accordance with the compensation plan for directors adopted by the Board on July 19, 2005, the four
40,000 shares of Common Stock, of which 20,000 shares vested immediately and 20,000 will vest on the
reason, voluntarily or involuntarily, before the first anniversary of his election to the Board, he will forfe
fair market value on the date of grant and charged as compensation over the vesting period.

Note 19. Deferred Revenues

Deferred revenue occurs where the Company invoices customers for project work that has not been com
and 2004 are $130,287 and $1,432, respectively.

Note 20. Subsequent Event

In January 2006, we sold 2,307,693 shares of our Common Stock to Shuffle Master for $3.0 million and
Shuffle Master. This warrant has an exercise price of $2.025 per share and expires on July 12, 2007. The
strategic alliance distribution and licensing agreement between us and Shuffle Master. As part of our agr
sold to Shuffle Master and the shares underlying the warrant.

In December 2005, we filed a resale registration statement with the United States Securities and Exchan
while the registration statement was pending review by the SEC, we entered into a strategic alliance lice
develop certain wireless gaming technology for Shuffle Master. In connection with that agreement, we s
additional 1,200,000 shares of our Common Stock to Shuffle Master, Inc. for $3.0 million. The proceeds
capital we would need to fulfill our obligations under the agreement. Since we agreed to register the pur
pending registration statement. We were subsequently informed by the staff of the SEC that, because we
questioning the availability of the exemption from registration that we were claiming. The availability of
Shuffle Master securities in the pending registration statement raises the question as to whether the trans

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (AUDITED)

Shuffle Master ever concluded. The SEC suggested that we remove the Shuffle Master securities from th
removal, if a court of competent jurisdiction were to ultimately determine that an exemption was not ava
possibly some of our officers, may also be subject to penalties. However, we believe the sale of securitie
Act as a valid private placement transaction under Sections 4(2) and 4(6) of the Securities Act for a vari

Note 21. Correction of error for misapplication of SFAS 133, SFAS 150 and EITF 00-19 related to the

Management has determined that the prior accounting for the Warrants issued in conjunction with the Se
the Warrants as an equity instrument, however the warrant agreement includes a registration rights agree
Warrants have been reclassified as a liability in accordance with the provisions of SFAS 133, SFAS 150

As a result of the error, stockholders' equity at June 30, 2005 and September 30, 2005 were understated
$749,730, respectively. Further, the standards require the Company to re-measure the value at the end of
reported as a component of the Consolidated Statements of Operation and Comprehensive Loss. As a res
2005, a revaluation expense of $100,020 has been included in Other Income and Expense. Of this revalu
related to quarter ended December 30, 2005.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

		At March 31, 2006 (unaudited
Assets		
Current:		
Cash and cash equivalents	$	2,219,23
Accounts receivable (net of allowance for doubtful accounts of $37,479)		245,60
Tax credits receivable		30,79
Prepaid expenses & deposits		149,14
Total current assets		2,644,78
Property and equipment:		
Computer equipment		58,63
Furniture and equipment		29,69
Less: accumulated depreciation		(27,12
Total Property and equipment		61,20
Total Assets	$	2,705,98
Liabilities and Stockholders' Equity		
Current:		
Accounts payable	$	399,30
Accrued liabilities & payroll		743,97
Deferred revenue		194,27
Total current liabilities		1,337,55
Common stock purchase warrants carried as a liability – 962,175 issued and outstanding (note 11)		896,75
Total Liabilities		2,234,31
Stockholders' equity:		
Preferred Stock – 10,000,000 shares authorized, par value $.01 per share – no shares issued and outstanding		
Common Stock – 90,000,000 shares authorized, par value $.01 per share – 40,316,755 shares issued and outstanding		403,16
Additional paid-in capital		9,012,06
Common Stock purchase warrants		1,335,60
Unamortized stock based compensation		(122,00
Accumulated other comprehensive (loss)		(70,25
Accumulated deficit		(10,086,90
Total stockholders' equity		471,67
Total liabilities and stockholders' equity	$	2,705,98

See accompanying notes to consolidated financial statements.

