AMERICAN INTERNATIONAL GROUP INC
Form 424B2
January 31, 2008

PRICING SUPPLEMENT NO. AIG-FP-54
DATED JANUARY 29, 2008
TO PROSPECTUS DATED JULY 13, 2007
AND PROSPECTUS SUPPLEMENT DATED JULY 13, 2007

FILED PURSUANT TO RULE 424(b)(2)
REGISTRATION NO. 333-106040; 333-143992

AMERICAN INTERNATIONAL GROUP, INC.
MEDIUM-TERM NOTES, SERIES AIG-FP,
PRINCIPAL PROTECTED NOTES LINKED TO THE PERFORMANCE OF A BASKET OF CURRENCIES
DUE FEBRUARY 4, 2010
(THE NOTES)

The Notes:

The Notes are designed for investors who believe that the value (per U.S. dollar) of a basket of certain foreign currencies (the Basket) will decrease from the pricing date (the Pricing Date) to a date shortly before the maturity date of the Notes (the Valuation Date). Investors must be willing to forego interest payments on the Notes. The value of the Basket will decrease if the Basket s currencies (the Australian dollar, the New Zealand dollar, the Turkish lira, the British pound and the Brazilian real (each a Basket Component , and collectively the Basket Components)) appreciate against the U.S. dollar. The value of the Basket will increase if the Basket s currencies depreciate against the U.S. dollar.

The Notes will have 100% principal protection on the maturity date.

There will be no payments on the Notes prior to the maturity date.

We cannot redeem the Notes prior to the maturity date.

The Notes will not be listed on any securities exchange.

The Notes will be senior unsecured debt securities of American International Group, Inc. (AIG) and part of a series entitled Medium-Term Notes, Series AIG-FP.

AIG Financial Products Corp., as calculation agent (the Calculation Agent), will determine the value of the Basket as described in this pricing supplement.

The Notes will have CUSIP No. 02687QDL9.
The settlement date will be February 4, 2008.

The Pricing Date is January 28, 2008.

Payment on the maturity date:

The maturity date for the Notes will be February 4, 2010.

The amount you receive on the maturity date per $1,000 principal amount of Notes will be based upon the direction of and percentage change in the level of the Basket from the starting value on the Pricing Date (the Starting Value) to the ending value on the Valuation Date (the Ending Value). If the Ending Value of the Basket calculated on the Valuation Date:

is less than the Starting Value, you will receive the $1,000 principal amount per $1,000 principal amount of Notes, plus an additional amount (the Additional Amount) equal to $1,000 multiplied by (1) the percentage by which the Starting Value exceeds the Ending Value and (2) a participation rate equal to 200%; or

is greater than or equal to the Starting Value, you will receive $1,000 per $1,000 principal amount of Notes. The Valuation Date is expected to be January 21, 2010.

Information included in this pricing supplement supersedes information in the related prospectus supplement and prospectus to the extent that it is different from that information.

Investing in the Notes involves risks that are described in the Risk Factors section beginning on page PS-2 of this pricing supplement.

	Per Minimum Denomination	Total
Public offering price	$1,000.00	$5,500,000
Underwriting discount	$ 17.50	$ 96,250
Proceeds, before expenses, to American International Group, Inc.	$ 982.50	$5,403,750

Assuming there are no changes in the level of the Basket and no change in market conditions or any other relevant factors, the price, if any, at which Wachovia Capital Markets, LLC (Wachovia Securities) or another purchaser might be willing to purchase your Notes in a secondary market transaction is expected to be lower, and could be substantially lower, than the original public offering price of the Notes. This is due to, among other things, the fact that the original public offering price of the Notes included, and secondary market prices are likely to exclude, underwriting discounts paid with respect to, and the development and hedging costs associated with, the Notes, as well as the projected profit included in the cost of hedging our obligations under the Notes.

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

Wachovia Securities

The date of this pricing supplement is January 29, 2008.

RISK FACTORS

Investing in the Notes involves a number of significant risks not associated with similar investments in a conventional debt security, including events that are difficult to predict and beyond AIG s control. Investors should carefully consider the following discussion of risks and the discussion of risks included in the related prospectus before deciding whether to invest in the Notes. Prospective investors should consult their financial and legal advisors as to the risks entailed by an investment in the Notes and the suitability of the Notes in light of their particular circumstances.

You may not earn a return on your investment

If the Ending Value is not less than the Starting Value, the Additional Amount you will receive at maturity will be $0, and we will pay you $1,000 per $1,000 principal amount of your Notes. This will be true even if the level of the Basket was lower than the Starting Value at some time during the life of the Notes but later rises above the Starting Value.

The market price you may receive or be quoted for your Notes on a date prior to the maturity date will be affected by important factors, including the costs of developing, hedging and distributing the Notes

Assuming there are no changes in the level of the Basket and no change in market conditions or any other relevant factors, the price, if any, at which Wachovia Securities or another purchaser might be willing to purchase your Notes in a secondary market transaction is expected to be lower, and could be substantially lower, than the original public offering price of the Notes. This is due to, among other things, the fact that the original public offering price of the Notes included, and secondary market prices are likely to exclude, underwriting discounts paid with respect to, and the development and hedging costs associated with, the Notes, as well as the projected profit included in the cost of hedging our obligations under the Notes.

A trading market for the Notes is not expected to develop, which may adversely affect the price you receive if you sell your Notes before the maturity date

The Notes will not be listed on any futures or securities exchange, and we do not expect a trading market for the Notes to develop. Although Wachovia Securities has indicated that it currently expects to bid for Notes offered for sale to it by holders of the Notes, it is not required to do so and may cease making those bids at any time. If a market-maker (which may be Wachovia Securities) makes a market in the Notes, the price it quotes would reflect any changes in market conditions and other relevant factors. This quoted price could be higher or lower than the original public offering price of the Notes. The Notes are not designed to be short-term trading instruments and if you sell your Notes in the secondary market prior to maturity you will not be entitled to principal protection or any minimum return of the principal amount of your Notes sold. Accordingly, you should be able and willing to hold the Notes to maturity.

Many factors interrelate in complex ways to affect the trading value of the Notes

The market price which you may receive for the Notes will be affected by factors that interrelate in complex ways. The effect of one factor may offset the increase in the trading value of the Notes caused by another factor and the effect of one factor may exacerbate the decrease in the trading value of the Notes caused by another factor. For example, a decrease in the volatility of the Basket Components relative to the U.S. dollar may offset some or all of any increase in the trading value of the Notes attributable to another factor, such as an appreciation in the Basket Components relative to the U.S. dollar. The following paragraphs describe the expected impact on the trading value of the Notes given a change in a specific factor, assuming all other conditions remain constant.

The value of the Basket is expected to affect the trading value of the Notes. We expect that the trading value, if any, of the Notes will depend substantially on the amount, if any, by which the value of the Basket is less than or is not less than the Starting Value. However, even if you choose to sell your Notes when the value of the Basket is less than the Starting Value, you may receive substantially less than the amount that would be payable on the maturity date based on this value because of the expectation that the level of the Basket will continue to fluctuate until the Ending Value is determined on the Valuation Date.

Changes in the volatilities of the Basket Components relative to the U.S. dollar are expected to affect the trading value of the Notes. Volatility is the term used to describe the size and frequency of price and/or market fluctuations. If the volatilities of the Basket Components relative to the U.S. dollar increase or decrease, the trading value of the Notes may be adversely affected.

Changes in the levels of interest rates are expected to affect the trading value of the Notes. We expect that changes in interest rates will affect the trading value of the Notes. In general, if U.S. interest rates increase, we expect that the trading value of the Notes will decrease and, conversely, if U.S. interest rates decrease, we expect that the trading value of the Notes will increase. If interest rates increase or decrease in markets based on any Basket Component, the trading value of the Notes may be adversely affected. Interest rates may also affect the economies issuing the Basket Components and, in turn, the respective exchange rates, and therefore, the trading value of the Notes.

As the time remaining to the maturity date of the Notes decreases, the time premium associated with the Notes is expected to decrease. We anticipate that before their maturity date, the Notes may trade, if at all, at a value above that which would be expected based on the value of the Basket. This difference will reflect a time premium due to expectations concerning the value of the U.S. dollar relative to the Basket Components prior to the maturity date of the Notes. However, as the time remaining to the maturity date of the Notes decreases, we expect that this time premium will decrease, lowering the trading value of the Notes.

Changes in our credit ratings may affect the trading value of the Notes. Our credit ratings are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings may affect the trading value of the Notes. However, because the return on your Notes is dependent upon factors in addition to our ability to pay our obligations under the Notes, such as the percentage increase, if any, in the value of the Basket over the term of the Notes, an improvement in our credit ratings will not reduce the other investment risks related to the Notes. For instance, our credit ratings may not reflect the potential impact on the value of your Notes of risks related to structure, market or other factors discussed herein.

In general, assuming all relevant factors are held constant, we expect that the effect on the trading value of the Notes of a given change in some of the factors listed above will be less if it occurs later in the term of the Notes than if it occurs earlier in the term of the Notes. We expect, however, that the effect on the trading value of the Notes of a given change in the value of the Basket will be greater if it occurs later in the term of the Notes than if it occurs earlier in the term of the Notes.

Any positive return(s) in one or more of the Basket Components may be offset by a negative return in another Basket Component

The Notes are linked to the performance of the Basket, which is composed of five Basket Components. Each of the Basket Components is equally weighted in determining the level of the Basket. Accordingly, the performance of the Basket will be based on the aggregate appreciation or depreciation of the Basket Components taken as a whole. Therefore, a positive return in one Basket Component may be offset, in whole or in part, by a negative return of a lesser, equal or greater magnitude in another Basket Component. For example, the combination of a 2% Australian dollar appreciation against the US dollar and a 1% New Zealand dollar appreciation against the US dollar would be entirely offset by a 0% Turkish lira appreciation , a -2% British pound depreciation against the US dollar and a -1% Brazilian real depreciation against the US dollar, resulting in an Ending Value that is equal to the Starting Value and a payment at maturity to you of only your principal amount.

Your yield may be lower than other debt securities of comparable maturity

The yield that you will receive on the Notes may be less than the return you could earn on other investments. Your yield may be less than the yield you would earn if you bought a traditional interest-bearing debt security of AIG with the same maturity date. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

You must rely on your own evaluation of the merits of an investment linked to the Basket

In the ordinary course of their businesses, AIG and Wachovia Securities or their subsidiaries may express views on expected movements in foreign currency exchange rates, and these views are sometimes communicated to clients who participate in the foreign currency exchange markets. However, these views are subject to change from time to time. Moreover, other professionals who deal in foreign currencies may at any time have significantly different views from those of AIG or Wachovia Securities or their subsidiaries. For these reasons, you are encouraged to investigate the currency exchange markets based on information from multiple sources, and should not rely on the views expressed by AIG or Wachovia Securities or their subsidiaries.

You should make such investigation as you deem appropriate as to the merits of an investment linked to the Basket. Neither the offering of the Notes nor any view which may from time to time be expressed by our affiliates in the ordinary course of their businesses with respect to future exchange rate movements constitutes a recommendation as to the merits of an investment in the Notes.

The return on your Notes depends on the values of the Basket Components, which are affected by many complex factors outside of our control

The value of any currency, including the Basket Components, may be affected by complex political and economic factors. The exchange rate of each Basket Component is at any moment a result of the supply and demand for that currency relative to other currencies, and changes in the exchange rate result over time from the interaction of many factors directly or indirectly affecting economic and political conditions in the originating country of each Basket Component, including economic and political developments in other countries. Of particular importance are the relative rates of inflation, interest rate levels, balance of payments and extent of governmental surpluses or deficits in those countries, all of which are in turn sensitive to the monetary, fiscal and trade policies pursued by the governments of those countries, and other countries important to international trade and finance.

Foreign exchange rates can be fixed by sovereign governments or they may be floating. Exchange rates of most economically developed nations and many developing nations are permitted to fluctuate in value relative to the U.S. dollar. However, governments sometimes do not allow their currencies to float freely in response to economic forces. Governments, including those issuing the Basket Components, may use a variety of techniques, such as intervention by their central bank or imposition of regulatory controls or taxes, to affect the exchange rates of their respective currencies. They may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing the Notes is that their liquidity, trading value and amounts payable could be affected by the actions of sovereign governments which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces and the movement of currencies across borders. There will be no adjustment or change in the terms of the Notes in the event that exchange rates should become fixed, or in the event of any devaluation or revaluation or imposition of exchange or other regulatory controls or taxes, or in the event of the issuance of a replacement currency or in the event of other developments affecting any of the Basket Components, or any other currency.

Even though currencies trade around the clock, your Notes will not, and the prevailing market prices for your Notes may not, reflect the underlying currency prices and rates

The interbank market in foreign currencies is a global, around-the-clock market. Therefore, the hours of trading for the Notes will not conform to the hours during which the Basket Components are traded. Significant price and rate movements may take place in the underlying foreign exchange markets that will not be reflected immediately in the market price, if any, of the Notes. The possibility of these movements should be taken into account in relating the value of the Notes to those in the underlying foreign exchange markets.

There is no systematic reporting of last-sale information for foreign currencies. Reasonably current bid and offer information is available in certain brokers offices, in bank foreign currency trading offices and to others who wish to subscribe for this information, but this information will not necessarily be reflected in the value of the Basket, as determined by the Calculation Agent. There is no regulatory requirement that those quotations be firm or

revised on a timely basis. The absence of last-sale information and the limited availability of quotations to individual investors may make it difficult for many investors to obtain timely, accurate data about the state of the underlying foreign exchange markets.

