

SONA MOBILE HOLDINGS CORP

Form 10QSB

November 14, 2007

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

FORM 10-QSB

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

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934. FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 000-12817

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

Delaware

95-3087593 (State or other jurisdiction  
of incorporation or organization) (I.R.S. Employer  
Identification No.)

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245 Park Avenue, New York, New York 10167  
(Address of principal executive office)

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

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

None

None (Title of Each Class) (Name of each Exchange on Which Registered)

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

Common Stock  
(Title of Class)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

The number of shares outstanding of the registrant's Common Stock, \$0.01 par value, as of November 12, 2007 was 57,832,857 shares.

Transitional Small Business Disclosure Format. Yes No

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SONA MOBILE HOLDINGS CORP.

FORM 10-QSB REPORT

September 30, 2007

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## FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-QSB are “forward-looking statements” regarding the plans and objectives of management for future operations and market trends and expectations. The words “expect,” “believe,” “plan,” “intend,” “estimate,” “anticipate,” “propose,” “seek” and similar words and variations thereof, when used, are intended to specifically identify forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties, including but not limited to those set forth in our Registration Statement on Form SB-2, as amended and filed with the SEC on April 3, 2007. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, we cannot assure you that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. We do not undertake any obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

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

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PART I

FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements  
 Sona Mobile Holdings Corp. And Subsidiaries  
 Consolidated Balance Sheet

	At
September 30,	
2007 (unaudited) Assets	Current:
Cash and cash equivalents	\$ 1,306,826
Accounts receivable (net of allowance for doubtful accounts of \$21,568)	176,297
Tax credits receivable	51,037
Prepaid expenses & deposits	88,144
Total current assets	1,622,304
Property and equipment:	
Computer equipment	166,005
Furniture and equipment	88,151
Less: accumulated depreciation	(97,425)
Total property and equipment	156,731
Software development costs (Note 3(i))	471,988
Total Assets	\$ 2,251,023
Liabilities and Stockholders' Equity	Current:
Accounts payable	\$ 440,897
Accrued liabilities & payroll (Note 13)	518,117
Deferred revenue (Note 14)	154,525
Total current liabilities	1,113,539
Total Liabilities	1,113,539
Stockholders' equity:	
Preferred Stock – 2,000,000 shares authorized, par value \$.01 per share	
– no shares issued and outstanding	—
Common Stock – 120,000,000 shares authorized, par value \$.01 per share	
– 57,832,857 shares issued and outstanding	578,328
Additional paid-in capital	17,308,244
Common Stock purchase warrants	3,399,365
Unamortized stock based compensation	(9,333)
Accumulated other comprehensive (loss)	(89,239)
Accumulated deficit	(20,049,881)
Total stockholders' equity	1,137,484
Total Liabilities and Stockholders' Equity	\$ 2,251,023

See accompanying notes to consolidated financial statements.

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Item 1. Consolidated Financial Statements (Continued)  
 Sona Mobile Holdings Corp. and Subsidiaries  
 Consolidated Statements of Operations and Comprehensive Loss

Three months ended		September 30		Nine months ended		September 30		2007		2006		2007		2006		(unaudited)		(unaudited)		(unaudited)		(unaudited)		Net Revenue		\$					
433,300	53,380	\$	848,609	344,133	Operating expenses																										
17,996	9,607	46,003	26,394	General and administrative expenses	501,024	709,944	1,742,747																								
2,010,002	Professional fees	263,483	303,010	889,274	903,096	Development expenses	574,965																								
629,301	1,492,142	1,382,995	Selling and marketing expenses	207,647	454,400	853,610																									
2,694,047	Total operating expenses	1,565,115	2,106,262	5,023,776	7,016,534	Operating loss																									
(1,131,815)	(2,052,882)	(4,175,167)	(6,672,401)	Interest income	21,554	70,620	116,549																								
107,273	Interest expense	—	(785)	(464)	(2,751)	Other income and (expense)	(7,810)	(8,875)																							
(17,441)	44,315	Net loss	\$ (1,118,071)	(1,991,922)	\$ (4,076,523)	(6,523,564)	Foreign currency translation adjustment	(13,532)	(978)	(38,377)	(191,035)	Comprehensive loss	\$ (1,131,603)																		
(1,992,900)	\$ (4,114,900)	(6,714,600)	Net loss per share of common stock																												
—	basic and diluted	\$ (0.02)	(0.04)	\$ (0.07)	(0.14)	Weighted average number of shares of common stock outstanding																									
—	basic and diluted (Note 6)	57,830,900	56,661,607	57,806,642	45,825,053																										

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See accompanying notes to consolidated financial statements.

