SONA MOBILE HOLDINGS CORP
Form 10-Q
November 14, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

[ ] 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.
(Exact name of registrant as specified in its charter)

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

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

(888) 306-7662
(Registrant's telephone number, including area code)

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

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

Number of shares Common Stock, $0.01 par value, outstanding at November 10, 2008: 57,662,452

SONA MOBILE HOLDINGS CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2008

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FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-Q 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 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 Annual Report on Form 10-KSB as filed on March 31, 2008 and in each of our Registration Statements on Form S-1, as amended, and filed with the SEC on April 1, 2008. 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.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Sona Mobile Holdings Corp. And Subsidiaries
Consolidated Balance Sheet

	September 30, 2008 (unaudited)	December 31, 2007 (audited)
Assets		
Current:		
Cash and cash equivalents	$ 1,617,560	$ 2,367,026
Accounts receivable (net of allowance for doubtful accounts of $34,988 and $52,175)	11,632	119,652
Tax credits receivable	–	51,220
Prepaid expenses & deposits	68,768	98,415
Total current assets	1,697,960	2,636,313
Property and equipment:		
Computer equipment	231,289	192,248
Furniture and equipment	90,141	85,603
Less: accumulated depreciation	(221,597)	(116,094)
Total property and equipment	99,833	161,757
Software development costs (Note 3(h))	–	471,988
Debt issuance costs, net (Note 11)	234,133	315,179
Total Assets	$ 2,031,926	$ 3,585,237
Liabilities and Stockholders' Equity		
Current:		
Accounts payable	$ 172,278	$ 316,473
Accrued liabilities & payroll (Note 9)	368,137	510,921
Deferred revenue (Note 10)	2,544,805	55,795
Total current liabilities	3,085,220	883,189
Long-term portion of deferred revenue (Note 10)	97,500	–
Note payable (Note 13)	471,750	–
Long term convertible debt, net (Note 11)	2,506,514	2,335,034
Total Liabilities	6,160,984	3,218,223
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 – 58,162,452 and 57,832,857 shares issued and outstanding respectively	581,625	578,328
Additional paid-in capital	17,822,466	17,570,902
Common Stock purchase warrants	3,925,661	3,925,661
Unamortized stock based compensation	–	(5,833)
Accumulated other comprehensive (loss)	(55,733)	(64,110)

Accumulated deficit	(26,403,077)	(21,637,934)
Total stockholders’ equity	(4,129,058)	367,014
Total Liabilities and Stockholders' Equity	$ 2,031,926	$ 3,585,237

See accompanying notes to consolidated financial statements.

Item 1. 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	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
Net Revenue	$ 31,399	$ 433,300	$ 312,381	$ 848,609
Operating expenses				
Depreciation and amortization	86,494	17,996	231,779	46,003
General and administrative expenses	322,514	501,024	1,456,277	1,742,747
Professional fees	8,099	263,483	381,867	889,274
Development expenses	556,920	574,965	1,688,192	1,492,142
Selling and marketing expenses	123,289	207,647	530,117	853,610
Total operating expenses	1,097,316	1,565,115	4,288,232	5,023,776
Operating loss	(1,065,917)	(1,131,815)	(3,975,851)	(4,175,167)
Interest income	2,852	21,554	18,510	116,549
Interest expense	(130,155)	–	(364,475)	(464)
Other income and expense(Note 16)	(3,670)	(7,810)	(443,328)	(17,441)
Net loss	$ (1,196,890)	$ (1,118,071)	$ (4,765,144)	$ (4,076,523)
Foreign currency translation adjustment	3,280	(13,532)	8,377	(38,377)
Comprehensive loss	$ (1,193,610)	$ (1,131,603)	$ (4,756,767)	$ (4,114,900)
Net loss per share of common stock – basic and diluted	$ (0.02)	$ (0.02)	$ (0.08)	$ (0.07)
Weighted average number of shares of common stock outstanding – basic and diluted (Note 6)	58,061,001	57,830,900	57,919,127	57,806,642

See accompanying notes to consolidated financial statements.