Future performance of the Basket cannot be predicted on the basis of historical performance

The exchange rates of the Basket Components will determine the Basket level. As a result, it is impossible to predict whether, or the extent to which, the level of the Basket will rise or fall. As discussed herein, exchange rates will be influenced by complex and interrelated political, economic, financial and other factors. Accordingly, the historical performance of the Basket Components should not be taken as an indication of the future performance of the Basket, and no projection, representation or warranty is made regarding future performance.

Purchases and sales by us or the swap counterparty may affect your return

We intend to hedge our obligations under the Notes by entering into a swap transaction with Wachovia Bank, N.A. as the swap counterparty. In turn, the swap counterparty may hedge its obligations on that swap transaction by purchasing the Basket Components, or exchange-traded funds or other derivative instruments with returns linked or related to changes in the trading prices of the Basket Components or the level of the Basket, and may adjust these hedges by, among other things, purchasing or selling Basket Components, or exchange-traded funds or other derivative instruments with returns linked to the Basket or the Basket Components at any time. If our swap transaction with Wachovia Bank, N.A. were terminated, we may hedge our obligations by engaging in any of the hedging activities described above. Although they are not expected to, any of these hedging activities may adversely affect the trading prices of the Basket Components or the level of the Basket and, therefore, the market value of the Notes even as we or the swap counterparty may realize substantial returns from these activities.

We may have conflicts of interests arising from our relationship with the Calculation Agent

AIG Financial Products Corp. (AIG-FP), our subsidiary, in its capacity as Calculation Agent for the Notes, is under no obligation to take your interests into consideration in determining the Starting Value, the Ending Value and the Additional Amount, if any, and is only required to act in good faith and in a commercially reasonable manner. Because these determinations by AIG-FP will affect the payment at maturity on the Notes, conflicts of interest may arise in connection with its performance of its role as Calculation Agent.

Tax consequences

You should consider the tax consequences of investing in the Notes. See United States Federal Income Taxation in this pricing supplement.

DESCRIPTION OF THE NOTES

AIG will issue the Medium-Term Notes, Series AIG-FP, Principal Protected Notes Linked to the Performance of a Basket of Currencies, due February 4, 2010 (the Notes) as part of a series of senior debt securities entitled Medium-Term Notes, Series AIG-FP, under the Indenture dated as of October 12, 2006 between AIG and The Bank of New York, as trustee, which is more fully described in the prospectus dated July 13, 2007. You should carefully read this pricing supplement, along with the prospectus supplement dated July 13, 2007 and the prospectus, to fully understand the terms of the Notes and the tax and other considerations that are important to you in making a decision about whether to invest in the Notes. Information included in this pricing supplement supersedes information in the related prospectus supplement and prospectus to the extent that it is different from that information. You should carefully review the Risk Factors sections in this pricing supplement and the aforementioned prospectus, which highlight certain risks associated with an investment in the Notes, to determine whether an investment in the Notes is appropriate for you.

The Notes will mature on February 4, 2010.

The CUSIP number for the Notes is 02687QDL9.

The Notes will not be subject to redemption by AIG or repayment at the option of any holder of the Notes before the maturity date. The Notes will not have the benefit of any sinking fund.

AIG will issue the Notes in denominations of $1,000 and multiples of $1,000 in excess thereof. You may transfer the Notes only in increments of $1,000 principal amount. You will not have the right to receive physical certificates evidencing your ownership except under limited circumstances. Instead, we will issue the Notes in the form of a global certificate, which will be held by The Depository Trust Company, also known as DTC, or its nominee. Direct and indirect participants in DTC will record your ownership of the Notes. You should refer to the sections entitled Description of Notes We May Offer Book-Entry System in the related prospectus supplement and Legal Ownership and Book-Entry Issuance in the related prospectus.

Payment on the Maturity Date

On the maturity date, you will be entitled to receive a cash payment, denominated in U.S. dollars, of $1,000 for each $1,000 principal amount of the Notes plus the Additional Amount, if any, as provided below. If the Ending Value is not less than the Starting Value, you will be entitled to receive only the $1,000 principal amount. There will be no other payment of interest, periodic or otherwise, on the Notes prior to the maturity date.

If the maturity date is not a New York Business Day, then you will receive payment in respect of the Notes on the next succeeding New York Business Day, with no adjustment to the amount of such payment on account thereof. New York Business Day means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions generally in the City of New York are authorized or obligated by law, regulation or executive order to close or (iii) a day on which banks in the City of New York are not open for dealing in foreign exchange and foreign currency deposits.

Determination of the Additional Amount

The Additional Amount per $1,000 principal amount of the Notes will be denominated in U.S. dollars, will be determined by the Calculation Agent and will equal:

(i) If the Ending Value is less than the Starting Value:

(ii) If the Ending Value is equal to or greater than the Starting Value, $0.

The Starting Value was set to 1000 on January 28, 2008.

The Ending Value will equal the value of the Basket as determined by the Calculation Agent on the Valuation Date, in accordance with the process set forth below herein in the section entitled Description of the Basket and using the Exchange Rates (as defined below) on that date.

The Valuation Date will be the tenth New York Business Day immediately prior to the maturity date, which is expected to be January 21, 2010.

The Participation Rate is 200%.

The Calculation Agent in respect of the Notes will be AIG-FP, a subsidiary of AIG. All determinations made by the Calculation Agent, absent a determination of a manifest error, will be conclusive for all purposes and binding on AIG and the holders and beneficial owners of the Notes.

Examples

Set forth below are three examples of calculations of payments on the maturity date:

Example 1 The hypothetical Ending Value is equal to 120% of the Starting Value:

Starting Value: 1000

Hypothetical Ending Value: 1200

Payment on the maturity date (per $1,000 principal amount) = $1,000

Example 2 The hypothetical Ending Value is equal to 95% of the Starting Value:

Starting Value: 1000

Hypothetical Ending Value: 950

Percentage by which Starting Value exceeds hypothetical Ending Value: 5%

Additional Amount (per $1,000 principal amount) = $1,000 x .05 x 200% = $100

Payment on the maturity date (per $1,000 principal amount) = $1,000 + $100 = $1,100

Example 3 The hypothetical Ending Value is equal to 85% of the Starting Value:

Starting Value: 1000

Hypothetical Ending Value: 850

Percentage by which Starting Value exceeds hypothetical Ending Value: 15%

Additional Amount (per $1,000 principal amount) = $1,000 x .15 x 200% = $300

Payment on the maturity date (per $1,000 principal amount) = $1,000 + $300 = $1,300

Hypothetical Payout Profile

This graph reflects the hypothetical performance of the Notes based on the Participation Rate of 200%. The solid line reflects the hypothetical payment at maturity for the Notes, while the dotted line reflects the performance of an investment in the Basket Components.

This graph has been prepared for purposes of illustration only. Your actual return will depend on the actual Ending Value and the term of your investment.

Hypothetical returns

The following table illustrates, for a range of hypothetical Ending Values:

the percentage by which the Starting Value exceeds the hypothetical Ending Value for the Basket;

the total amount payable on the maturity date per $1,000 principal amount of the Notes;

the total rate of return to holders of the Notes;

the pretax annualized rate of return to holders of the Notes; and

the pretax annualized rate of return in U.S. dollars on an investment in the Basket Components.

The table below is based on the Participation Rate of 200%.

Hypothetical Ending Value	Percentage by which the Starting Value exceeds the hypothetical Ending Value	Total amount payable on the maturity date per $1,000 principal amount of the Notes (1)	Total rate of return on the Notes	Pretax annualized rate of return on the Notes (2)	Pretax annualized rate of return on the Basket Components (2)(3)
1250.00	-25.00%	$1,000.00	0.00%	0.00%	-13.88%
1200.00	-20.00%	$1,000.00	0.00%	0.00%	-10.85%
1150.00	-15.00%	$1,000.00	0.00%	0.00%	-7.96%
1100.00	-10.00%	$1,000.00	0.00%	0.00%	-5.20%
1050.00	-5.00%	$1,000.00	0.00%	0.00%	-2.55%
1000.00(4)	0.00%	$1,000.00	0.00%	0.00%	0.00%
950.00	5.00%	$1,100.00	10.00%	4.82%	2.45%
900.00	10.00%	$1,200.00	20.00%	9.33%	4.82%
850.00	15.00%	$1,300.00	30.00%	13.56%	7.11%
800.00	20.00%	$1,400.00	40.00%	17.55%	9.33%
750.00	25.00%	$1,500.00	50.00%	21.34%	11.47%

(1) The amount you receive on the maturity date will not be less than $1,000 per $1,000 principal amount.

(2) The annualized rates of return specified in this table are calculated on a semiannual bond equivalent basis and assume an investment term from January 28, 2008 to February 4, 2010, a term expected to be equal to that of the Notes.

(3) The pretax annualized rates of return specified in this column assume

that the underlying currency positions will be converted into U.S. dollars at the same time and at the same Exchange Rates (as defined below) as those in the Basket.

(4) The Starting Value is set to 1000 at the Pricing Date.

The above figures are for purposes of illustration only. The actual amount received by you and the resulting total and pretax annualized rates of return will depend on the actual Ending Value, as calculated based upon the Exchange Rates on the Valuation Date and the term of your investment.

Events of Default and Acceleration

In case an Event of Default with respect to any Notes has occurred and is continuing, the amount payable to a holder of the Notes upon any acceleration permitted by the Notes, with respect to each $1,000 principal amount of the Notes, will be equal to the sum of $1,000 plus the Additional Amount, if any, calculated as though the date of acceleration were the maturity date of the Notes.

In case of default in payment of the Notes, whether on the maturity date or upon acceleration, from and after that date the Notes will bear interest, payable upon demand of their holders, at the then-current Federal Funds Rate, reset daily, as determined by reference to Reuters page FEDFUNDS1 under the heading EFFECT , to the extent that payment of such interest shall be legally enforceable, on the unpaid amount due and payable on that date in accordance with the terms of the Notes to the date payment of that amount has been made or duly provided for. Reuters page FEDFUNDS1 means the display page designated as FEDFUNDS1 on the Reuters service or any successor page, or page on a successor service, displaying such rate. If the Federal Funds Rate cannot be determined by reference to Reuters page FEDFUNDS1, such rate will be determined in accordance with the procedures set forth in the related prospectus supplement.

DESCRIPTION OF THE BASKET

The Basket is designed to allow investors to participate in exchange rate movements of the currencies included in the Basket, as reflected by changes in the U.S. dollar value of the Basket, from the Starting Value to the Ending Value. The currencies that will compose the Basket are the Australian dollar (AUD), the New Zealand dollar (NZD), the Turkish lira (TRY), the British pound (GBP) and the Brazilian real (BRL). As the exchange rates used in calculating the Ending Value are expressed as the number of units of the relevant Basket Component per U.S. dollar, the Basket can be viewed as having long positions in the Australian dollar, the New Zealand dollar, the Turkish lira, the British pound and the Brazilian real. The Basket Components will be weighted equally. Additionally, the Basket can be viewed as having a short position in the U.S. dollar.

On the Pricing Date, a fixed factor (the Exchange Ratio) was determined for each Basket Component based upon the weighting of that Basket Component in the Basket (with each Basket Component weighted equally in the Basket) and the Exchange Rate of such Basket Component, as determined on the Pricing Date. The Exchange Ratio for each Basket Component was calculated by dividing, on the Pricing Date, (i) the initial U.S. dollar value of such Basket Component by (ii) the Exchange Rate of such Basket Component, and rounding to four decimal places. The Exchange Ratio for each Basket Component will remain fixed over the term of the Notes and will be used to calculate the Ending Value of the Basket on the Valuation Date as described below. The initial U.S. dollar value of each Basket Component will be the product of (i) the weighting of such Basket Component, and (ii) $1,000, the principal amount per security.

As the Exchange Rates (as defined below) move, the value of each Basket Component will vary based on the appreciation or depreciation of that Basket Component. Any depreciation in a Basket Component relative to the U.S. dollar, assuming the Exchange Rates of all the other Basket Components remain the same, will result in an increase in the value of the Basket. Conversely, any appreciation in a Basket Component relative to the U.S. dollar, assuming the Exchange Rates of all the other Basket Components remain the same, will result in a decrease in the value of the Basket.

To compute the final Basket value, the Exchange Ratio with respect to each Basket Component will be multiplied by the then-current Exchange Rate for that Basket Component, and the resulting products summed. For example, if on the Valuation Date the value of the Australian dollar has appreciated from 1.13103 Australian dollars per U.S. dollar, its value January 28, 2008, to 1 Australian dollar per U.S. dollar, then the contribution to the value of the Basket of the Australian dollar would equal 176.83 (the hypothetical Exchange Ratio for the AUD, 176.83, multiplied by 1). The appreciation in the Australian dollar would decrease the value of the Basket because of the long position. Based on the above, assuming the Exchange Rate of the other Basket Components remains the same, the value of the Basket on the Valuation Date would be 976.83 (the sum of the products of the Exchange Ratio and the Exchange Rate for each Basket Component, rounded to two decimal places).

The term Exchange Rate, as of any date, means:

(i) for the Australian dollar, the currency exchange rate in the interbank market quoted as the number of Australian dollars for which one U.S. dollar can be exchanged, equal to the inverse of the value as reported by Reuters on page WMRSPOT01, or any substitute page thereto, at approximately 4:00 p.m. in London, England;

(ii) for the New Zealand dollar, the currency exchange rate in the interbank market quoted as the number of New Zealand dollars for which one U.S. dollar can be exchanged, equal to the inverse of the value as reported by Reuters on page WMRSPOT01, or any substitute page thereto, at approximately 4:00 p.m. in London, England;

(iii) for the Turkish lira, the currency exchange rate in the interbank market quoted as the number of Turkish lira for which one U.S. dollar can be exchanged, equal to the value as reported by Reuters on page WMRSPOT01, or any substitute page thereto, at approximately 4:00 p.m. in London, England;

(iv) for the British pound, the currency exchange rate in the interbank market quoted as the number of British pounds for which one U.S. dollar can be exchanged, equal to the inverse of the value as reported by Reuters on page WMRSPOT01, or any substitute page thereto, at approximately 4:00 p.m. in London, England; and

(v) for the Brazilian real, the currency exchange rate in the interbank market quoted as the number of Brazilian real for which one U.S. dollar can be exchanged, equal to the value as reported by Reuters on page BRL PTAX (BRL09), or any substitute page thereto, at approximately 6:00 p.m. in Sao Paulo, Brazil.