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three months ended March 3	
	2006	2005
	(unaudited)	(unaudite
Net Revenue	$ 125,324	$ 135,0
Operating expenses		
Depreciation and amortization	7,837	200,29
General and administrative expenses	603,781	145,70
Professional fees	297,906	110,10
Development expenses	383,665	98,70
Selling and marketing expenses	1,300,984	334,19
Total operating expenses	2,594,173	888,99
Operating loss	(2,468,849)	(753,96
Interest income	17,015	
Interest expense	(953)	(1,08
Other income and expense	(146,655)	
Net loss	$ (2,599,442)	$ (755,04
Foreign currency translation adjustment	25,405	21,98
Comprehensive loss	$ (2,574,037)	$ (733,06
Net loss per share of common stock – basic and diluted	$ (0.07)	$ (0.0
Weighted average number of shares of common stock outstanding – basic and diluted (note 7)	39,896,829	20,950,97

See accompanying notes to consolidated financial statements.

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2006	2005
	(unaudited)	(unaudite
Cash provided by (used in):		
Operating activities		
Net loss	$ (2,599,442)	$ (755,04
Adjustments for:		
Depreciation and amortization	7,837	200,29
Stock based compensation	148,000	

Stock option expense	87,657	
Loss on revaluation of common stock purchase warrants	146,655	
Changes in non-cash working capital assets and liabilities:		
Accounts receivable	167,514	(179,20
Tax credits receivable	—	(2,63
Prepaid expenses & deposits	(34,449)	(61,13
Accounts payable	(126,371)	152,54
Accrued liabilities	42,773	(3,57
Deferred revenue	63,986	108,77
Net cash provided by (used in) operating activities	$ (2,095,840)	$ (539,97
Investing activities		
Capital expenditures	—	(8,28
Net cash provided by (used in) investing activities	$ —	$ (8,28
Financing activities		
Proceeds from the sale of common stock	1,664,400	633,70
Proceeds from exercise of stock option	2,668	
Proceeds from the issuance of common stock purchase warrants	1,335,600	
Repayment of note payable and other loans	—	(55,32
Net cash provided by financing activities	$ 3,002,668	$ 578,38
Effect of exchange rate changes on cash	25,497	24,94
Change in cash during the period	932,325	55,06
Cash, beginning of period	1,286,912	113,62
Cash, end of period	$ 2,219,237	$ 168,69

There were no amounts paid in cash for taxes or interest in the first quarters of 2006 or 2005. In the first
converted to 1,162,655 shares of Common Stock.

See accompanying notes to consolidated financial statements.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Going Concern and Management's Plans

The accompanying consolidated financial statements of Sona Mobile Holdings Corp. (the ''Company'')
However, since its inception in November 2003, the Company has generated minimal revenue, has incur
relied upon the sale of shares of equity securities to fund its operations. These conditions raise substantia

The consolidated financial statements do not include any adjustments to reflect the possible future effect
of liabilities that may result from the possible inability of the Company to continue as a going concern.

At March 31, 2006, the Company had cash and cash equivalents of approximately $2.2 million. Manage
operations through July 2006. Accordingly, the Company must raise additional capital immediately. The
the investment banker has agreed to act as placement agent for up to a $10 million financing for the Com

been determined. There can be no assurance that the Company will be successful in raising a sufficient a
the Company cannot raise additional capital within the next 60-90 days, its liquidity, financial condition
cease operations.

Note 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been pr
financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the
complete financial statements. However, in the opinion of management, all adjustments (consisting of no
included. The unaudited condensed consolidated financial statements herein include the accounts of the C
Sona Mobile's wholly-owned subsidiary, Sona Innovations, Inc. (''Innovations''), a Canadian company,
Kingdom in September 2005. All material inter-company accounts and transactions have been eliminate
should be read in conjunction with the Company's audited consolidated financial statements for the year
with the United States Securities and Exchange Commission on March 31, 2006. Results of consolidated
results to be attained for the entire fiscal year.