Item 1. Consolidated Financial Statements (Continued)

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

	Nine months ended September 30,	
	2008 (unaudited)	2007 (unaudited)
Cash provided by (used in):		
Operating activities		
Net loss	$ (4,765,144)	$ (4,076,523)
Adjustments for:		
Depreciation and amortization	231,779	46,003
Loss on disposal of fixed assets	–	5,171
Write-down of software development costs	432,656	–
Amortization of debt discount charged to interest expense	171,480	–
Amortization of restricted stock-based compensation	47,833	38,046
Stock based compensation	212,860	228,350
Changes in non-cash working capital assets and liabilities:		
Accounts receivable, net	108,020	28,082
Tax credit receivable	51,220	(7,469)
Prepaid expenses & deposits	29,647	7,823
Accounts payable	(144,194)	90,522
Accrued liabilities & payroll	(142,784)	105,321
Deferred revenue	2,586,510	(235,037)
Net cash used in operating activities	(1,180,117)	(3,769,711)
Investing activities		
Software development costs	–	(471,988)
Acquisition of property & equipment	(43,579)	(99,419)
Net cash used in investing activities	(43,579)	(571,407)
Financing activities		
Proceeds from note payable, net	471,750	–
Net cash provided by financing activities	471,750	–
Effect of exchange rate changes on cash & cash equivalents	2,480	(34,218)
Change in cash & cash equivalents during the period	(749,466)	(4,375,336)
Cash & cash equivalents, beginning of period	2,367,026	5,682,162
Cash & cash equivalents, end of period	$ 1,617,560	$ 1,306,826

There was $142,000 paid in interest and $0 paid in taxes during the nine months ended September 30, 2008. During the nine months ended September 30, 2007, there were no amounts paid in cash for taxes or interest.

See accompanying notes to consolidated financial statements.

Item 1. Consolidated Financial Statements (Continued)

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") 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 and convertible debt to fund its operations in addition to the recent licensing agreement with Ebet Limited, which closed in September 2008. 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, 2008, the Company had total cash and cash equivalents of $1,617,560 held in current and short-term deposit accounts. It will be necessary for the Company to increase our revenue significantly or seek additional financing based on the current level of spending and the current cash receipts by the beginning of the second quarter of 2009. There can be no assurance that the Company will be able to raise additional capital on favorable terms, or at all, due to the current state of the credit markets and of the gaming industry, nor can there be any assurance that the Company will be able to generate new revenue opportunities on a timely basis. If the Company cannot raise financing or increase revenues, 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 software and service provider specializing in value-added services to data-intensive vertical and horizontal market segments including the gaming industry. The Company develops, markets and sells data application software for gaming and mobile devices, which enables secure execution of real time transactions on a flexible platform over wired, cellular or Wi-Fi networks. The Company's target customer base includes casinos, horse racing tracks and operators, cruise ship operators and casino game manufacturers and suppliers on the gaming side, and corporations that require secure transmissions of large amounts of data in the enterprise and financial services verticals. The Company's revenues consist of project, licensing and support fees generated by our flagship products the Sona Gaming System™ ("SGS") and the Sona Wireless Platform™ (''SWP'') and related vertical gaming and wireless application software products. The Company operates as one business segment focused on the development, sale and marketing of client-server application software.

The Company markets its software principally to two large vertical markets.

- Gaming and entertainment. The Company proposes to (i) deliver casino games via its SGS, both wired and 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 race and sports books, as well as 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. One of the Company's primary focuses in this sales vertical is to develop software for the data-intensive investment banking community and client-facing applications for the retail banking industry.

The Company's revenues consist primarily of project, licensing and support fees relating to our two platforms the Sona Gaming System™ and the Sona Wireless Platform™.