If the currency exchange rates are not so quoted on Reuters page WMRSPOT01 or BRL PTAX (BRL09) (as applicable), or any substitute page thereto, then the Exchange Rates used to determine the Starting Value or the Ending Value, as applicable, will equal the noon buying rate in New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate). If the Noon Buying Rate is not announced on that date, then the Exchange Rates will be calculated on the basis of the arithmetic mean of the applicable spot quotations received by the Calculation Agent at approximately 10:00 a.m., New York City time, on the relevant date for the purchase or sale for deposits in the relevant currencies by the London offices of three leading banks engaged in the interbank market (selected in the sole discretion of the Calculation Agent) (the Reference Banks). If fewer than three Reference Banks provide spot quotations, then the Exchange Rates will be calculated on the basis of the arithmetic mean of the applicable spot quotations received by the Calculation Agent at approximately 10:00 a.m., New York City time, on the relevant date from two leading commercial banks in New York (selected in the sole discretion of the Calculation Agent), for the purchase or sale for deposits in the relevant currencies. If these spot quotations are available from only one bank, then the Calculation Agent, in its sole discretion, will determine which quotation is available and reasonable to be used. If no spot quotation is available, then the Exchange Rates will be the rate the Calculation Agent, in its sole discretion, determines to be fair and reasonable under the circumstances at approximately 10:00 a.m., New York City time, on the relevant date.

While historical information on the Basket will not exist before the Pricing Date, the following graph sets forth the hypothetical historical month-end values of the Basket from January 2002 through December 2007 based upon historical Exchange Rates, the Exchange Ratio indicated above and a Basket value of 1000 on January 31, 2002. The historical data used in this graph reflects the historical exchange rates available on Bloomberg, which may not be identical to those determined at the fixing times set forth above. This hypothetical historical data on the Basket is not necessarily indicative of the future performance of the Basket or what the value of the Notes may be. Any upward or downward trend in the hypothetical historical value of the Basket during any period set forth below is not an indication that the Basket is more or less likely to increase or decrease in value at any time over the term of the Notes.

Source: Bloomberg L.P. (without independent verification)

UNITED STATES FEDERAL INCOME TAXATION

Under applicable U.S. Treasury Regulations governing debt obligations with payments denominated in, or determined by reference to, more than one currency, for persons whose functional currency is the U.S. dollar, the Notes will not be foreign currency denominated debt obligations because the predominant currency of the Notes is the U.S. dollar. Accordingly, we will treat the Notes as being denominated in U.S. dollars, and payments on the Notes determined by reference to currencies other than the U.S. dollar as contingent payments under the special federal income tax rules applicable to contingent payment obligations. These rules are described under the heading United States Taxation Original Issue Discount Notes Subject to Contingent Payment Obligation Rules in the related prospectus supplement. As more completely described in the related prospectus supplement, holders will recognize income before the receipt of cash attributable thereto and gains on sale or redemption will be ordinary.

The U.S. Treasury Regulations governing the U.S. federal income tax treatment of contingent payment obligations require the issuer of such Notes to provide the purchaser with the comparable yield of a hypothetical AIG debt instrument with terms similar to the Notes, but without any contingent payments, and a projected payment schedule for payments on the Notes. As discussed in the related prospectus supplement, a purchaser of the Notes will need this information to calculate its income on the Notes. Solely for purposes of applying these regulations, we have determined that the comparable yield is 2.89%. Based on this comparable yield, the projected payment on the maturity date will be $1,059.10 per $1,000 principal amount of the Notes.

The comparable yield and projected payment set forth above are being provided to holders solely for the purpose of determining the amount of interest that accrues in respect of the Notes for U.S. federal income tax purposes, and none of AIG or its affiliates or agents is making any representation or prediction regarding the actual amount that may be payable with respect to the Notes on the maturity date.

ERISA CONSIDERATIONS

The Notes may not be purchased or held by any employee benefit plan or other plan or account that is subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA) or Section 4975 of the Code (each, a plan), or by any entity whose underlying assets include plan assets by reason of any plan s investment in the entity (a plan asset entity), unless in each case the purchaser or holder is eligible for exemptive relief from the prohibited transaction rules of ERISA and Section 4975 of the Code under a prohibited transaction class exemption issued by the Department of Labor or another applicable statutory or administrative exemption. Each purchaser or holder of the Notes will be deemed to represent that either (1) it is not a plan or plan asset entity and is not purchasing the Notes on behalf of or with plan assets or (2) with respect to the purchase and holding, it is eligible for relief under a prohibited transaction class exemption or other applicable statutory or administrative exemption from the prohibited transaction rules of ERISA and Section 4975 of the Code. The foregoing supplements the discussion under ERISA Considerations in the base prospectus dated July 13, 2007.

USE OF PROCEEDS

We intend to lend the net proceeds from the sale of the Notes to our subsidiary AIG-FP or certain of its subsidiaries for use for general corporate purposes.

SUPPLEMENTAL PLAN OF DISTRIBUTION

Under the terms, and subject to the conditions, contained in a terms agreement dated the date hereof, we have agreed to sell the Notes to Wachovia Securities. Wachovia Securities has advised us that it proposes initially to offer all or part of the Notes directly to the public on a fixed price basis at the offering price set forth on the cover of this pricing supplement. After the initial public offering, the public offering price may be changed. The terms agreement provides that Wachovia Securities is committed to take and pay for all of the Notes if any are taken. See also Supplemental Plan of Distribution in the related prospectus supplement.

We may deliver the Notes against payment therefor in New York, New York on a date that is in excess of three business days following the Pricing Date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if the initial settlement on the Notes occurs more than three business days from the Pricing Date, purchasers who wish to trade Notes more than three business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

GENERAL INFORMATION

We are offering notes on a continuing basis through AIG Financial Securities Corp., ABN AMRO Incorporated, ANZ Securities, Inc., Banca IMI S.p.A., Banc of America Securities LLC, Barclays Capital Inc., Bear, Stearns & Co. Inc., BMO Capital Markets Corp., BNP Paribas Securities Corp., BNY Capital Markets, Inc., Calyon Securities (USA) Inc., CIBC World Markets Corp., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Daiwa Securities America Inc., Daiwa Securities SMBC Europe Limited, Deutsche Bank Securities Inc., Goldman, Sachs & Co., Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities Inc., Key Banc Capital Markets Inc., Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Mitsubishi UFJ Securities International plc, Mizuho International plc, Mizuho Securities USA Inc., Morgan Stanley & Co. Incorporated, National Australia Capital Markets, LLC, RBC Capital Markets Corporation, Santander Investment Securities Inc., Scotia Capital (USA) Inc., SG Americas Securities, LLC, TD Securities (USA) LLC, UBS Securities LLC, and Wachovia Capital Markets, LLC, as agents, each of which has agreed to use its best efforts to solicit offers to purchase notes. We may also accept offers to purchase notes through other agents. See Plan of Distribution in the related prospectus supplement.

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

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Capitalized terms used in this pricing supplement and not otherwise defined shall have the meanings ascribed to them in the related prospectus supplement and prospectus, as applicable.

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- Improves productivity and effectiveness of field service representatives;
- Improves the product data quality for forecasting, ordering, performance evaluation and customer service requests; and
- Is scalable and adaptable to customer requirements.

Sona Service Desk Pro takes the capabilities of the enterprise's ''help desk'' software and builds a tailored interface for the wireless handheld device of choice. This product seamlessly delivers the applications of an enterprise to wireless devices in a personalized fashion. We believe that this product minimizes downtime and maximizes productivity. With Sona Service Desk Pro, information technology staff can wirelessly access the same help desk they know and use in their office from wherever they may be located. By using our multi-threading technology, users can run this product in the background while accessing other key information and applications on their wireless devices, such as short messaging text services, e-mail and voice services.

Sales and Marketing

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

- Providers of gaming hardware and content;
- Cellular telephone operators, who could take our products 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;
- Resellers and distributors which have significant client bases and brands in the financial services vertical space; and
- Technology providers.

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

During the fiscal year ended December 31, 2007, two customers collectively comprised 62% of our revenue (47% and 15%, respectively). During 2006, three customers collectively comprised approximately 60% of our

revenue (24%, 22% and 14%, respectively). Since revenues are derived in large part from single projects, we bear some credit risk due to a high concentration of revenues from individual customers. The customer revenue concentrations referenced above in both 2007 and 2006 are primarily single project revenues in the respective years, although there will be some smaller amounts of recurring revenues from the 2007 customers referenced in subsequent fiscal years due to maintenance and support fees spelled out in the respective contracts. The 2007 percentages above derived from financial services and enterprise products and gaming products respectively, while all the 2006 percentages derived from financial services and enterprise products.

Product Development Strategy

We develop our products to meet the stringent requirements of GLI, as well as the testing laboratories of other jurisdictions, including Nevada, in which we seek to do business, for providing secure execution of real time transactions over wireless and wired server-based and cellular delivery systems. The manufacturing and distribution of gaming products and the conduct of gaming operations are subject to extensive regulation by various domestic and foreign gaming authorities. Our gaming devices and related software are subject to independent testing prior to approval for each jurisdiction in which we plan to do business. On March 1, 2007, we received GLI certification of the wireless version of the SGS for use with Shuffle Master's Three Card Poker® game under the GLI-26 ''Wireless Gaming Systems Standards.'' We believe that we are the first company in the world to receive GLI certification for a wireless gaming system based on random number generation technology, a key component in many casino products including automatic card shufflers, slot machines and multi-player table games. The certification covers use of our system with Shuffle Master's Three Card Poker® game. Additional regulatory approval in some jurisdictions may be required. In addition, the Company has received certifications GLI–21 for (server based game systems), GLI–11 and 12 (gaming devices and progressive gaming devices in casinos), GLI–13 (online monitoring and control) and GLI–16 (cashless systems). These noteworthy certifications permit Sona to deploy and operate the SGS in certain domestic and international jurisdictions where additional licensing and product certification is not required, including cruise ships when they are not in port, although most North American and many international jurisdictions have their own approval processes. In November 2007, three additional non-proprietary games, roulette, baccarat and blackjack were also approved by GLI for use with the SGS. The Company plans to submit additional games to be GLI certified for use with the system, including Shuffle Master's proprietary Ultimate Texas Hold'em™, Dragon Bonus® Baccarat, Let It Ride Bonus® and other Shuffle Master titles, as well as other public domain and non-proprietary games.

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

Competition

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

In the mobile gaming and entertainment industry, our competition includes but is not limited to, Cantor Gaming, Diamond I, FortuNet, International Game Technology, Gametech International, and Phantom Fiber Corporation. In the enterprise and financial services sector, our competitors include @Hand Corp, Dexterra, Sybase, Infowave Systems and Novarra, as well as companies such as Bloomberg and Reuters who are increasingly offering mobile versions of their desktop software.

We believe that our principal competitive advantage in the gaming industry is the fact that we are one of the first companies with a server-based gaming system which can be deployed in both wired and wireless environments. We are focused on server-based applications based on our broad understanding of client-server technology in both of these wired and wireless environments and how best to leverage such technology to create new revenue streams for our customers and increase their productivity and efficiency. The competitive factors important to us are our technology, development and engineering expertise, subject matter expertise, customer

support, distribution channel and customer relationships, as well as the ability to be licensed as a company and get our products licensed and certified in the various jurisdictions in which we seek to do business. Industry competitive factors include, but are not limited to, technology, engineering capability, customer support, breadth and depth of strategic relationships, financial condition, and marketing initiatives. We seek to leverage the quality of our development team, the depth and breadth of our customer relationships, and our ability to respond quickly to change and respond, in order to be competitive and successful.

Research and Development

We maintain our research and development operations in Toronto, Canada and Boulder, Colorado. At February 29, 2008 we employed 24 persons in research and development and engineering. We find it advantageous to have the majority of our research and development activities in Toronto due to the abundance of available, affordable and talented software engineers. Total costs incurred in research and development amounted to $2,547,858 for the fiscal year ended December 31, 2007, and $2,002,121 for the year ended December 31, 2006.

Regulatory & Legal Environment

General

The manufacture, sale and distribution of gaming devices, equipment and related gaming software is subject to federal, state, tribal and local regulations in the United States and foreign jurisdictions. While the regulatory requirements vary from jurisdiction to jurisdiction, the majority of these jurisdictions require licenses, registrations, permits, findings of suitability, documentation of qualification including evidence of financial stability and/or other required approvals for companies who manufacture and distribute gaming equipment, as well as the individual suitability or licensing of officers, directors, major shareholders and key employees. Laws of the various gaming regulatory agencies generally serve to protect the public and ensure that gaming related activity is conducted honestly, competitively, and free of corruption.