Recently issued accounting pronouncements

In December 2004, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 123 (revised
''Accounting for Stock-Based Compensation''. SFAS 123R supersedes APB Opinion No. 25, ''Account
SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee servic
employees, including grants of employee stock options, to be recognized as additional compensation exp
SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation costs to be

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows i
fiscal year beginning January 1, 2006. The impact of adopting SFAS 123R is described in Note 5 (j), Sto

Note 3. Company Background and Description of Business

The Company was originally formed in California on June 8, 1976 under the name ''PerfectData Corpor

On April 19, 2005 (the ''Merger Date''), pursuant to an Agreement and Plan of Merger dated as of Marc
corporation (''Sona-Washington''), was merged with and into PerfectData Acquisition Corporation, a D
(the ''Merger''). Merger Sub simultaneously changed its named to Sona Mobile, Inc. The Company's na
stockholders' meeting on November 17, 2005.

At the time of the Merger, the Company was not engaged in an active business. As contemplated by the
resigned, including the Chairman of the Board, and the remaining director appointed three designees of S
chief executive officer resigned and the reconstituted board appointed designees of Sona-Washington as

In the Merger, the Sona-Washington shareholders received an aggregate of 539,733 shares of the Compa
ratio for the Series A Stock was 48.11159 to one — meaning each share of Series A Stock was convertib
(the ‘‘Common Stock’’), or a total of 25,967,458 shares of Common Stock. Sona Mobile’s financial adv
convertible into 1,366,706 shares of Common Stock. The holders of the Series A Stock voted together w
to the Company’s shareholders on an as converted basis. As a result, the holders of the Series A Stock ha
11,389,217 shares of Common Stock will be issued to the original holders of the Series A Stock and the
satisfied: (1) if the Company, on a consolidated basis, has revenues of at least $3,000,000 and a gross pr
Company’s aggregate revenues for 2005 and 2006 are at least $12,000,000 and the Company’s gross pro
and 2006 are at least 50%.

The Series A Preferred Stock converted automatically into Common Stock at the time on November 17,
Certificate of Incorporation that increased the number of authorized shares of Common Stock from 10,0
automatically converted into 27,334,165 shares of Common Stock at that date.

Upon completion of the Merger, the Company’s only business was the historical business of Sona-Wash
Accordingly, the Merger was accounted for as a reverse acquisition of a public shell and a recapitalizatio
and the costs were accounted for as a reduction of additional paid-in-capital. The pre-Merger financial st
the combined companies. The historical financial statements of PerfectData prior to the Merger are not p
acquirer, its historical stockholders’ equity has

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 3. Company Background and Description of Business (cont'd)

been adjusted to reflect the new capital structure. Immediately prior to the Merger, PerfectData was esse

Sona-Washington was organized on November 12, 2003 in the State of Washington for the purpose of ac
(‘‘Innovations’’). The acquisition was completed in December 2003. The Company operates as one busi

The Company develops and markets wireless data applications for mobile devices in the rapidly growing
Service Provider specializing in value-added services to data-intensive vertical market segments. The Co
Wireless Development Platform™ (‘‘SWP’’) and related end-user wireless application software product

The Company markets its products and services principally to two large vertical markets:

- 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 are delivered in compliance with the current regulatory environment. One of the Company’s primary focuses is to develop wireless software applications for the data-intensive investment banking community and client-facing applications for the retail banking industry.

- Media, entertainment and gaming. Sona Mobile delivers content via significant channel partners and content partners, including live streaming television, digital radio, specific theme phones, and gaming applications.

Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist prima
not collateralized and, as a result, management continually monitors the financial condition of its custom
90 days are considered delinquent. The Company maintains reserves for potential credit losses based up
to collect a receivable have failed, the receivable is written off against the allowance. Such losses have b
concentration of credit risk as it relates to specific industry segments, as historically its customers have b
derived in large part from single projects, the Company bears some credit risk due to a high concentratio
2005 respectively, one customer comprised approximately 26% and 38%, respectively, of the Company'
revenues respectively. Another customer in 2006 comprised approximately 22% of the Company's reve

The Company had a balance of $37,294 in its Allowance for Doubtful Accounts provision as of March 3
bad debt write offs against the provision in 2005 or 2006.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Summary of Significant Accounting Policies

These consolidated financial statements are presented in United States dollars and have been prepared in

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsid
Sona Innovations Inc., and the accounts of the Company's wholly owned subsidiary in the United Kingd
eliminated in consolidation.