In 2006, in conjunction with the Company's strategic alliance with Shuffle Master Inc. ("Shuffle Master") and because of the perceived opportunities for wireless and server-based applications in the gaming and horse racing industries, the primary sales and development focus of the Company was switched towards the gaming industry. During 2007, the Company perceived that there was a potentially far greater opportunity to develop and sell server-based gaming applications that could be operated in both wired and wireless network environments, or a combination thereof. 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.

On August 17, 2008, the Company entered into a Licence and Distribution Agreement (the "License Agreement") with eBet Limited, eBet Gaming Systems Pty. Ltd. and eBet Systems Pty. Ltd. (collectively, "eBet") for the license of the Company's software applications and for the distribution of eBet's products and software applications. As part of the terms of the License Agreement, the parties also entered into a Master Services Agreement (the "Services Agreement"). Pursuant to the terms of the License Agreement, the Company granted to eBet an exclusive and perpetual license to the Company's software applications for use throughout the world except for North, Central and

South America and the Caribbean, for eBet to promote, market and distribute. The Company retained the exclusive rights to any future software developed by eBet (with or without assistance from Sona) in North, Central and South America and the Caribbean. Additionally, the Company received the rights to become a non-exclusive distributor of the eBet products and software applications in North, Central and South America and the Caribbean.

Under the terms of the License Agreement, the Company received $2,500,000 as a license fee. Additionally, the Company is to receive additional license fees of 20% of all net revenues earned by eBet from the sale and distribution of the Company's software applications once eBet earns $5,000,000 from the sale and distribution of those products. As a distributor of eBet products and software applications, the Company will pay eBet a license fee of 20% of all net revenues earned by the Company from the sale and distribution of eBet's products and software applications once the Company earns $5,000,000 from the sale and distribution of those products and software applications.

Pursuant to the terms of the Services Agreement, eBet is to provide advisory services, including operational, financial and marketing services, appoint the chief executive officer of Sona and to have equal representation on the Company's board of directors. eBet is also to provide ongoing development and software maintenance services to the Company, for the Company's software applications. Tony Toohey, CEO of eBet, was appointed as the Company's CEO on September 9, 2008 and as a director on August 29, 2008. Ian James, a director of eBet, was appointed to the Company's board of directors on September 9, 2008.

In consideration of eBet providing advisory services under the Services Agreement, the Company will pay eBet 50% of the Company's Net Income Before Income Taxes during the term of this Agreement on an annual basis once the Company has enough cash on hand to pay down the Company's outstanding interest bearing debt facilities when such facilities come due, and has sufficient cash to fund working capital to continue the operations of the Company. In addition, the Company will pay eBet's designee as the chief executive officer the equivalent of $250,000 annually, payable in shares of common stock by equal installments quarterly, payable quarterly in advance (commencing on 1 October, 2008) by equal installments on the first working day of each calendar quarter.

For the provision of the ongoing development and software maintenance services to the Company for the Company's software applications, the Company will pay eBet for the labor costs incurred pursuant to each statement of work with a total lifetime maximum not to exceed $500,000 for all work performed by eBet, even if such costs exceed this amount. Such payments will accrue quarterly as they are incurred and will be deferred until the second quarter of 2009 when payments will commence on the last day of each quarter thereafter with payments not to exceed $125,000 per quarter.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation

The financial information contained herein should be read in conjunction with the Company's consolidated audited financial statements and notes thereto included in its Annual Report on Form 10-KSB for the year ended December 31, 2007.

The accompanying unaudited condensed consolidated financial statements of Sona Mobile Holdings Corp. and its subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete consolidated financial statements. In the opinion of the Company, the unaudited condensed consolidated financial statements included in this quarterly report reflect all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of its financial position at the dates presented and the Company's results of operations and cash flows for the periods presented. The Company's interim results are not necessarily indicative of the results to be expected for the entire year. All material inter-company accounts and transactions have been eliminated in consolidation.