We and our key personnel have obtained gaming licenses in the state of Nevada as a Manufacturer (Manufacturer of Gaming Devices or Equipment), Distributor (Distributor of Gaming Devices or Equipment) and Mobile Operator (Operator of a Mobile Gaming System). We have never been denied a gaming related license, nor have any licenses been suspended or revoked. We are not yet licensed as a company in other jurisdictions, however we are in the process of applying or will be applying for licenses in jurisdictions where we plan to do business and licensing is required. Our gaming equipment system is not yet licensed in any specific gaming jurisdictions, however we received Gaming Labs International ‘‘GLI’’ certification in 2007 for our Wireless and Server-based Gaming System for use with Shuffle Master’s Three Card Poker® game under the GLI-26 ‘‘Wireless Gaming Systems Standards’’, as well as GLI-13 approval for on-line monitoring and control systems, GLI-16 approval for cashless systems in casinos, GLI-21 approval for its server-based gaming platform. In November 2007, three additional games, Baccarat, Blackjack and Roulette were also approved by GLI for use with our system. This certification allows us to market and distribute our products in jurisdictions, as well as to cruise ship lines, where additional regulatory licensing may not be required.

Nevada Regulation

The manufacture, sale and distribution of gaming devices in Nevada or for use outside Nevada are subject to the Nevada Gaming Control Act and the regulations of the Nevada Gaming Commission (‘‘NV Commission’’), and the State Gaming Control Board (GCB), and the local laws, regulations and ordinances of various county and municipal regulatory authorities (collectively referred to as the Nevada gaming authorities). These laws, regulations and ordinances primarily concern the responsibility, financial stability and character of gaming device manufacturers, distributors and operators, as well as persons financially interested or involved in gaming operations. The

manufacture, distribution and operation of gaming devices require separate licenses. The laws, regulations and supervisory procedures of the Nevada gaming authorities seek to (i) prevent unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity; (ii) establish and maintain responsible accounting practices and procedures; (iii) maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports

with the Nevada gaming authorities; (iv) prevent cheating and fraudulent practices; and (v) provide a source of state and local revenues through taxation and licensing fees. Changes in these laws, regulations, procedures, and judicial or regulatory interpretations could have an adverse effect on our gaming operations.

Our licenses require the periodic payment of fees and taxes and are not transferable. Each type of machine we sell in Nevada must first be approved by the NV Commission and may require subsequent machine modification.

We are registered with the NV Commission as a publicly traded corporation and are required periodically to submit detailed financial and operating reports to the NV Commission and to furnish any other information that the NV Commission may require. Our officers, directors and key employees who are actively engaged in the administration or supervision of gaming and/or directly involved in gaming activities of our licensed gaming subsidiaries may be required to file applications with the Nevada gaming authorities and may be required to be licensed or found suitable by them. Officers, directors and certain key employees of our licensed gaming subsidiaries must file applications with the Nevada gaming authorities and may be required by them to be licensed or found suitable. It is our policy to pay all costs of the GCB investigations that are related to our officers, directors or employees.

The Nevada gaming authorities may investigate any individual who has a material relationship or involvement with us, or any of our licensed gaming subsidiaries in order to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. The Nevada gaming authorities may deny an application for licensure or finding of suitability for any cause deemed reasonable. A finding of suitability is comparable to licensing and both require submission of detailed personal and financial information followed by a thorough background investigation. The applicant for licensing or a finding of suitability must pay all costs of the investigation. We must report changes in licensed positions to the Nevada gaming authorities. The Nevada gaming authorities may disapprove any change in position by one of our officers, directors or key employees, or require us to suspend or dismiss officers, directors or other key employees and sever all relationships with such persons, including those who refuse to file appropriate applications or whom the Nevada gaming authorities find unsuitable to act in such capacities. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

We are required to submit detailed financial and operating reports to the NV Commission. If it were determined that any Nevada gaming laws were violated by us or any of our licensed gaming subsidiaries, our gaming licenses could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, we, our licensed gaming subsidiaries and any persons involved may be subject to substantial fines for each separate violation of the Nevada gaming laws at the discretion of the NV Commission. The NV Commission also has the power to appoint a supervisor to operate our gaming properties and, under certain circumstances, earnings generated during the supervisor’s appointment could be forfeited to the State of Nevada. The limitation, conditioning or suspension of our gaming licenses or the appointment of a supervisor could (and revocation of our gaming licenses would) materially and adversely affect our gaming operations.

The NV Commission may require any beneficial holder of our voting securities, regardless of the number of shares owned, to file an application, be investigated, and be found suitable, in which case the applicant would be required to pay all of the costs and fees of the GCB investigation. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership, or trust, it must submit detailed business and financial information including a list of beneficial owners. Any person who acquires more than 5% of our voting securities must report this to the NV Commission. Any person who becomes a beneficial owner of more than 10% of our voting securities must apply for a finding of suitability within 30 days after the chairman of the GCB mails the written notice requiring this filing.

Under certain circumstances, an Institutional Investor, as this term is defined in the NV Commission regulations, which acquires more than 10%, but not more than 15%, of our voting securities may apply to the NV Commission for a waiver of these finding of suitability requirements, provided the institutional investor holds the voting securities for

investment purposes only. An institutional investor will not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of its business and not for the purpose of causing, directly or indirectly (i) the election of a majority of our board of directors; (ii) any change in our corporate charter, bylaws, management, policies or operations; or (iii) any

other action which the NV Commission finds to be inconsistent with holding our voting securities for investment purposes only. The NV Commission considers voting on all matters voted on by shareholders and the making of financial and other informational inquiries of the type normally made by securities analysts, and such other activities as the NV Commission may determine, to be consistent with holding voting securities for investment purposes only. If the beneficial holder of voting securities who must be found suitable is a corporation, partnership, limited partnership, limited liability company or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of the GCB investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the NV Commission or the chairman of the GCB may be found unsuitable. The same restrictions apply to a record owner who fails to identify the beneficial owner, if requested to do so. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond that period of time as may be prescribed by the NV Commission may be guilty of a criminal offense. We are subject to disciplinary action, and possible loss of our approvals, if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any of our licensed gaming subsidiaries, we (i) pay that person any dividend or interest upon our voting securities, (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person, (iii) give remuneration in any form to that person, for services rendered or otherwise, or (iv) fail to pursue all lawful efforts to require the unsuitable person to relinquish his voting securities for cash at fair market value. Additionally, the Clark County authorities have taken the position that they have the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee

The NV Commission may, in its discretion, require the holder of any of our debt securities to file an application, be investigated and be found suitable to own any of our debt securities. If the NV Commission determines that a person is unsuitable to own any of these securities, then pursuant to the Nevada gaming laws, we can be sanctioned, including the loss of our approvals, if without prior NV Commission approval, we: (i) pay to the unsuitable person any dividend, interest, or any distribution whatsoever; (ii) recognize any voting right by the unsuitable person in connection with these securities; (iii) pay the unsuitable person remuneration in any form; or (iv) make any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

We are required to maintain a current stock ledger in Nevada which may be examined by the Nevada gaming authorities at any time. If any of our securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada gaming authorities. A failure to make this disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. The NV Commission has the power at any time to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada gaming laws and the regulations of the NV Commission. To date, the NV Commission has not imposed this requirement on us.

We may not make a public offering of our securities without the prior approval of the NV Commission if the securities or their proceeds are intended to be used to construct, acquire or finance gaming facilities in Nevada, or retire or extend obligations incurred for such purposes. Such approval, if given, does not constitute a finding, recommendation, or approval by the NV Commission or the GCB as to the accuracy or adequacy of the prospectus or the investment merits of the securities. Any representation to the contrary is unlawful.

Changes in control through merger, consolidation, acquisition of assets or stock, management or consulting agreements or any act or conduct by a person whereby he obtains control, may not occur without the prior investigation of the GCB and approval of the NV Commission. Entities seeking to acquire control of us must satisfy the GCB and the NV Commission in a variety of stringent standards prior to assuming control. The NV Commission may also require controlling shareholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval

process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect Nevada gaming licensees, and publicly-traded corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming.

The NV Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to (i) assure the financial stability of corporate gaming operators and their affiliates; (ii) preserve the beneficial aspects of conducting business in the corporate form; and (iii) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the NV Commission before we can make exceptional repurchases of voting securities above their current market price and before a corporate acquisition opposed by management can be consummated. Nevada's gaming laws and regulations also require prior approval by the NV Commission if we were to adopt a plan of recapitalization proposed by our board of directors in opposition to a tender offer made directly to our shareholders for the purpose of acquiring control of us.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the cities and counties where our subsidiaries conduct operations. Depending on the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually. Annual fees are payable to the State of Nevada to renew our licenses as a manufacturer, distributor, and operator of a slot machine route. Nevada gaming law also requires persons providing gaming devices in Nevada to casino customers on a revenue participation basis to pay their proportionate share of the taxes imposed on gaming revenues generated by the participation gaming devices.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons (collectively referred to as licensees), and who proposes to participate in the conduct of gaming operations outside of Nevada is required to deposit with the GCB, and thereafter maintain, a revolving fund in the amount of $10,000 to pay the expenses of investigation by the GCB of the licensee's participation in foreign gaming. This revolving fund is subject to increase or decrease at the discretion of the NV Commission. As a licensee, we are required to comply with certain reporting requirements imposed by the Nevada gaming laws. We are also subject to disciplinary action by the NV Commission if we knowingly violate any laws of the foreign jurisdiction pertaining to our foreign gaming operation, fail to conduct our foreign gaming operations in accordance with the standards of honesty and integrity required of Nevada gaming operations engage in any activity or enter into any association that is unsuitable because it poses an unreasonable threat to the control of gaming in Nevada, reflects or tends to reflect discredit or disrepute upon the State of Nevada or gaming in Nevada, or is contrary to the gaming policies of Nevada, engage in any activity or enter into any association that interferes with the ability of the State of Nevada to collect gaming taxes and fees, or employ, contract with or associate with any person in the foreign gaming operation who has been denied a license or a finding of suitability in Nevada on the ground of personal unsuitability, or who has been found guilty of cheating at gambling.

Other Jurisdictions

Each of the other jurisdictions in which we do business requires various licenses, permits and approvals in connection with the manufacture and/or distribution of gaming devices typically involving restrictions similar in many respects to those of Nevada.

Federal United States Registration

The Federal Gambling Devices Act of 1962 (the Act) makes it unlawful for a person to manufacture, transport, or receive gaming machines, gaming devices or components across interstate lines unless that person has first registered with the Attorney General of the US Department of Justice. We are so registered and must renew our registration annually. In addition, gambling device identification and record keeping requirements are imposed by the Act. Violation of the Act may result in seizure and forfeiture of the equipment, as well as other penalties. We have complied with the registration requirements of the Act.

Native American Gaming Regulation

Gaming on Native American lands is governed by federal law, tribal-state compacts, and tribal gaming regulations. The Indian Gaming Regulatory Act of 1988 (IGRA) provides the framework for federal and state control over all gaming on Native American lands and is administered by the National Indian Gaming Commission (the NIGC) and the Secretary of the US Department of the Interior. IGRA requires that the tribe and the state enter into a written agreement, a tribal-state compact, which governs the terms of the gaming activities. Tribal-state compacts vary from state-to-state and in many cases require equipment manufacturers and/or

distributors to meet ongoing registration and licensing requirements. In addition, tribal gaming commissions have been established by many Native American tribes to regulate gaming related activity on Indian lands.

International Regulation

Certain foreign countries permit the importation, sale and operation of gaming equipment in casino and non-casino environments. Some countries prohibit or restrict the payout feature of the traditional slot machine or limit the operation and the number of slot machines to a controlled number of casinos or casino-like locations. Each gaming machine must comply with the individual country's regulations. Certain jurisdictions require the licensing of gaming machine operators and manufacturers.

Intellectual Property

We believe that our intellectual property rights are significant assets that provide us with a competitive advantage and are critical to our future profitability and growth. We seek to protect our investment in research and development by seeking patent and trademark protection for our technologies. We also acquire and license patents and other intellectual property from third parties.

Patents: We have patent applications pending for certain of our existing products and methods, including for the Sona MediaPlayer™ for Blackberry® and several patent applications relating to our SGS, future products that have not yet been introduced, potential product modifications and improvements and to products we do not currently sell. A majority of these technologies are internally developed. Some of our technology has been purchased and is licensed. No assurance can be given that any such patent applications will be issued or that the patents we have licensed or any new patents that we acquire will be or remain valid or will provide any competitive protection for our products.

Trademarks: We own several common law trademarks and have several trademark applications pending in the U.S. and in some foreign countries. We market most of our products under trademarks that we believe provide product recognition and promote widespread acceptance. We also license trademarks from others. We seek protection for our trademarks in the U.S. and various foreign countries, where applicable.

Other Intellectual Property: In addition to patents and trademarks, we also own intellectual property in the form of copyrights (unregistered) and trade secrets. No assurance can be given that we will be successful in maintaining the confidentiality of our trade secrets and other proprietary information. Costs associated with defending and pursuing infringement claims can be substantial. In the absence of valid and enforceable patent, copyright, trademark or trade secret protection, we would be vulnerable to competitors who could lawfully copy our products and technology.

Product-Related Agreements: We are party to certain cross-licensing agreements. Under these agreements, we have certain rights to third party intellectual property. There are no royalty obligations with respect to any of these agreements that are material to our results of operations. Further, none of the royalties that we receive from these agreements are currently material to our results of operations.

Infringement and Litigation: We do not believe that any of our products, methods or technologies infringes the valid and enforceable patents and other valid and enforceable intellectual property rights of others. We have not been and are not currently subject to litigation claiming that we have infringed the rights of others. From time to time, we have received, and may receive in the future, notice of claims of infringement of others' proprietary rights.

Employees

At February 29, 2008, we had 32 full-time employees. Approximately 3 of our employees are engaged in sales and marketing, 5 are engaged in executive management, finance and administration, and 24 in engineering and development. No employees are covered by a collective bargaining agreement. We believe that we have a good relationship with all of our employees.