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## Item 1. Consolidated Financial Statements (Continued)

## Sona Mobile Holdings Corp. and Subsidiaries

## Consolidated Statements of Cash Flows

Nine months ended September 30,		2007	2006	(unaudited)	(unaudited)	Cash provided by (used in):	
Operating activities	Net loss	\$ (4,076,523 )	\$ (6,523,564 )	Adjustments for:	Depreciation		
and amortization	46,003	26,394	Loss on disposal of fixed assets	5,171	—	Write-off of in-process	
purchased technology	—	597,652	Amortization of restricted stock-based compensation	8,200	302,709		
Stock based compensation	258,196	237,734	Gain on revaluation of common stock purchase warrants	—			
(465,333 )	Changes in non-cash working capital assets and liabilities:	Accounts receivable, net	28,082				
328,405	Tax credits receivable	(7,469 )	(14,628 )	Prepaid expenses & deposits	7,823	(125,024 )	
Accounts payable	90,522	(117,059 )	Accrued liabilities & payroll	105,321	(83,164 )	Deferred revenue	
(235,037 )	53,227	Net cash used in operating activities	(3,769,711 )	(5,782,651 )	Investing activities		
Software development costs	(471,988 )	—	Acquisition of property & equipment	(99,419 )	(31,037 )		
Net cash used in investing activities	(571,407 )	(31,037 )	Financing activities			Proceeds from the sale	
of common stock	—	7,802,146	Proceeds from exercise of stock options	—	69,334	Proceeds from the	
issuance of common stock purchase warrants	—	4,450,195	Repurchase of common stock from shareholder	—			
(300,000 )	Net cash provided by financing activities	—	12,021,675	Effect of exchange rate changes on cash &			
cash equivalents	(34,218 )	(192,294 )	Change in cash & cash equivalents during the period	(4,375,336 )			
6,015,693	Cash & cash equivalents, beginning of period	5,682,162	1,286,912	Cash & cash equivalents, end of			
period	\$ 1,306,826	\$ 7,302,605					

There were no amounts paid in cash for taxes or interest in the nine month periods ended September 30, 2007 or 2006.

In the second quarter of 2006, warrants with a balance sheet value of \$896,758 were reclassified from liability to equity in accordance with the provisions of EITF 00-19.

See accompanying notes to consolidated financial statements.

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

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

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

At September 30, 2007, the Company had total cash and cash equivalents of \$1.3 million held in current and short-term deposit accounts. Management believes that based on the current level of spending, this cash will only be sufficient to fund the Company's operations until December 2007. Based on the current business plan, the Company will be obligated to seek additional financing before that time. There can be no assurance that the Company will be able to successfully implement its plans to raise additional capital or to increase revenue. The Company may not be able to obtain additional capital or generate new revenue opportunities on a timely basis, on favorable terms, or at all. If the Company cannot successfully implement its plans, the Company's liquidity, financial condition and business prospects will be materially and adversely affected and the Company may have to cease operations.

### Note 2. Company Background and Description of Business

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

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

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



the development, sale and marketing of wireless application software.

The Company's value proposition is to unlock, integrate and seamlessly deliver all types of data to wireless devices, whether streaming financial markets data for the investment banking industry,

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complex databases and enterprise applications for supporting all areas of a corporate organization or live television and digital radio delivery to the growing consumer market via channel and content partners — anytime, anywhere. The Company markets its products and services principally to two large vertical markets.

- Gaming

and entertainment. The Company proposes to (i) deliver casino games wirelessly in designated areas on casino properties; (ii) offer real-time, multiplayer games that accommodate an unlimited number of players; (iii) deliver games on a play-for-free or wagering basis (where permitted by law) on mobile telephone handsets over any carrier network; and (iv) deliver horse and sports wagering applications, where legal, for on-track and off-track wagering, including live streaming video of horse races and other sports events. The Company also proposes to deliver content via channel partners and content partners, including live streaming television, digital radio, specific theme downloads for mobile phones, media downloads and gaming applications.

- Financial services

and enterprise software. The Company's products and services extend enterprise applications to the wireless arena, such as customer relationship management systems, sales force automation systems, information technology (IT) service desk and business continuity protocols, all of which the Company believes are delivered in compliance with the current regulatory environment. One of the Company's primary focuses is to develop solutions for the data-intensive investment banking community and client-facing applications for the retail banking industry.

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

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

### Note 3. Summary of Significant Accounting Policies

#### Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements herein include the accounts of the Company and its wholly-owned subsidiary, Sona Mobile, as well as Sona Mobile's wholly-owned subsidiary, Innovations, a Canadian company. All material inter-company accounts and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's a