Recently issued accounting pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (R), “Business Combinations”, and SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements”. SFAS No. 141 (R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquire at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 141 (R) and SFAS No. 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. We have not yet determined the effect on our consolidated financial statements, if any, upon adoption of SFAS No. 141 (R) or SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133". SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged. The Company is currently evaluating the impact of SFAS No. 161 on its financial statements, and the adoption of this statement is not expected to have a material effect on the Company's financial statements.

(a) Principles of consolidation

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

(b) Cash and cash equivalents

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

(c) Foreign currency translation

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

(d) Property and equipment

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

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(e) Use of estimates

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

(f) Income taxes

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

On January 1, 2007, the Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," ("FIN 48"). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements.

The Company currently has a full valuation allowance against its net deferred tax asset and has not recognized any benefits from tax positions in earnings. Accordingly, the adoption of FIN 48 did not have an impact on the financial statements for the nine-month periods ended September 30, 2008 and 2007.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of the provision for income taxes on the financial statements of future periods in which the Company must record an income tax liability. Since the Company did not record a liability at September 30, 2008, there was no impact to the effective tax rate. The Company files income tax returns in the U.S. federal jurisdiction and several state jurisdictions, as well as in Canada and the Ontario provincial tax jurisdiction. The Company does not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

The Company has applied for Scientific Research and Development Tax credits, as part of the annual Canadian federal and provincial income tax filings. The federal tax credits are non-refundable and as the Company has a full provision against any future benefits from its historical tax losses, a tax receivable amount for federal research tax credits is not recognized on the balance sheet. Ontario provincial tax credits for valid research and development expenditures, if granted, are refundable to the Company. The amount of tax credit that will be awarded to the Company upon assessment of the returns by this tax jurisdiction is not always certain at the time the tax returns are filed. As such, it is the Company's policy to book a receivable for these amounts on the balance sheet only when the final tax assessment is received by the Company after the filing of such returns. As of September 30, 2008 and December 31, 2007, the balances for tax credits receivable on the balance sheet were nil and $51,220, respectively, which related to Ontario research and development tax credits assessed, but not received, as of the respective financial statement dates.

(g) Revenue recognition

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

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

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

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

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

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

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(h) Research and software development costs

The Company incurs costs on activities that relate to research and the development of new software products. Research costs are expensed as they are incurred. Costs are reduced by tax credits when applicable. Software development costs to establish the technological feasibility of software applications developed by the Company are charged to expense as incurred. In accordance with SFAS 86, certain costs incurred subsequent to achieving technological feasibility are capitalized. Accordingly, a portion of the internal labor costs and external consulting costs associated with essential wireless software development and enhancement activities are capitalized. Costs associated with conceptual design and feasibility assessments as well as maintenance and routine changes are expensed as incurred. Capitalized costs are amortized based on current or future revenue for each product with an annual minimum equal to the straight-line basis of amortization over the estimated economic lives of the applications, not to exceed five years. The software development costs, which were previously capitalized by the Company, substantially related to the development of the wireless gaming system. Gross software development costs for the three months ended September 30, 2008 and 2007 were $556,920 and $731,132, respectively. Gross software development costs for the nine months ended September 30, 2008 and 2007 were $1,688,192 and $1,964,130, respectively. There were no software development costs capitalized in the three- and nine-month periods ended September 30, 2008. In the three- and nine-month periods ended September 30, 2007, capitalized software development costs were $155,167 and $471,988, respectively. Capitalized software development costs are periodically evaluated for impairment. During the quarter ended June 30, 2008, the Company wrote down the remaining balance of the capitalized software development costs to nil. The Company's initial expectations were that the wireless gaming system would begin to generate revenues by March 2008. As the Company has not recognized significant and expected revenues to date from the wireless gaming system, the Company has determined that the capitalized software development costs were subject to impairment and as such the capitalized costs were fully written off. The impairment charge of $432,656 is classified as a component of other income and expenses on the consolidated statement of operations and comprehensive loss.