Properties

We lease a total of approximately 8,000 square feet of office space for sales, support, research and development, accounting and administrative functions. Of this total, we lease

- approximately 3,100 square feet in Toronto, Canada for sales, research and development, administrative and accounting functions under a lease expiring in February 2012, at an annual rental of approximately $115,000, subject to escalation for our pro rata share of realty taxes and operating expenses of the building. Under the lease agreement there is a gross free rent period for the first 6 months of the lease;

- approximately 4,800 square feet of office space in Boulder, Colorado for research and development under a lease expiring in September 2010, at annual rental of approximately $120,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building; and

- approximately 500 square feet in New York, New York, for our corporate headquarters and sales and support functions which we are currently leasing on a short-term basis under a renewable lease which runs to June 2008, at a monthly rent of approximately $10,000. The Company intends to renew its lease on substantially the same terms on a short-term basis when the current lease agreement expires.

In addition, in 2007 we leased approximately 1,000 square feet in Las Vegas, Nevada, for our corporate apartment which was leased on an annual basis until February 2008, at a monthly rent of approximately $2,300. Our frequent trips to Las Vegas made this lease a cost effective way to house our employees during business trips for meetings with our 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.

MANAGEMENT

Executive Officers and Directors

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

Name	Age	Position
Shawn Kreloff	45	Chief Executive Officer, Chairman of the Board and Director
Stephen Fellows	42	Chief Financial Officer and Corporate Secretary
Lance Yu	38	Senior Vice President and Chief Technology Officer
Robert P. Levy	76	Director
M. Jeffrey Branman	52	Director

Shawn Kreloff, 45, was appointed Chief Executive Officer on May 5, 2006. Mr. Kreloff has been Chairman of the Board and a Director since September 2004. From 2003 to September 2004, and from 2001 to September 2002, he served as a managing director of, and investor in, Jumpstart Capital Partners. From September 2002 to June 2003, Mr. Kreloff was executive vice president of sales, marketing and business development of Predictive Systems, Corp. (Nasdaq: PRDS), a network infrastructure and security consulting company. Mr. Kreloff was a founding investor of Insight First, a company that provides web analytics software, which was sold to 24/7 Media (Nasdaq: TFSM) in 2003. From 1999 to 2002, he served as executive vice president of business development of Opus360 Corporation (Nasdaq: OPUS), as well a founding investor. Opus360 was acquired by Artemis International Solutions (OTC: AMSI) in 2002. From September 2004 to January 2006, Mr. Kreloff served on the board of directors of Secured Services, Inc. Mr. Kreloff also served on the board of directors of Hudson Williams, a computer consulting firm, from 1999 through 2004, when it was acquired by Keynote Systems (Nasdaq: KEYN). From 1996 through 1998 Mr. Kreloff served as founder, Chairman and CEO of Gray Peak Technologies, Inc. Gray Peak was sold to USWEB (Nasdaq: USWB) in 1998 for over $100 Million. Mr. Kreloff holds a BS degree in Operations Management from Syracuse University, 1984.

Stephen Fellows, 42, was appointed Chief Financial Officer on May 16, 2006. Mr. Fellows joined Sona Mobile in August 2005 as VP Finance & Corporate Controller. Mr. Fellows joined Sona Mobile from 3Com Corporation where he was Director of Finance of the corporate accounting group in Marlborough, MA. Prior to that, Mr. Fellows spent 5 years as the Director of Finance & Operations of 3Com's Canadian subsidiary. Mr. Fellows joined 3Com from Pennzoil Corporation where he spent time in the international mergers and acquisitions group in Houston, Texas, as well as four years as controller for Pennzoil Canada. Mr. Fellows holds a Bachelor of Business Administration degree from Wilfrid Laurier University in Waterloo, ON, Canada and earned his Chartered Accountants designation while articling with Arthur Andersen & Company in Toronto.

Lance Yu, 38, has been our Senior Vice President and Chief Technology Officer since our inception in November 2003. From January 2002 through November 2004, he was the Vice President Technology of Sona Innovations, Inc. which was purchased by Sona Mobile, Inc. from Baldhead Systems, a professional services, web design and business consulting organization based in Toronto, Canada, where he served first as a Senior Project Manager and then as Vice President — Technology.

Robert P. Levy, 76, was appointed to the Board on May 29, 2007. He is the past Chairman of the Board of the Atlantic City Racing Association and served a two-year term from 1989 through 1990 as President of the Thoroughbred Racing Association. Mr. Levy has served as the Chairman of the Board of DRT Industries, Inc., a diversified business

based in the Philadelphia metropolitan area, since 1960. Mr. Levy has been a director of Penn National Gaming since 1995. Mr. Levy is also a director of Fasig-Tipton Company, an equine auction company.

M. Jeffrey Branman, 52, is a Managing Director of Hilco Consumer Capital LLC, a private equity firm focused on North American consumer products companies and brands. Prior to joining Hilco in March 2007, Mr. Branman was the President and owner of Interactive Commerce Partners LLC, a provider of financial advisory services to companies in the interactive commerce technology and content, merchandising, and direct marketing businesses. Mr. Branman founded Interactive Commerce Partners in March 2005. From April 2000 through March 2005, Mr. Branman served as President and founder of Interactive Technology Services, a subsidiary of

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

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

Committees of the Board of Directors

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

Audit Committee

The Audit Committee reviews our accounting functions, operations and management, our financial reporting process and the adequacy and effectiveness of our internal controls and internal auditing methods and procedures. The Audit Committee represents the Board in overseeing our financial reporting processes, and, as part of this responsibility, consults with our independent public accountants and with personnel from our internal audit and financial staffs with respect to corporate accounting, reporting, and internal control practices. The Audit Committee recommends to the board the appointment of our independent public accountants and is responsible for oversight of our independent public accountants. The current members of the Audit Committee are M. Jeffrey Branman (Chairman) and Robert P. Levy. The Audit Committee held six meetings during fiscal 2007.

Audit Committee Financial Expert

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

Compensation and Nominating Committee

The function of the Compensation and Nominating Committee is to review and recommend the compensation and benefits, payable to our officers, review general policy matters relating to employee compensation and benefits and administer our various stock option plans and other incentive compensation arrangements. The Committee will also seek to identify individuals qualified to become members of the Board and make recommendations to the Board of nominees to be elected by stockholders or to be appointed to fill vacancies on the Board. The current members of the Compensation and Nominating Committee are Robert P. Levy (Chairman) and M. Jeffrey Branman. The Compensation and Nominating Committee held six meetings during fiscal 2007.

Code of Ethics

We have a Code of Ethics that applies to all of our employees and certain provisions of the Code are particularly directed to our Chief Executive Officer, our Chief Financial Officer and financial managers. The Code provides written standards that we believe are reasonably designed to deter wrongdoing and promote: (1)

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honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interests between personal and professional relationships; (2) full, fair, accurate, timely and understandable disclosure in reports and documents that we file with or submit to the SEC or in other public communications we make; (3) compliance with applicable laws, rules and regulations; (4) prompt reporting of internal violations of the code; and (5) accountability for the adherence to the Code. A copy of the Code of Ethics is available in print to any stockholder who requests it, by writing to the Company's Secretary, Sona Mobile Holdings Corp., 245 Park Avenue, New York, NY 10167.

Director Independence

Each of M. Jeffrey Branman and Robert P. Levy are independent directors under the independence standards of the NASDAQ Stock Market (Rule 4200(a)(15)).

EXECUTIVE COMPENSATION

The following table provides certain summary information concerning the compensation earned for services rendered to us in all capacities during each of the fiscal years indicated by our "named executive officers" during the fiscal year ended December 31, 2007.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards(6) ($)	Options Awards(7) ($)	All Other Compensation ($)	Total ($)
Shawn Kreloff	2007	170,000	50,000	—	290,833	—	510,833
President and Chief Executive Officer(1),(2)	2006	159,769	—	—	83,304	—	243,073
Stephen Fellows	2007	163,678	28,059	—	31,067	—	222,803
Chief Financial Officer(3)	2006	138,948	—	37,333	12,235	—	188,516
Lance Yu	2007	187,060	—	—	—	9,540(5)	196,600
Senior Vice President – Chief Technology Officer(4)	2006	176,420	—	—	—	8,997(5)	185,417

(1) On August 28, 2006, the Company entered into an Employment Agreement with Shawn Kreloff for his services as President and Chief Executive Officer of the Company, which agreement expires on December 31, 2009. The Employment Agreement provides for an annual salary of $170,000, or such higher amount as the Board may determine, and an annual bonus based upon the achievement of targets established by the Board. Pursuant to the Employment Agreement, following the Company's 2006 Annual Meeting of Stockholders, Mr. Kreloff was granted an option to purchase 3,000,000 shares of Common Stock. In the event his employment terminates involuntarily without Cause (as defined in the Employment Agreement), Mr. Kreloff will receive a severance payment equal to one year's salary and benefits. In addition, the Employment Agreement includes a one-year post-employment, non-competition provision.

(2) Mr. Kreloff was appointed Chairman in September 2004, and President and Chief Executive Officer in May 2006.

(3)

Mr. Fellows served as our Vice President-Finance & Corporate Controller from August 2005, until May 2006, when he was appointed as our Chief Financial Officer.

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

(5) Represents payment of a vehicle expense allowance.

(6) The amount of the restricted stock awards is calculated based on the closing market price on the date the restricted stock was granted.

(7) The option awards amount is calculated using the Black-Scholes valuation method using the variables used by the Company to determine the gross option value for financial statement reporting purposes pursuant to FAS 123(R). The executive compensation for options is recognized over the service period which has been determined to be the vesting period of the option grants. In 2007, 200,000 options were granted to Mr. Fellows on June 22, 2007 at an exercise price of $0.44 per share, with vesting over four years which expire ten years after the grant date. In 2006, 500,000 and 250,000 options were granted to Mr. Kreloff and Mr. Fellows on July 13, 2006 at an exercise price of $0.70 per share, with vesting over three years which expire ten years after the grant date. Also in 2006, 3,000,000 options were granted to Mr. Kreloff on October 2, 2006 at an exercise price of $0.63 per share, with vesting over three years which expire ten years after the grant date.

Outstanding Equity Awards at 2007 Fiscal Year-End

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Shawn Kreloff	250,000	-(1)	n/a	1.60	10/12/2010	n/a	n/a	n/a	n/a
Stephen Fellows	50,000	-(1)	n/a	1.60	10/12/2010	n/a	n/a	n/a	n/a
Lance Yu	150,000	-(1)	n/a	1.60	10/12/2010	n/a	n/a	n/a	n/a
Shawn Kreloff	166,667	333,333(2)	n/a	0.70	7/13/2016	n/a	n/a	n/a	n/a
Shawn Kreloff	1,000,000	2,000,000(3)	n/a	0.63	10/2/2016	n/a	n/a	n/a	n/a
Stephen Fellows	166,667	83,333(4)	n/a	0.70	7/13/2016	n/a	n/a	n/a	n/a
Stephen Fellows	-	200,000(5)	n/a	0.44	6/22/2017	n/a	n/a	n/a	n/a

(1) Options granted on October 13, 2005. One-third of these options vested immediately on the date of grant, one third vested on September 30, 2006, and the remaining one third of these options vested on September 30, 2007.

(2) Options granted on July 13, 2006. These options vest in three equal annual installments over a three year period on each anniversary date of the grant with vesting commencing July 13, 2007 and ending on July 13, 2009.

(3) Options granted on October 2, 2006. These options vest in three equal annual installments over a three year period on each anniversary date of the grant with vesting commencing on July 13, 2007 and ending on July 13, 2009.

(4) Options granted on July 13, 2006. One-third of these options vested on the date of grant. Two-third of these options vest in two equal annual installments over a two year period on the anniversary date commencing July 13, 2007 and ending July 13, 2008.

(5) Options granted on June 22, 2007. These options will vest in four equal annual installments over a four year period on each anniversary date of the grant with vesting commencing on June 22, 2008, and ending on June 22, 2011.

Compensation of Directors

On July 19, 2005, our Board adopted a compensation plan for directors, which was amended on August 3, 2006 and again on September 29, 2006. Under the plan, each of our independent directors receives an annual amount of $5,000, payable in quarterly installments, and $250, plus reimbursement for actual out-of-pocket expenses for each Board meeting attended in person, and $125 for each Board meeting attended telephonically. Each independent director also receives a grant of 40,000 restricted stocks, under the new plan, immediately upon his or her initial election or appointment to the Board. Further, each non-employee director receives an annual option to purchase such number of shares of common stock having a value equal to approximately $40,000, with the number of shares determined based upon the trading price of the Company's common stock on the date of grant (i.e. market price at grant date X number of options granted = approximately $40,000), which option will vest in equal quarterly installments.

The Chairmen of the Audit Committee and the Compensation and Nominating Committee each receive an annual fee of $1,000, respectively, as well as $250 plus reimbursement for actual out-of-pocket expenses for each committee meeting attended in person and $125 for each committee meeting attended telephonically, unless the

committee meeting immediately precedes or follows a Board meeting, in which event the committee members will receive $150 for attending the committee meeting in person and $75 if they attend the committee meeting telephonically. In addition, any Chairman of the Audit Committee who is also designated as an audit committee "financial expert" will receive a grant of non-qualified stock options and/or restricted stock, under the new plan, immediately upon his or her election or appointment to the Board.

The following table provides certain summary information concerning the compensation earned by all persons who served as our directors during 2007 (other than Mr. Kreloff, who earned no compensation for his service as a director) for services rendered to us during the fiscal year ended December 31, 2007.