(b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and term deposits with original maturity dates of less t
market value, and are concentrated in two major financial institutions.

(c) Foreign currency translation

The functional currency is the U.S. dollar. In accordance with the provisions of SFAS No. 52, ''Foreign
been translated at the period end rate of exchange. Revenue and expense items have been translated at th
(Canada) as its functional currency, the resulting translation adjustments are included in other comprehe
are reflected in earnings.

(d) Property and equipment

Property and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estin

(e) Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to
liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the
results could differ from these estimates. These estimates are reviewed periodically and, as adjustments b
known.

(f) Software rights

Software rights were recorded at the excess of the purchase price for Innovations, purchased in 2003, ov
2005, the software rights were amortized on a straight-line basis assuming a four-year life. In 2005, we d
software rights were originally acquired. Accordingly, the software rights were written off as of Decemb

(g) Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, ''Accounting for Income Ta
reporting for income taxes. Deferred income tax assets and liabilities are computed periodically for diffe
will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable t
Valuation allowances are established when necessary to reduce deferred tax assets to the amount expecte
period plus or minus the change during the period in deferred tax assets and liabilities.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Summary of Significant Accounting Policies (cont'd)

(h) Revenue recognition

The Company derives revenue from license and service fees related to customization and implementatio
Statement of Position (''SOP'') 97-2, ''Software Revenue Recognition,'' as amended by SOP 98-4 and
Performance of Construction-Type and Certain Production-Type Contracts.'' Service fees are recorded o
not reliable estimates of the costs to complete the work can be obtained. License fees are recognized ove
fixed or determinable and collection of the receivable is probable. The deferred revenues relate to amour

(i) Research and development costs

The Company incurs costs on activities that relate to research and the development of new products. Res
where applicable. Development costs to establish the technological feasibility of software applications d
SFAS 86, certain costs incurred subsequent to achieving technological feasibility are capitalized. Accord
with essential wireless software development and enhancement activities are capitalized. Costs associate
routine changes are expensed as incurred. Capitalized costs are amortized based on current or future reve
the estimated economic lives of the applications, not to exceed 5 years and are periodically evaluated for

Development costs for the quarters ended March 31, 2006 and 2005 were $384,000 and $99,000 respect
capitalized development costs as of March 31, 2006.

(j) Stock based compensation

During the first quarter of fiscal 2006, the Company adopted the provisions of, and account for stock-bas (''FASB'') Statement of Financial Accounting Standards No. 123 — revised 2004 (''SFAS 123R''), ''S (''SFAS 123''), ''Accounting for Stock-Based Compensation'' and supersedes APB Opinion No. 25 (''. provisions of this statement, stock-based compensation cost is measured at the grant date based on the fa requisite service period, which is the vesting period. The Company elected the modified-prospective met valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the eff were outstanding as of the effective date will be recognized over the remaining service period using the

The adoption of SFAS 123R had an expense impact of $87,657 to the Company's consolidated income s our stock-based compensation assumptions and expenses, including pro forma disclosures for prior perio

Under the modified-prospective method allowed by SFAS 123R, the Company is to disclose on a pro for quarter of 2005

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 5. Summary of Significant Accounting Policies (cont'd)

was the only quarter in which the Company issued stock options. The fourth quarter of 2005 was also th SFAS 123R had been adopted by the Company at that point in time. The pro forma expense for the quar stock option expense for the first quarter of 2005. The fair value of these options was estimated at the da interest rate of 4.24% — 4.83%, a three-year term, 65% volatility, and no expected dividend rate.

(k) Derivatives

The Company follows the provisions of SFAS No. 133 ''Accounting for Derivative Instruments and He ''Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's C Convertible Debt Instrument' in Issue No. 00-19'' (EITF 05-2). SFAS No. 133 requires every derivative be recorded in the Balance Sheet as either an asset or liability measured at its fair value, with changes in accounting criteria are met. The Company values these derivative securities under the fair value method recognition recorded against earnings. The Company continues to revalue these instruments each quarte Stock. The Company uses the Black-Scholes option-pricing model to determine fair value. Key assumpt risk-free interest rates and the instruments expected remaining life. These assumptions require significan

Note 6. Stockholders' Equity

In January 2006, we sold 2,307,693 shares of Common Stock and a warrant to purchase 1,200,000 share exercise price of $2.025 per share and expires on July 12, 2007. Using the Black-Scholes option model, and a risk-free interest rate of 4.4%.