(i) Stock-based compensation

As of January 1, 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with, FASB Statement of Financial Accounting Standards No. 123 - revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date and are subsequently modified. Estimated compensation for grants that were outstanding as of the effective date will be recognized over the remaining service period using the compensation cost estimated for the SFAS 123 pro forma disclosures, as adjusted for estimated forfeitures.

During the nine-month periods ended September 30, 2008, the Company issued stock options to directors and employees under the 2006 Incentive Plan (the "2006 Plan") as described in Note 14 to our consolidated financial statements. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model.

(j) Reclassifications

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

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Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, the Company continually monitors the financial condition of its customers to reduce the risk of loss. Customer account balances with invoices dated over 90 days are considered delinquent. The Company maintains reserves for potential credit losses based upon its loss history, its aging analysis and specific account review. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Such losses have been within the Company's expectations. The Company has some exposure to a concentration of credit risk as it relates to specific industry verticals, as historically its customers have been primarily concentrated in the financial services industry and the current customer focus is in the gaming industry. Since revenues are derived in large part from single projects, the Company bears credit risk due to a high concentration of revenues from individual customers. During the three months ended September 30, 2008, 96.6% of total revenues were generated from five customers that individually represented over 10% of total revenue each (Customer A – 23.9%, Customer B –23.1%, Customer C – 21.5%, Customer D – 14.3%, Customer E – 13.8%). During the three months ended September 30, 2007, 89.5% of total revenues were generated from three customers representing over 10% of total revenue (Customer B – 65.5%, Customer C – 13.2%, Customer F – 10.8%). During the nine months ended September 30, 2008, 61.5% of total revenues were generated from one customer representing over 10% of total revenue (Customer D – 61.5%). During the nine months ended September 30, 2007, 75.5% of total revenues were generated from three customers representing over 10% of total revenue (Customer B – 47.6%, Customer D – 16.3%, Customer E – 11.5%).

The Company had balances of $34,988 and $52,175 in its Allowance for Doubtful Accounts provision as of September 30, 2008 and December 31, 2007, respectively. This balance consists of provisions made in previous and current quarters. There were no accounts receivable write-offs against the provision during the three months ended September 30, 2008 or for the comparative quarter of 2007. There were write-offs of $7,000 against the provision during the nine month period ended September 30, 2008 and $15,000 for the nine-month period ended September 30, 2007.

Note 5. Stockholders' Equity

In January 2006, the Company sold 2,307,693 shares of common stock and a warrant to purchase 1,200,000 shares of common stock to Shuffle Master for $3.0 million. This warrant had an exercise price of $2.025 per share, which expired on July 12, 2007 without being exercised. Using the Black-Scholes option-pricing model, the warrant was valued at $1,335,600 using a volatility of 65%, a term of 18 months, an expected dividend yield of 0% and a risk-free interest rate of 4.4%. This amount was reclassified from Common Stock purchase warrants to Additional Paid-in Capital upon expiration of the warrants in the third quarter of 2007. In addition, during the fourth quarter of fiscal 2007, convertible debt was issued with accompanying warrants. The accompanying warrants and the beneficial conversion feature of the convertible debt were accounted for as equity. See Note 11.

Note 6. Earnings (Loss) per Share

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

The calculation of diluted earnings (loss) per share for the three months and nine months ended September 30, 2008 and 2007, did not include shares of the Company's common stock issuable upon the exercise of options, shares issuable upon exercise of common stock warrants, or shares issuable upon the conversion of the convertible notes, as their inclusion in the calculation would be anti-dilutive. The number of options and warrants outstanding as of September 30, 2008 and 2007 are illustrated in the table below, as well as the number of shares underlying the convertible notes.