Director Compensation

Name	Fees Earned or paid in Cash(1) ($)	Stock Awards(2) ($)	Options Awards(3) ($)	All Other Compensation ($)	Total ($)
M. Jeffrey Branman	8,900	-	14,530	-	23,430
Robert P. Levy	5,028	20,000	15,008	-	40,036
Michael Fields(4)	3,650	-	-	-	3,650
Paul C. Meyer(4)	3,778	-	-	-	3,778

(1) Consists of fees earned as director fees, including annual board member and committee chairmen fees plus fees paid for board meetings and committee meeting attendance as per the compensation plan for directors.

(2) Restricted shares granted to director vest 50% on the date of grant and 50% on the first anniversary of his or her appointment to the Board and are valued above or at the market price on the date of the grant.

(3) M. Jeffery Branman and Robert P. Levy were granted stock options, during fiscal 2007, 100,000 and 75,000, respectively under the Compensation Plan for Directors for an aggregate of 175,000 stock options of which all where outstanding as at the end of fiscal 2007. The option awards amount above is calculated using the Black-Scholes valuation method using the variables used by the Company to determine the gross option value for financial statement reporting purposes pursuant to FAS 123(R). These options will vest in equal quarterly installments over a one year period on the three, six, nine and twelve month anniversaries of the grant date.

(4) Michael Fields and Paul C. Meyer resigned as directors on August 8, 2007 and June 12, 2007, respectively.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 2006, we entered into a strategic alliance licensing and distribution agreement with Shuffle Master, Inc. (‘‘Shuffle Master’’), under which we agreed to develop certain wireless gaming technology for Shuffle Master. Pursuant to this agreement, Shuffle Master’s game content was to be offered exclusively for mobile gaming on the Company’s Wireless Gaming System. We were entitled to receive 40% of the gross revenue received by Shuffle Master from worldwide sales of wireless ‘‘casino’’ gaming applications to customers of, or sourced by, Shuffle Master and 45% of the gross revenues received by Shuffle Master from worldwide sales of wireless ‘‘casino’’ gaming applications to customers sourced by us. In addition, all capital outlay for infrastructure and support, including the installation, integration, mobilization and servicing of the Wireless Gaming System was to be incurred by the Company. Shuffle Master beneficially owns 8.2% of our Common Stock and Paul Meyer, the president of Shuffle Master, served on the Board from March 28, 2006 until June 12, 2007.

The licensing agreement was amended and restated in its entirety, as was a Master Services Agreement, effective February 28, 2007. Under the terms of the amended agreements both the Company and Shuffle Master are permitted to distribute, market and sell the Casino On Demand Wireless Gaming System to gaming venues worldwide. Additionally, the Company has been granted a non-exclusive worldwide license to offer Shuffle Master's proprietary table game content on the platform, and the Company has granted Shuffle Master a non-exclusive worldwide license to certain Company-developed wireless platform software and enhancements that support the integration and mobilization of casino gaming applications into in-casino wireless gaming delivery systems. Under the amended agreements, revenue is split on a net revenue basis and shared at a 70%-30% split, with the larger percentage going to the party having received the revenues. Also, in connection with certain transactions with non-casino third parties, the Company and Shuffle Master will share initial up-front payments 60%-40%, and future consideration received 40%-60%.

On July 17, 2006, the Company entered into a Mutual Separation Agreement and a Consulting Agreement with John Bush in connection with his resignation as Chief Executive Officer of the Company. Pursuant to the terms of the Mutual Separation Agreement, Mr. Bush was entitled to receive $150,000 as severance pay and CAN$65,057.87 subject to all applicable withholding taxes, representing previously earned but unpaid compensation. Mr. Bush was also entitled to reimbursement for accrued but unused vacation days with respect to calendar year 2005 and would receive medical insurance through May 31, 2007. The Mutual Separation Agreement contained a non-competition and non-solicitation provision for the term of the agreement. In consideration for the foregoing, Mr. Bush provided the Company with a general release of claims. The Mutual Separation Agreement contained certain termination rights for both the Company and Mr. Bush, and further provided that any termination under the Mutual Separation Agreement would automatically terminate the Consulting Agreement.

Pursuant to the terms of the Consulting Agreement, Mr. Bush, among other things, was engaged to develop and service the financial services and corporate enterprise solutions markets for the Company’s products and services. The term of the agreement was for a period of one year commencing on June 1, 2006, subject to extension and early termination provisions after December 31, 2006. The Consulting Agreement contained representations and warranties and a non-competition and non-solicitation provision during the term of the agreement. In consideration for the services provided by Mr. Bush, he was entitled to receive a consulting fee equal to $7,500 per month. In addition to the monthly consulting fee, Mr. Bush was entitled to commissions on the sales of the Company’s products and services to customers. The Consulting Agreement contained certain termination rights for both the Company and Mr. Bush, and further provided that any termination under the Consulting Agreement would automatically terminate the Mutual Separation Agreement. The Consulting Agreement was terminated effective December 31, 2006. Under the Consulting Agreement, a total of $52,500 was paid to Mr. Bush for the period from June 1, 2006, through December

31, 2006.

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

The following table sets forth, as of February 29, 2008, certain information regarding the beneficial ownership of our Common Stock by the following:

- 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;
- each executive officer named in the Summary Compensation Table above; and
- all of our current directors and executive officers as a group.

Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all of the Common Stock owned by them. All information concerning the individual shareholders' respective beneficial ownership has been furnished to us by them.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)(2)
Shawn Kreloff c/o Sona Mobile Holdings Corp. 245 Park Avenue, 39th Floor New York, NY 10167	4,221,577
Robert P. Levy 200 W. Montgomery Avenue Ardmore, PA 19003	121,250
M. Jeffrey Branman 935 First Avenue King of Prussia, PA 19406	375,000
Lance Yu c/o Sona Mobile Holdings Corp. 366 Bay Street, Suite 600 Toronto, Ontario M5H 4B2	1,328,734
Stephen Fellows c/o Sona Mobile Holdings Corp. 366 Bay Street, Suite 600 Toronto, Ontario M5H 4B2	274,999
All directors and officers as a group (Five)	6,321,560
Shuffle Master, Inc.	4,807,692

1106 Palms Airport Drive Las Vegas, NV 89119	
Steven L. Martin c/o Slater Asset Management, LLC 825 Third Avenue, 33rd Floor New York, NY 10022	4,879,675
John Bush 19 Farmcrest Court Nobleton, ON L0G 1N0, Canada	5,583,577

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*Less than 1%.

(1) Shares of Common Stock that an individual or group has a right to acquire within 60 days after February 29, 2008 pursuant to the exercise of options, warrants or other rights are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for computing the percentage ownership of any other person or group shown in the table.

(2) As of February 29, 2008, there were 57,832,857 shares of our Common Stock outstanding.

(3) Includes 1,416,666 shares issuable upon the exercise of stock options and 41,666 shares issuable upon the exercise of five-year warrants.

(4) Includes 40,000 shares issued to Mr. Levy upon his appointment to the Board on May 29, 2007, of which 20,000 shares vested immediately and 20,000 shares will vest one year from the date of grant.

(5) Includes 81,250 and 155,000 shares issuable upon the exercise of stock options to Mr. Levy and Mr. Branman, respectively.

(6) Includes 100,000 shares issued to Mr. Branman on July 6, 2006 upon his appointments to the Board and as chairman of the Audit Committee, of which 50,000 shares vested immediately and 50,000 shares which vested one year from the date of grant, as well as 30,000 shares issuable upon the exercise of five-year warrants.

(7) Includes 150,000 shares issuable upon the exercise of stock options.

(8) Includes 216,666 shares issuable upon the exercise of stock options and 53,333 shares of restricted stock, all of which are vested.

(9) Includes 2,019,582 shares issuable upon the exercise of stock options granted to these directors and officers and 71,666 shares issuable upon the exercise of five-year warrants.

(10) Based on information contained in a Schedule 13G filed by Shuffle Master Inc. on February 5, 2008. Includes 833,333 shares issuable upon the exercise of warrants. Dr. Mark L. Yoseloff and Messrs. Garry W. Saunders, Louis Castle and Phillip Peckman are all members of Shuffle Master, Inc.'s Board of Directors and, as such, have shared voting and investment control over these securities. The named individuals disclaim beneficial ownership of these securities.

(11) Based on information contained in a Schedule 13G/A filed by Slater Capital management LLC on February 15, 2008. Includes shares owned directly by Mr. Martin (333,333) as well as shares he is deemed to beneficially own through his wife (8,000), through his two sons (278,085), through his IRA (152,400) and through his wife's IRA (76,200). The total also includes 1,051,057 shares underlying warrants held by Mr. Martin, certain of the entities mentioned in this footnote and his wife's IRA. Mr. Martin also has voting and investment control over shares owned by Slater Equity Partners, L.P. (1,495,700), Slater Equity Partner's Offshore Fund Ltd. (832,500) and Slater Capital Partners LP (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 partner 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.

(12) Includes 80,202 shares Mr. Bush is deemed to beneficially own through his wife.

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DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 122,000,000 shares, including 120,000,000 shares of common stock, par value $0.01 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share. Our Board of Directors may designate the rights and preferences of the preferred stock. Preferred stock could be used, under certain circumstances, as a way to discourage, delay or prevent a takeover of the company. At February 29, 2008, we had 57,832,857 shares of our common stock issued and outstanding.

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless the corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our certificate of incorporation does not impose any super-majority vote requirements.

Common Stock

Under our Certificate of Incorporation, as amended, shares of our common stock are identical in all respects, and each share entitles the holder to the same rights and privileges as are enjoyed by other holders and is subject to the same qualifications, limitations and restrictions as apply to other shares.

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Holders of our common stock do not have cumulative voting rights. Accordingly, subject to any voting rights of the holders of any other preferred stock that may be issued by us from time to time, holders of a plurality of our common stock present at a meeting at which a quorum is present are able to elect all of the directors eligible for election.

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 Directors from legally available funds. The holders of our common stock are also entitled 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 600,000 have been designated as Series A Convertible Preferred Stock and 10,000 have been designated as Series B Convertible Preferred Stock. Our Board of Directors may determine the terms of the authorized but unissued shares of preferred stock at the time of issuance without action by our stockholders. The terms of any issuance of preferred stock may include:

- 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.

Options, Warrants and Convertible Debentures

At February 29, 2008, we had outstanding stock options granted to employees and consultants to purchase 7,782,000 shares of common stock. Of the options outstanding at February 29, 2008, 2,663,126 are vested and currently exercisable. We also had outstanding non-compensatory warrants issued to purchase 12,775,718 shares of common stock. Of these warrants, 970,728 warrants have an exercise price of $1.4292 (as adjusted) and expire on June 21, 2009, 8,417,657 have an exercise price of $0.40 (as adjusted) per share and expire on July 7, 2011 and 3,333,333 have an exercise price of $0.50, subject to adjustment in certain circumstances, and expire on November 26, 2012. In addition, we had an aggregate $3.0 million principal amount of our 8% senior unsecured convertible debentures due 2010 outstanding, which are convertible at any time into shares of common stock at an initial conversion price of $0.45 per share, subject to adjustment in certain circumstances.

Registration Rights

We have not granted any registration rights, other than the registration rights with respect to the shares offered by this prospectus and the shares of common stock and shares of common stock issuable upon the exercise of warrants issued in the private placements which closed in July and January 2006, all of which have been registered with the SEC.

Transfer Agent

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A., 1745 Gardena Ave., Glendale, California 91204-2991.

SELLING STOCKHOLDERS

The following table sets forth certain information known to us with respect to the ownership of our common stock by the selling stockholders as of February 29, 2008, based on 57,832,857 shares of our common stock then outstanding. The share numbers in the column labeled ‘‘Number of Shares Offered’’ represent all of the shares that the selling stockholders may offer under this prospectus. The table assumes that each selling stockholder exercises all of his or its Warrants (the “July 2006 Warrants”) and sells all of his or its shares of our common stock. We are unable to determine the exact number of shares that actually will be sold. We do not know how long the selling stockholders will hold the shares before selling them. Other than our agreement with the selling stockholders to maintain the effectiveness of the registration statement of which this prospectus forms a part for five years, we currently have no agreements, arrangements or understandings with the selling stockholders regarding the sale of any of their shares.

The selling stockholders have contractually agreed to restrict their ability to exercise their July 2006 Warrants and receive shares of our common stock such that the number of shares of common stock beneficially owned by a selling stockholder and their affiliates after such exercise does not exceed 9.999% of the then issued and outstanding shares of common stock (after giving effect to any issuance upon exercise). Accordingly, the number of shares of common stock set forth in the table for a selling stockholder may exceed the number of shares of common stock that a selling stockholder could own beneficially at any given time through their ownership of the July 2006 Warrants.