In the first quarter of 2006, an employee was granted 20,000 shares of Common Stock as payment in lie
options during this quarter resulting in proceeds to the Company of $2,668.

Note 7. Earnings per Share

Basic earnings per share are computed by dividing income available to common shareholders by the wei
earnings per share considers the potential dilution that could occur if securities or other contracts to issu
the issuance of Common Stock that shared in the earnings of the entity.

The calculation of diluted earnings per share did not include 1,880,833 shares of the Company's Comm
shares issuable upon exercise of the Common Stock warrants, as their inclusion would be anti-dilutive.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Lease Commitments

The Company leases office space in Toronto, Ontario, New York, New York, Boulder, Colorado and Lo
The Company also leases certain office equipment. These leases have been classified as operating leases
months):

Future Lease Commitments by Year
(US$)

	2006	2007	2008	2009
Office Space Leases:				
United States (New York and Boulder)	$ 372,997	$ 500,915	$ 67,938	$ 74,732
Canada	61,049	27,133	—	—
Total Office Space	434,046	528,048	67,938	74,732
Office Equipment	39,104	52,139	51,804	11,050
Total Lease Commitments	$ 473,150	$ 580,187	$ 119,742	$ 85,782

Office lease payments for the first quarters of 2006 and 2005 were approximately $158,000 and $99,000
2005 were approximately $5,000 and $1,000 respectively.

Note 9. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and notes p
to the extent that debtors do not meet their obligations. The Company monitors the age of its accounts re
not meet payment terms. The fair value of all financial instruments approximates book values.

The Company is subject to foreign currency risk with respect to financial instruments denominated in a f

Note 10. Income Taxes

Deferred tax benefits arising from net operating loss carry forwards were determined using the applicabl
approximately $3,578,000 arising from net operating loss (NOL) carry forwards. The NOL carry forwar
2010 if not utilized and expire in varying amounts through 2025. These deferred taxes benefits are fully
earn sufficient future profits to utilize the loss carry forwards. The net operating loss carry forward balan
amortization of software rights, recognized under generally accepted accounting principles, but not dedu

The table below sets forth the annual and cumulative net losses by tax jurisdiction since inception in Nov
amounts in the 2003 column are from November 23, 2003 (inception) through December 31st of that yea

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	2006	2005	2004	2003
United States loss	$ 1,598,619	$ 2,537,265	$ 216,285	$ 114,823
Canada loss	829,996	3,782,636	409,871	–
United Kingdom loss	170,827	326,564	—	–
Amortization of intangibles	—	(415,935)	(138,647)	–
Net loss for tax purposes	2,599,443	6,230,530	487,509	114,823
Expected statutory rate	38.4%	37.2%	36.7%	40.0%
Expected recovery of taxes	998,277	2,314,916	179,048	45,929
Valuation reserve	(998,277)	(2,314,916)	(179,048)	(45,929)
Net tax asset	—	—	—	–

Note 11. Series B Stock Warrants

The Series B Warrants have been classed as a liability in accordance with the provisions of SFAS 133, S
value at the end of each reporting period with the resulting increase or decrease to the liability reported a
Loss. As a result of the increase in the value of the warrants since issuance to March 31, 2006, a revaluat
first quarter of 2006. Additionally, the Company booked a revaluation amount of $100,020 in 2005.

The Series B Warrants were issued in June 2005 with an exercise price of $1.968 per share. The issuance
triggered an anti-dilution provision of the Series B Warrant. As such, the revised exercise price for the S

Note 12. Amounts due to Affiliated Parties

Accrued liabilities at March 31, 2006 include an amount of approximately $56,000 due to an officer of t
approximately $82,000. At December 31, 2005, there was also approximately $22,000 due to a former e

compensation earned but not paid in 2004.