Outstanding at September 30,	2008	2007
Stock options	3,197,635	7,102,000
Common stock warrants	12,775,718	9,442,385
Common shares underlying convertible notes	6,666,667	–
Total options, warrants, and convertible notes	22,640,020	16,544,385

Note 7. Contractual Obligations and Long-Term Liability

The Company leases office space in Toronto, Ontario and Boulder, Colorado, which extend to February 2012 and September 2010, respectively. The Company is currently looking to sub-lease both properties, but did not have binding contracts to sub-lease as of September 30, 2008. The Company is currently leasing virtual office space in New York, New York a on a short-term basis under a lease, which expires in December 2008, for its corporate headquarters. The Company does not intend to renew its New York lease and has given the requisite notice of termination. Instead, the Company plans to move its corporate headquarters to Las Vegas as of the end of December 2008. In addition, in 2007 the Company leased approximately 1,000 square feet in Las Vegas, Nevada, for a corporate apartment, which was leased on an annual basis until February 2008, at a monthly rent of approximately $2,000. Frequent trips to Las Vegas made this lease a cost-effective way to house the Company's employees during business trips for meetings with the Company's partner Shuffle Master and in connection with GLI certification of our wireless gaming solution. This lease was not renewed when it expired at the end of February 2008. In April 2008, the Company opened a small sales office in Las Vegas, Nevada under a short-term lease which extended to December 2008. The Company does not intend to renew this lease and has given the requisite notice of termination. The Company is actively searching for new office space in Las Vegas, which will serve as the Company's headquarters. Office lease expenses for the three months ended September 30, 2008 and 2007 were $83,259 and $99,268, respectively. Office lease expenses for the nine months ended September 30, 2008 and 2007 were $291,571 and $311,800, respectively.

The Company also leases office and computer equipment. These leases have been classified as operating leases. Office and computer equipment lease expenses for the three months ended September 30, 2008 and 2007 were $38,608 and $38,292, respectively. Office and computer equipment lease expenses for the nine months ended September 30, 2008 and 2007 were $117,438 and $115,045, respectively.

During the fourth quarter of fiscal 2007, the Company completed a private placement of 8.0% convertible notes (the "2007 Notes") with 3,333,333 accompanying warrants, which generated gross proceeds of $3.0 million. The 2007 Notes have a face value of $3 million, are due on November 28, 2010, and are convertible into 6,666,667 shares of common stock at a conversion price of $0.45 per share (assuming interest is paid in cash). The 2007 Notes bear interest at a rate of 8.0% per annum, payable quarterly on the first of January, April, July, and October with such interest payable in cash, shares of common stock or a combination thereof. Payment of interest in shares of common stock is subject to certain conditions being met, including the existence of a registration statement, which has been declared effective by the SEC and which covers the required number of interest shares.

Contractual obligations and payments relating to the Company’s long-term liability in future periods are as follows (2008 amounts are for three months):

Contractual Obligations and Long-Term Liability
(US$)

	Total	2008	2009	2010	2011	2012+
Office Space Leases:						
United States	$ 367,359	$ 43,457	$ 183,100	$ 140,802	$ –	$ –
Canada	401,222	27,148	111,380	114,772	118,222	29,700
Total Office Space	768,581	70,605	294,480	255,574	118,222	29,700
Office Equipment	97,573	35,945	60,982	646	–	–
Convertible Debt	3,000,000	-	–	3,000,000	–	–
Interest on Convertible Debt	520,000	60,000	240,000	220,000	–	–
Total	$ 4,386,154	$ 166,550	$ 595,462	$ 3,476,220	$ 118,222	$ 29,700

Note 8. Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and convertible notes. The reported book value of all current asset and current liability financial instruments approximates fair values, due to their short-term nature. The convertible notes were recorded at the time of issuance at their estimated fair market value, and the difference between the estimated fair market value at the time of issuance and the face value of $3 million (i.e. the debt discount) is being amortized over the three-year term to maturity of the notes. See Note 11.