Selling Stockholders	Number of Shares Owned Before the Offering	Number of Shares Offered	Number of Shares Owned After the Offering	Percentage of Class of Shares
BTG Investments, LLC	1,638,499(1)(2)	1,638,499	—	—
Alexandra Global Master Fund, Ltd.	2,499,999(2)(3)	2,499,999	—	—
Narragansett Offshore, Ltd.	649,999(4)	649,999	—	—
Narragansett I, LP	600,000(5)	600,000	—	—
Jonathan Schloss	62,499(6)	62,499	—	—
AJW Partners, LLC	61,249(7)	61,249	—	—
AJW Offshore, Ltd.	381,249(8)	381,249	—	—
AJW Qualified Partners, LLC	174,375(9)	174,375	—	—
New Millennium Capital Partners II, LLC	8,124(10)	8,124	—	—
Enable Growth Partners LP	9,265,575(11)	1,528,552	7,737,023(43)	4.99%(43)
Enable Opportunity Partners LP	1,215,710(12)	305,710	910,000(43)	1.3%(43)
Pierce Diversified Strategy Master Fund LLC	656,784(13)	203,807	452,977(43)	*(43)
Action Gaming, Inc.	3,000,000(14)	3,000,000	—	—
Shuffle Master, Inc.	4,807,692(15)	4,807,692	—	—
Heller Capital Investments, LLC	1,249,999(16)(17)	1,249,999	—	—
CGM as C/F Ronald I. Heller IRA	625,000(18)(19)	625,000	—	—
David S. Nagelberg CGM IRA	624,999(18)(20)	624,999	—	—
Precept Capital Master Fund, G.P.	1,584,999(16)(21)	1,249,999	—	*
Potomac Capital Partners	1,173,869(22)(23)	542,499	631,370	1.1%
Potomac Capital International Ltd.	710,801(22)(24)	330,000	380,801	*
Pleiades Investment Partners-R, LP	796,993(22)(25)	377,499	419,494	*

Slater Equity Partners LP	2,130,189(26)(27)	750,000	1,380,189	2.4%
Steven L. Martin	968,923(26)(28)	499,999	468,924	*
Smithfield Fiduciary, LLC	1,250,001(29)	1,250,001	—	—
Irwin Lieber	624,999(18)	624,999	—	—
Woodland Partners	375,000(30)	375,000	—	—
Woodland Venture Fund	124,999(31)	124,999	—	—
Brookwood Partners, L.P.	124,999(32)	124,999	—	
Bristol Investment Fund, Ltd.	3,818,832(33)	624,999	3,193,833(43)	4.99%(43)

Braventures Limited	499,999(34)	249,999	250,000	*
Shawn Kreloff	4,221,577(35)	124,999	4,096,578	7.1%
M. Jeffrey Branman	345,000(36)	90,000	255,000	*
Peter Shoebridge	475,000(37)	75,000	400,000	*
The Thundering Herd LLC	462,499(38)	62,499	400,000	*
David Enzer	233,375(39)	233,375	—	—
Byron C. Roth	2,038,735(40)	2,038,753	—	—
Aaron Gurewitz	171,538(41)	171,538	—	—
Stephen J. Hutsko Ttee FBO The Hutsko Living Trust UTD 3/12/04	56,333(42)	56,333	—	—

Less than 1%. *

(1) Each of Byron Roth and Gordon Roth has voting and dispositive power with respect to the shares to be resold by BTG Investments LLC. BTG Investments LLC, an affiliate of a broker-dealer, acquired the securities offered hereby 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 distribute the securities.

(2) The common stock reported includes 833,333 shares of common stock issuable upon the exercise of the July 2006 Warrants (defined below).

(3) Alexandra Investment Management, LLC, a Delaware limited liability company (AIM), serves as investment adviser to Alexandra Global Master Fund Ltd., a British Virgin Islands company (Alexandra). By reason of such relationship, AIM may be deemed to share dispositive power over the shares of common stock stated as beneficially owned by Alexandra. AIM disclaims such beneficial ownership of such share of common stock. Mikhail A. Filimonov and Dimitri Sogoloff are managing members of AIM. By reason of such relationships, Messrs. Filimonov and Sogoloff may be deemed to share dispositive power over the shares of common stock stated as beneficially owned by Alexandra. Messrs. Filimonov and Sogoloff disclaim beneficial ownership of such shares of common stock.

(4) Leo Holdings, LLC (LH) is the investment manager of Narragansett Offshore, Ltd. LH, of which Joseph L. Dowling, III is the managing member, has voting and dispositive power over the shares owned by Narragansett Offshore, Ltd. The common stock reported includes 216,666 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(5) Leo Holdings, LLC (LH) is the investment manager of Narragansett I, LP. Narragansett Asset Management, LLC (NAML) is the sole general partner of Narragansett I, LP. LH and NAML, of which Joseph L. Dowling, III is the managing member, share voting and dispositive power over the shares owned by Narragansett I, LP. The common stock reported includes 200,000 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(6) The common stock reported includes 20,833 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(7) AJW Partners, LLC is a private investment fund that is owned by its investors and managed by SMS Group, LLC. SMS Group, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares listed below owned by AJW Partners, LLC. The common stock reported includes 20,416 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(8)

AJW Offshore, Ltd., formerly known as AJW/New Millennium Offshore, Ltd., is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares owned by AJW Offshore, Ltd. The common stock reported includes 127,083 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(9) AJW Qualified Partners, LLC, formerly known as Pegasus Capital Partners, LLC, is a private investment fund that is owned by its investors and managed by AJW Manager, LLC, of which Corey S. Ribotsky is the fund manager, and which has voting and investment control over the shares listed below owned by AJW Qualified Partners, LLC. The common stock reported includes 58,125 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(10) New Millennium Capital Partners II, LLC, is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares owned by New Millennium Capital Partners II, LLC. The common stock reported includes 2,708 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(11) Mitch Levine is the managing partner of Enable Growth Partners LP and as such has voting and dispositive power the securities held by Enable Growth Partners LP. Enable Growth Partners LP is an affiliate of a broker-dealer, acquired the securities offered hereby in the ordinary course of business, and at the time of acquisition, had no agreements or understandings, directly or indirectly, with any person to distribute the securities. The common stock reported includes 750,000 shares of common stock issuable upon the exercise of the July 2006 Warrants, 2,125,556 shares of common stock issuable upon the exercise of the 2007 Warrants, 4,251,111 shares of common stock issuable upon the conversion of the 2007 Notes and 1,360,356 shares of common stock payable as interest on the 2007 Notes assuming all interest payments for the three year term of the 2007 Notes are paid in shares of common stock and assuming the share price at the time of interest payment is equal to 75% of the initial conversion price of the Notes.

(12) Mitch Levine is the managing partner of Enable Opportunity Partners LP and as such has voting and dispositive power over the securities held by Enable Opportunity Partners LP. Enable Opportunity Partners LP is an affiliate of a broker-dealer, acquired the securities offered hereby in the ordinary course of business, and at the time of acquisition, had no agreements or understandings, directly or indirectly, with any person to distribute the securities. The common stock reported includes 150,000 shares of common stock issuable upon the exercise of the July 2006 Warrants, 250,000 shares of common stock issuable upon the exercise of the 2007 Warrants, 500,000 shares of common stock issuable upon the conversion of the 2007 Notes and 160,000 shares of common stock payable as interest on the 2007 Notes assuming all interest payments for the three year term of the 2007 Notes are paid in shares of common stock and assuming the share price at the time of interest payment is equal to 75% of the initial conversion price of the Notes.

(13) Mitch Levine is the managing partner of Pierce Diversified Strategy Master Fund LLC and as such has voting and dispositive power the securities held by Pierce Diversified Strategy Master Fund LLC. Pierce Diversified Strategy Master Fund LLC is an affiliate of a broker-dealer, acquired the securities offered hereby in the ordinary course of business, and at the time of acquisition, had no agreements or understandings, directly or indirectly, with any person to distribute the securities. The common stock reported includes 100,000 shares of common stock issuable upon the exercise of the July 2006 Warrants, 124,444 shares of common stock issuable upon the exercise of the 2007 Warrants, 248,889 shares of common stock issuable upon the conversion of the 2007 Notes and 79,644 shares of common stock payable as interest on the 2007 Notes assuming all interest payments for the three year term of the 2007 Notes are paid in shares of common stock and assuming the share price at the time of interest payment is equal to 75% of the initial conversion price of the Notes.

(14) Ernest W. Moody is the President of Action Gaming, Inc. and as such may be deemed to be the beneficial owner of the shares of stock owner by Action Gaming, Inc. Mr. Moody disclaims beneficial ownership of these securities. The common stock reported includes 1,000,000 shares of common stock issuable upon the exercise of the July 2006 Warrants. The July 2006 Warrants held by Action Gaming, Inc. are subject to conversion caps that preclude Action Gaming, Inc. from utilizing its exercise rights to the extent that it would beneficially own (determined in accordance with Section 13(d) of the Exchange Act) in excess of 4.99% (which cap may be waived by Action Gaming, Inc. by giving written notice to the Company) and 9.999% of the common stock of the Company, giving effect to such exercise.

(15) Paul Meyer, President and Chief Operating Officer of Shuffle Master, Inc., was a member of the board of directors of the Company from March 28, 2006 until June 12, 2007. The common stock reported includes 833,333 shares of common stock issuable upon the exercise of the July 2006 Warrants. On January 25, 2006, we sold 2,307,693 shares of common stock to Shuffle Master, Inc. for $3.0 million, and on January 13, 2006, we issued to Shuffle Master, Inc. an 18-month warrant to purchase 1,200,000 shares of common stock at an exercise price of $2.025 per share which warrants expired on July 12, 2007 without being exercised. The sale of these shares and the issuance of the warrant were in connection with a strategic alliance distribution and licensing agreement between the Company and Shuffle Master, Inc.

(16) The common stock reported includes 416,666 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(17) Ronald I. Heller has voting and dispositive power over the securities held by Heller Capital Investments, LLC.

(18) The common stock reported includes 208,333 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(19) Ronald I. Heller has voting and dispositive power over the securities held by CGM as C/F Ronald I. Heller IRA.

(20) David S. Nagelberg has voting and dispositive power over the securities held by David S. Nagelberg CGM IRA.

(21) D. Blair Baker has voting and dispositive power over the securities held by Precept Capital Master Fund, G.P.

(22) 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 Pleiades Investment Partners-R LP. On June 21, 2005, the Company closed on the private placement (the "Series B Financing") of $5.05 million of its Series B Convertible Preferred Stock, par value $.01 per share (the "Series B Preferred Stock") and four year warrants (the "June 2005 Warrants") to a number of accredited investors in accordance with the terms of a subscription agreement. The investors purchased an aggregate of 3,848.7 shares of Series B Preferred Stock, convertible into 3,848,700 shares of common stock. As part of the Series B Financing: (a) Potomac Capital Partners LP purchased 504.2 shares of our Series B Preferred Stock (convertible into 504,200 shares of common stock) and warrants to purchase 126,050 shares of our common stock. In November 2005, such shares of Series B Preferred Stock were automatically converted to 504,200 shares of common stock; (b) Potomac Capital International Ltd. purchased 304.1 shares of our Series B Preferred Stock (convertible into 304,100 shares of common stock) and warrants to purchase 76,025 shares of common stock. In November 2005, such shares of Series B Preferred Stock were automatically converted to 304,100 shares of common stock; and (c) Pleiades Investment Partnership-R LP purchased 335 shares of our Series B Preferred Stock (convertible into 335,000 shares of common stock) and warrants to purchase 83,750 shares of common stock. In November 2005, such shares of Series B Preferred Stock were automatically converted to 335,000 shares of common stock.

(23) The common stock reported includes 180,833 shares of common stock issuable upon the exercise of the July 2006 Warrants and 127,170 shares of common stock issuable upon the exercise of the June 2005 Warrants.

(24) The common stock reported includes 110,000 shares of common stock issuable upon the exercise of the July 2006 Warrants and 76,701 shares of common stock issuable upon the exercise of the June 2005 Warrants.

(25) The common stock reported includes 125,833 shares of common stock issuable upon the exercise of the July 2006 Warrants and 84,494 shares of common stock issuable upon the exercise of the June 2005 Warrants.

(26) Steven L. Martin has voting and investment control over these securities because he is the manager and controlling owner of Slater Capital Management, L.L.C. (SCM). SCM is the manager of Slater Equity Partners, LP. As part of the Series B Financing, Slater Equity Partners, LP. purchased 1,372 shares of Series B Preferred Stock (convertible into 1,372,000 shares of common stock) and warrants to purchase 343,000 shares of common stock. In November 2005, such shares of Series B Preferred Stock were automatically converted to 1,372,000 shares of common stock.

(27) The common stock reported includes 250,000 shares of common stock issuable upon the exercise of the July 2006 Warrants and 384,489 shares of common stock issuable upon the exercise of the June 2005 Warrants.

(28) The common stock reported includes 166,666 shares of common stock issuable upon the exercise of the July 2006 Warrants and 38,349 shares of common stock issuable upon the exercise of the June 2005 Warrants.

(29) 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 Dubin 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 held by Smithfield Fiduciary LLC. The common stock reported includes 416,667 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(30) Barry Rubenstein is a general partner of Woodland Partners and as such has voting and dispositive power over the securities held by Woodland Partners. The common stock reported includes 125,000 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(31) Barry Rubenstein is a general partner of Woodland Venture Fund and as such has voting and dispositive power over the securities held by Woodland Venture Fund. The common stock reported includes 41,666 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(32) Barry Rubenstein is a general partner of Brookwood Partners, L.P. and as such has voting and dispositive power over the securities held by Brookwood Partners, L.P. The common stock reported includes 41,666 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(33) Bristol Capital Advisors, LLC (BCA) is the investment advisor to Bristol Investment Fund, Ltd. (Bristol). Paul Kessler is the manager of BCA and as such has voting and investment control over the securities held by Bristol. Mr. Kessler disclaims beneficial ownership of these securities. The common stock reported includes 208,333 shares of common stock issuable upon the exercise of the July 2006 Warrants, 833,333 shares of common stock issuable upon the exercise of the 2007 Warrants, 1,666,667 shares of common stock issuable upon the conversion of the 2007 Notes and 533,333 shares of common stock payable as interest on the 2007 Notes assuming all interest payments for the three year term of the 2007 Notes are paid in shares of common stock and assuming the share price at the time of interest payment is equal to 75% of the initial conversion price of the Notes.

(34) Dominion Corporate Trustees Limited has voting and dispositive power of the securities held by Braventures Limited. The common stock reported includes 83,333 shares of common stock issuable upon the exercise of certain warrants.