Note 13. Related Party Transactions

During the first quarters of 2006 and 2005, the Company paid consulting and management fees to shareh
respectively. This included payments for consulting fees of $65,332 and $67,793 to Nicholas Glinsman,
March 31, 2006 and March 31, 2005 respectively. We also issued to each of Paul Meyer and Bryan Maiz
40,000 shares of our Common Stock (an aggregate of 80,000 shares) pursuant to the Company's policy r
to 5,000 shares of our Common Stock to Mr. Meyer in the quarter ended March 31, 2006 in connection v

As of March 31, 2006, Accrued Liabilities includes a balance due to shareholder of $55,703, which is no

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 14. Stock Option Plans

As of March 31, 2006, the number of outstanding stock options as a percentage of the number of outstan
transactions under the Company's stock option plan for fiscal 2005 and the first quarter of 2006:

	Number of Shares	Weighted Average Exercise Pr
Outstanding at April 19, 2005 (Merger Date)	249,000	1.003
Granted to directors	25,000	1.340
Granted to officers	737,665	1.600
Granted to employees & contractors	960,000	1.600
Cancelled	(46,665)	1.600
Outstanding, December 31, 2005	1,925,000	1.519
Granted to directors	5,000	2.200
Exercised	(1,667)	1.600
Cancelled	(47,500)	1.600
Outstanding, March 31, 2006	1,880,833	1.520

Information regarding the stock options outstanding at March 31, 2006 is summarized below:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual	Weighted Average Exercise Price	Number Exercisable	Weighte Average Exercise Price

		Life			
$0.01 – 0.99	85,000	2.05 years	0.520	135,000	0.520
$1.00 – 1.99	1,786,833	4.32 years	1.561	762,147	1.492
$2.00 – 3.43	9,000	3.69 years	2.747	4,000	3.430
	1,880,833	4.21 years	1.520	901,147	1.355

The aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2006 was $

Note 15. Segment Information

The Company operates in Canada and the United States. All revenues are currently from the Canadian su
States and the United Kingdom.

Property and equipment by geographic region are as follows:

	March 31, 2006
Property and Equipment	
United States	$ 26,590
Canada	34,610
Total	$ 61,200

Property and equipment includes only assets held for use, and is reported by geography based on the phy
property and equipment were held only in the United States and Canada.

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SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 16. Stock Based Compensation

In accordance with the compensation plan for directors adopted by the Board on July 19, 2005, the five r
upon election to the Board, received 40,000 shares of Common Stock, of which 20,000 shares vested im
Board. In addition, Bryan Maizlish was issued 40,000 shares of restricted stock on March 28, 2006 in re
the Board for any reason, voluntarily or involuntarily, before the first anniversary of his election to the B
were valued at the fair market value on the date of grant and are charged as stock compensation expense

In the first quarter of 2006, an employee opted to receive stock in lieu of salary for three months and was
issue. The market value of the stock was credited to additional paid in capital in the first quarter of 2006.

Note 17. Deferred Revenues

Deferred revenue occurs where the Company invoices customers for project work that has not been com

March 31, 2006 was $194,273.

Note 18. Subsequent Events

In connection with the Series B financing in June 2005, the Company agreed to register the shares of Co
and further agreed that if the registration statement covering those shares was not effective by April 18, 2
becomes effective. The registration statement became effective April 24, 2006. The Company believes th
to an additional 51,316 Series B Warrants.

On April 28, 2006, the Company purchased certain assets from Digital Wasabi LLC, a Colorado limited
assets consist of intellectual property in the form of software related to communications and gaming. The
Company's Boulder, Colorado office.

Note 19. Contingent Liability

In December 2005, the Company filed a resale registration statement with the Securities and Exchange C
registration statement was pending review by the SEC, the Company sold stock and warrants to Shuffle M
underlying the warrants sold to Shuffle Master, it included those securities in the pending registration sta
included the Shuffle Master securities in a pending registration statement, the SEC was questioning the a
The SEC suggested that the Company remove the Shuffle Master securities from the pending resale regi
competent jurisdiction were to ultimately determine that an exemption was not available, the Company m
possibly some of its officers, may also be subject to penalties. However, the Company believes the sale o
Securities Act as a valid private placement transaction under Sections 4(2) and 4(6) of the Securities Act
contrary.