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

The Company is subject to foreign currency risk with respect to financial instruments denominated in a foreign currency. As of September 30, 2008, approximately 3.9% of the Company’s assets and 2.9% of its liabilities were denominated in Canadian dollars and Euros and exposed to foreign currency fluctuations.

Note 9. Accrued Liabilities and Payroll

Accrued Liabilities and Payroll consist of the following categories, as of the indicated dates:

	September 30, 2008	December 31, 2007
Accrued payroll and related expenses	$ 134,483	$ 233,557

Accrued professional fees		121,354		148,638
Accrued vendor obligations		29,554		88,863
Accrued interest payable		70,857		22,000
Other taxes payable		11,888		17,863
Total	$	368,136	$	510,921

Note 10. Deferred Revenues

Deferred revenue is booked when the Company has invoiced customers for project work that has not been completed at the balance sheet date or for software license fees, which are amortized over the term of the software license or related period. The Company's deferred revenue balance as of September 30, 2008 was $2,642,305. The Company's deferred revenue balance as of December 31, 2007 was $55,795. The majority of the balance at September 30, 2008 ($2,500,000) related to the software license fee paid to the Company by Ebet Limited under the terms of the Licensing and Distribution Agreement signed in August 2008. The Company has deferred the full amount of the license fee for the current quarter, as there are certain conditions in the agreement, which had not been met as of the balance sheet date. On the Company's balance sheet, $2,544,805 of the total deferred revenue has been classified as a current liability and the remaining balance of $97,500 has been classified as long-term as of September 30, 2008.

Note 11. Long-Term Debt

On November 28, 2007 (the “Issue Date”), the Company completed a private placement of 8.0% convertible notes (the “2007 Notes”) with 3,333,333 accompanying warrants (the “2007 Warrants”), which generated gross proceeds of $3.0 million. The 2007 Notes have a face value of $3 million, are due on November 28, 2010, and are convertible into 6,666,667 shares of common stock at a conversion price of $0.45 per share (assuming interest is paid in cash). The 2007 Warrants have an exercise price of $0.50 per share and expire five years from the Issue Date.

The 2007 Notes bear interest at a rate of 8.0% per annum, payable quarterly on the first of January, April, July, and October with such interest payable in cash, shares of common stock or a combination thereof. Payment of interest in shares of common stock is subject to certain conditions being met including the existence of a registration statement which has been declared effective by the SEC and which covers the required number of interest shares. A total of 2,133,333 shares have been included on the registration statement relating to the payment of interest in shares instead of cash. As per the purchase agreement which governs the November 2007 private placement, this is the required minimum to be registered for interest shares and is calculated as the total interest payable over the three year term of the notes divided by 75% of the current conversion price of $0.45 per share as follows:

($3,000,000 x 8% x 3 years) / (75% x $0.45/share) = 2,133,333 registrable shares

In addition to the interest shares, 6,666,667 shares relating to the common stock underlying the 2007 Notes and 3,333,333 shares relating to the common stock underlying the 2007 Warrants have also been registered, for a total of 12,133,333 registrable shares.

The 2007 Notes are convertible under any of the following circumstances, subject to the provision that the stockholders’ beneficial ownership percentage cannot exceed 4.99% after such conversion:

- during any period after the Issue Date, (i) the daily volume weighted average price per share of common stock of the Company for at least 20 out of any 30 consecutive trading days, which period shall have commenced only after the Issue Date (the “Threshold Period”), exceeds $0.90 (subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the common stock of the Company that occurs after the Issue Date), (ii) for at least 20 trading days during the applicable Threshold Period, the daily trading volume for the common stock of the Company on the trading market of the Company exceeds $100,000 per trading day and (iii) all of the Equity Conditions (as defined in the 2007 Notes) are met (unless waived by a holder) for the applicable time period set forth in the 2007 Notes;