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28,922,673 SHARES
COMMON STOCK

SONA MOBILE HOLDINGS CORP.

PROSPECTUS

August , 2006

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law grants us the power to indemnify our directors an amounts paid in settlement in connection with specified actions, suits or proceedings, whether civil, crim corporation — a ''derivative action''), if they acted in good faith and in a manner they reasonably believ criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful. A similar only extends to expenses (including attorneys' fees) incurred in connection with the defense or settlemen indemnification in which the person seeking indemnification has been found liable to the corporation. Th granted by a corporation's charter, bylaws, disinterested director vote, stockholder vote, agreement or ot

Our Certificate of Incorporation also provides that a director will not be personally liable to us or to our director. This provision does not eliminate or limit the liability of a director:

- for breach of his or her duty of loyalty to us or to our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law (relating to unlawful payments o dividends or unlawful stock repurchases or redemptions); or
- for any improper benefit.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, o and the Delaware General Corporation Law, we have been advised that in the opinion of the Securities a therefore, unenforceable.

Item 25. Other Expenses of Issuance and Distribution

The following are the fees and expenses we incurred in connection with the offering are payable by us. O

Registration fee	$ 2,198.
Printing expenses	5,000.
Accounting fees and expenses	10,000.
Legal fees and expenses	40,000.
Miscellaneous	5,000.
Total	$ 62,198.

Item 26. Recent Sales of Unregistered Securities

In connection with the merger with PerfectData, we issued a total of 568,140 shares of our Series A Con the former shareholders of Sona Mobile and 28,407 were issued to Sona Mobile's financial advisor in co our common stock. In issuing

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the shares of the Series A Stock, we relied on Section 4(2) of the Securities Act. We believe that Section
was not general solicitation or general advertising involved in the offer or sale.

In April 2005 we agreed to issue 150,000 shares of common stock to Wachtel & Masyr LLP, our former
2005. In issuing these shares of the Series A Stock, we relied on Section 4(2) of the Securities Act. We b
offering and there was not general solicitation or general advertising involved in the offer or sale.

Between June 21, 2005 and July 8, 2005 we sold $5.05 million worth of our Series B Preferred Stock an
3,848.7 shares of the Series B Preferred Stock, convertible into 3,848,700 shares of our common stock, a
an exercise price of $1.968 per share at any time up until June 20, 2009. The sale of the Series B Preferre
registration afforded by the provisions of Section 4(2) and Rule 506 of Regulation D as promulgated by

In January 2006, we sold 2,307,693 shares of our common stock to Shuffle Master for $3.0 million and i
Shuffle Master. This warrant has an exercise price of $2.025 per share and expires on July 12, 2007. The
strategic alliance distribution and licensing agreement between us and Shuffle Master and was made pur
Securities Act. As part of our agreement with Shuffle Master, we agreed to register the shares of our con

On July 7, 2006 we sold 16,943,323 shares of our common stock and 8,471,657 warrants to purchase sha
approximately $10.1 million. The warrants have a five-year term, expiring on July 7, 2011, and an exerc
including the failure by the company to achieve certain financial targets. The warrants include a cashless
registration statement available for the resale of the shares of common stock issuable upon exercise of th
pursuant to an exemption from securities registration afforded by Section 4(2) and Rule 506 of Regulatio

Item 27. Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of March 7, 2005 among Sona Mobile Holdings Corp., PerfectData Acquisition Corporation and Sona Mobile, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed March 11, 2005)
3.1	Certificate of Incorporation, as amended (incorporated by reference to the following documents (i) the Company's Consent Solicitation dated October 26 2004 as filed on November 1, 2004; (ii) Certificate of designations for Series A Preferred Stock filed as Exhibit 4.2 to the Company's Annual Report in Form 10-KSB for its fiscal year ended March 31, 2005; (3) Certificate of designations for Series B Preferred Stock filed as Exhibit 3.1 to the Company' Current Report on Form 8-K filed on June 22, 2005; and (4) Appendix IV to the Registrant's definitive Proxy Statement dated October 27, 2005 and filed on the same date)

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Exhibit Number	Description
3.2	By-laws of the Company (incorporated by reference to the Company's definitive Consent Solicitation Statement, filed November 1, 2004)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Company's Form SB-2 (file number 333-130461) filed February 2, 2006).
5.1	Opinion of Bryan Cave LLP*
5.2	Opinion of Morse, Zelnick, Rose & Lander*
10.1	Amended and Restated Stock Option Plan of 2000 (incorporated by reference to Appendix III of the Company's Definitive Proxy Statement, filed October 27, 2005)
10.2	Licensing and Distribution Agreement, dated January 13, 2006, between the Company and Shuffle Master, Inc. (incorporated by reference to Exhibit 10.2 of the Company's Form SB-2 (file number 333-130461), filed April 7, 2006)
10.3	Form of Securities Purchase Agreement, dated June 30, 2006 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed July 7, 2006)
10.4	Form of Registration Rights Agreement, dated June 30, 2006 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed July 7, 2006)
10.5	Form of Warrant, dated July 7, 2006 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed July 7, 2006)
10.6	Letter Agreement, dated June 30, 2006, between the Company and Shuffle Master, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed July 7, 2006)
10.7	Mutual Separation Agreement, dated as of July 17, 2006, between the Company and John Bush (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed July 21, 2006)
10.8	Consulting Agreement, dated as of July 17, 2006, between the Company and John Bush (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed July 21, 2006)
21.1	Subsidiaries*
23.1	Consent of Horwath Orenstein, LLP*
23.2	Consent of Bryan Cave LLP (included in Exhibit 5.1)*
23.3	Consent of Morse, Zelnick, Rose & Lander (included in Exhibit 5.2)*
24.1	Power of Attorney (included in signature page)

*Filed herewith

Item 28. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which it offers or sells securities, a post-effective amendment to this r

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(i) To include any prospectus required by section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events which, individually or in the aggregate, represent a
Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total doll
deviation from the low or high end of the estimated maximum offering range may be reflected in the for
changes in volume and price represent no more than a 20% change in the maximum aggregate offering p
registration statement; and

(iii) To include any additional or changed material information with respect to the plan of distribution.

(2) That, for the purpose of determining any liability under the Securities Act, treat each such post-effe
therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offerin

(3) To remove from registration by means of a post-effective amendment any of the securities being re

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to direct
foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the S
as expressed in the Act and is, therefore, unenforceable.

(c) Each prospectus filed pursuant to Rule 424(b)(§230.424(b) of this chapter) as part of a registration
430B or other than prospectuses filed in reliance on Rule 430A (§230.430A of this chapter), shall be dee
used after effectiveness. Provided, however, that no statement made in a registration statement or prospe
deemed incorporated by reference into the registration statement or prospectus that is part of the registra
first use, supersede or modify any statement that was made in the registration statement or prospectus th
prior to such date of first use.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reas
SB-2 and authorized this registration statement to be signed on its behalf by the undersigned in the city o

SONA MOBILE HOLDINGS CORP.
By:/s/ Shawn Kreloff
Name: Shawn Kreloff
Title: Chief Executive Officer

Each person whose signature appears below constitutes and appoints Shawn Kreloff and Stephen Fellow
lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his na
in each capacity stated below any amendment, (including post-effective amendments) to this registration
this offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933,
connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fac
every act and thing requisite and necessary to be done in and about the premises, as fully to all intents an

that said attorneys-in-fact and agents and either of them, or their substitutes, may lawfully do or cause to

In accordance with the requirements of the Securities Act of 1933, this registration statement has been si

Signature	Title	Date
/s/ Shawn Kreloff Shawn Kreloff	Chief Executive Officer, Chairman and Director (principal executive officer)	August 3, 2006
/s/ Stephen Fellows Stephen Fellows	Chief Financial Officer (principal financial officer)	August 3, 2006
/s/ Bryan Maizlish Bryan Maizlish	Director	August 3, 2006
/s/ Paul C. Meyer Paul C. Meyer	Director	August 3, 2006
/s/ M. Jeffrey Branman M. Jeffrey Branman	Director	August 3, 2006

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EXHIBIT INDEX

Exhibit Number	Description
5.1	Opinion of Bryan Cave LLP
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