(35) Shawn Kreloff was appointed Chief Executive Officer of the Company on May 5, 2006. He has been the Chairman of the Board and a director since 2004. The common stock reported includes 41,666 shares of common stock issuable upon the exercise of the July 2006 Warrants and 1,416,666 shares of common stock underlying currently exercisable options.

(36) 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 the July 2006 Warrants and 155,000 shares of common stock underlying currently exercisable options.

(37) Peter Shoebridge is Vice President, Development of the Company. The common stock reported includes 400,000 shares of common stock owned by Digital Wasabi LLC, of which Mr. Shoebridge is a principal, and 25,000 shares of common stock issuable upon the exercise of the July 2006 Warrants.

(38) Andrew Brandt holds voting and dispositive 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 the July 2006 Warrants.

(39) David Enzer, an affiliate of a broker-dealer, acquired the securities offered hereby 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 distribute the securities. Mr. Enzer is employed with Roth Capital Partners, the investment banker engaged by the Company in connection with its private placement that closed on July 7, 2006.

(40) Of these shares, 1,638,499 shares of common stock are held by BTG Investments LLC. Byron Roth, together with Gordon Roth has voting and dispositive power with respect to the shares to be resold by BTG Investments LLC. See footnote 1. Mr. Roth, an affiliate of a broker-dealer, acquired the securities offered hereby 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 distribute the securities. Mr. Roth acted as a placement agent in connection with the Company's private placement that closed on July 7, 2006.

(41) Aaron Gurewitz, an affiliate of a broker-dealer, acquired the securities offered hereby 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 distribute the securities. Mr. Gurewitz is employed with Roth Capital Partners, the investment banker engaged by the Company in connection with its private placement that closed on July 7, 2006.

(42) Stephen J. Hutsko has voting and dispositive power with respect to the shares to be resold by Stephen J. Hutsko Ttee FBO The Hutsko Living Trust UTD 3/12/04. Mr. Hutsko, an affiliate of a broker-dealer, acquired the securities offered hereby 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 distribute the securities. Mr. Hutsko is employed with Roth Capital Partners, the investment banker engaged by the Company in connection with its private placement that closed on July 7, 2006.

(43) In addition to the contractual restriction on exercise contained within the July 2006 Warrants, by their participation in the November 2007 private placement of the Company, such selling stockholders have contractually agreed to restrict their ability to convert their 2007 Notes or exercise their 2007 Warrants and receive shares of our common stock such that the number of shares of common stock beneficially owned by a selling stockholder and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock (after giving effect to any issuance upon conversion or exercise). Accordingly, the number of shares of common stock set forth in the table for a selling stockholder may exceed the number of shares of common stock that a selling stockholder could own beneficially at any given time through their ownership of the 2007 Notes and the 2007 Warrants.

We have been notified by each of the selling stockholders that such selling stockholder is not a broker-dealer or affiliate of a broker dealer (other than BTG Investments, LLC, Enable Growth Partners LP, Enable Growth Opportunity Partners LP, Pierce Diversified Strategy Master Fund LLC, David Enzer, Byron C. Roth, Aaron Gurewitz and Stephen J. Hutsko Ttee FBO The Hutsko Living Trust UTD 3/12/04 as noted in footnotes 1, 11, 12, 13, 39, 40, 41 and 42 above). Each of the selling stockholders has informed us that, other than registration covenants entered into with us at the time such selling stockholder acquired its or his securities, or with respect to Shuffle Master, Inc., the registration covenant entered into by with us in June 2006 (as described below), such selling stockholder did not have at such time any agreements, understandings or arrangements with any other persons, directly or indirectly, to dispose of its or his securities.

All of the July 2006 shares of common stock being offered pursuant to this prospectus were acquired in a private placement transaction that closed on July 7, 2006. Pursuant to the private placement, the Company issued 16,943,323 shares of common stock of the Company for a purchase price of $0.60 per share together with warrants to purchase 8,471,657 shares of common stock (the "July 2006 Warrants"). In connection with the July 2006 private placement, on

June 30, 2006, the Company entered into a registration rights agreement with the selling stockholders, pursuant to which it agreed to file a resale registration statement covering the shares of common stock purchased in the private placement and the shares of common stock underlying the July 2006 Warrants. If the registration statement of which this prospectus forms a part is not declared effective by the U.S. Securities and Exchange Commission by October 5, 2006 or by November 6, 2006, in the event the Commission reviews and has written comments to this registration statement that would require the filing of a pre-effective amendment thereto with the commission, or if after the registration statement's effective date this registration statement ceases for any reason to be effective for a period of more than an aggregate of 30 trading days (which need not be consecutive), the Company is obligated under the registration rights agreements, to issue to those investors an amount in cash, as partial liquidated damages and not as a penalty, equal to 2% of the aggregate investment amount paid by such investor for the securities, which obligation continues on a monthly basis thereafter until the registration statement is declared effective; provided, however, the maximum amount of aggregated liquidated damages payable to an investor shall be 10% of the aggregate investment amount paid by such investor.

All of the July 2006 Warrants are five-year warrants to purchase common stock at an exercise price of $0.40 per share (as adjusted), subject to adjustment in certain circumstances. The July 2006 Warrants include a cashless exercise feature under certain circumstances when there is not an effective registration statement available for the resale of the shares of common stock issuable upon exercise of the July 2006 Warrants. All July 2006 Warrants held by the selling stockholders, except for those held by Action Gaming, Inc. are subject to conversion caps that preclude the holder thereof from utilizing its exercise rights to the extent that it would beneficially own (determined in accordance with Section 13(d) of the Exchange Act) in excess of 9.999% of the common stock of the Company, giving effect to such exercise. The July 2006 Warrants held by Action Gaming, Inc. are subject to conversion caps that preclude Action Gaming, Inc. from utilizing its exercise rights to the extent that it would beneficially own (determined in accordance with Section 13(d) of the Exchange Act) in excess of 4.99% (which cap may be waived by Action Gaming, Inc. by giving written notice to the Company) and 9.99% of the common stock of the Company, giving effect to such exercise.

On January 25, 2006, the Company sold 2,307,693 shares of its common stock to Shuffle Master for $3.0 million and issued an 18-month warrant to purchase 1,200,000 shares of common stock to Shuffle Master. This warrant had an exercise price of $2.025 per share and expired on July 12, 2007. The sale of these shares and the issuance of this warrant were in connection with a strategic alliance distribution and licensing agreement between the Company and Shuffle Master pursuant to which we have agreed to develop a wireless gaming solution for marketing and distribution by Shuffle Master in exchange for a percentage of revenues received from sales. As part of our agreement with Shuffle Master, we agreed to register the shares of our common stock sold to Shuffle Master and the shares underlying the warrant. In addition, on June 30, 2006, the Company entered into a letter agreement with Shuffle Master setting forth the registration rights relating to the shares of common stock and warrant purchased by Shuffle Master in January of 2006. Pursuant to this letter agreement, the Company agreed that Shuffle Master will be afforded the same registration rights as purchasers in the July 2006 private placement.

Each of Potomac Capital Partners LP, Potomac Capital International Ltd., Pleiades Investment Partnership-R LP and Slater FF&E Fund Ltd., selling stockholders hereunder, participated in the Series B Financing. The June 2005 Warrants have a four-year term, expiring on June 20, 2009, an exercise price of $1.54212 (as adjusted) per share and weighted average" anti-dilution protection. Under the terms of the subscription agreement, the Company agreed to register and did register for resale an aggregate 4,810,875 shares of common stock representing the shares of common stock issuable upon conversion of the Series B Preferred Stock and upon exercise of the June 2005 Warrants. During the second quarter of 2006, the Company issued an additional 8,553 June 2005 Warrants to the investors because the registration statement was not declared effective by April 19, 2006, as required by the subscription agreement.

On November 28, 2007, we sold our 8% senior unsecured convertible debentures due 2010 in the aggregate principal amount of $3.0 million and warrants to purchase 3,333,333 shares of our common stock to accredited investors for an aggregate purchase price of $3.0 million. The debentures bear interest at a rate of 8% per annum, payable quarterly on January 1, April 1, July 1 and October 1 in cash or shares of common stock, or combination thereof. The debentures mature November 28, 2010 and are convertible into shares of common stock at an initial conversion price of $0.45 per share, subject to adjustment in certain circumstances. The warrants have a five-year term, expiring on November 28, 2012, and an exercise price of $0.50 per share, subject to adjustment in certain circumstances. The warrants are exercisable for cash or, at certain times, cashless exercise. The aforementioned debentures and warrants issued in November 2007 are subject to conversion caps that preclude the holder thereof from utilizing its exercise rights to the extent that it would beneficially own (determined in accordance with Section 13(d) of the Exchange Act) in excess of 4.99% of the common stock of the Company, giving effect to such exercise.

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PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, donees, transferees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any 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 position 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 by 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 of the Securities Act, including under Rule 144 thereunder, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions 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 Shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common

stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

Upon the Company being notified in writing by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of common stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling

stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares of common stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, upon the Company being notified in writing by a selling stockholder that a donee or pledgee intends to sell more than 500 shares of common stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling 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 deemed to be ‘‘underwriters’’ within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, that can be attributed to the sale of Securities will be paid by the selling stockholder and/or the purchasers. Each selling stockholder has represented and warranted to the Company that it acquired the securities subject to this registration statement in the ordinary course of such selling stockholder’s business and, at the time of its purchase of such securities such selling stockholder had no agreements or understandings, directly or 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 Registration Statement to cover short sales of common stock made prior to the date on which this Registration Statement shall have been declared effective by the Commission. If a selling stockholder uses this prospectus for any sale of the common stock, it will be subject to the prospectus delivery requirements of the Securities Act. The selling stockholders will be responsible to comply with the applicable provisions of the Securities Act and Exchange Act, and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as applicable to such selling stockholders in connection with resales of their respective shares under this Registration Statement.

The company is required to pay all fees and expenses incident to the registration of the shares, but the Company will not receive any proceeds from the sale of the common stock. The company has agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

The validity of 24,453,049 of the shares of common stock offered by this prospectus have been passed upon for us by Bryan Cave LLP, New York, New York. The validity of the remaining 2,307,693 shares of common stock offered by Shuffle Master pursuant to this prospectus have been passed upon for us by Morse, Zelnick, Rose & Lander, New York, New York.

EXPERTS

Our consolidated financial statements as of December 31, 2006 and 2007 included in this prospectus have been audited by Horwath Orenstein, LLP, independent registered public accounting firm, as stated in their report dated March 28, 2008. Such consolidated financial statements have been so included in reliance upon the authority of such firm as experts in 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 to us or our stockholders for monetary damages for breach of fiduciary duty as a 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 and eliminate our rights and those of our stockholders to recover monetary damages from a director for breach of his fiduciary duty of care as a director except in the situations described above. The limitations summarized above, however, do not affect our ability or that of our stockholders to seek non-monetary remedies, such as an injunction or rescission, against a director for breach of his fiduciary duty.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

WHERE YOU CAN FIND MORE INFORMATION

Currently, we are not required to deliver our annual report to security holders. However, we will voluntarily send an annual report, including audited financial statements, to any stockholder that requests it. We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and we file annual, quarterly and current reports, proxy statements and other information with the Commission. You may read and copy any report or other document that we file at the Commission's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information as to the operation

of the Public Reference Room. The Commission also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers, including us, that electronically file documents with the Commission.

This prospectus is part of a registration statement filed by us with the Commission. Because the Commission's rules and regulations allow us to omit certain portions of the registration statement from this prospectus, this prospectus does not contain all the information set forth in the registration statement. You may review the registration statement and the exhibits filed with, or incorporated therein by reference in, the registration statement for further information regarding us and the shares of our common stock offered by this prospectus. Statements contained in this prospectus as to the contents of any contract or any other document are summaries of the material terms of such contracts or other documents. With respect to these contracts or other documents filed, or incorporated therein by reference, as an exhibit to the registration statement, we refer you to the exhibits for a more complete description of the matter involved. The registration statement and its exhibits may be inspected at the Commission's Public Reference Room at the location described above.

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES

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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 Subsidiaries (the "Company") as at December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 respects, the financial position of Sona Mobile Holdings Corp. and Subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United State of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Toronto Canada
March 28, 2008
Licensed Public Accountants

/s/ Horwath Orenstein LLP
Chartered Accountants

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	At December 31, 2007	At December 31, 2006
Assets		
Current:		
Cash and cash equivalents	$ 2,367,026	$ 5,682,162
Accounts receivable (net of allowance for doubtful accounts of $52,175 and $25,531)	119,652	204,379
Tax credits receivable	51,220	43,568
Prepaid expenses & deposits	98,415	95,967
Total current assets	2,636,313	6,026,076
Property and equipment:		
Computer equipment	192,248	101,168
Furniture and equipment	85,603	37,211
Less: accumulated depreciation	(116,094)	(55,581)
Total property and equipment	161,757	82,798
Software development costs (Note 3(i))	471,988	–
Debt issuance costs, net (Note 11)	315,179	–
Total Assets	$ 3,585,237	$ 6,108,874
Liabilities and Stockholders' Equity		
Current:		
Accounts payable	$ 316,473	$ 350,375
Accrued liabilities & payroll (Note 9)	510,921	412,796
Deferred revenue (Note 10)	55,795	389,562
Total current liabilities	883,189	1,152,733
Long term convertible debt, net (Note 11)	2,335,034	–
Total Liabilities	3,218,223	1,152,733
Stockholders’ equity:		
Preferred Stock – 2,000,000 shares authorized, par value $.01 per share – no shares issued and outstanding	–	–
	578,328	578,095

Common Stock – 120,000,000 shares authorized, par value $.01 per share – 57,832,857 and 57,809,523 shares issued and outstanding respectively				
Additional paid-in capital		17,570,902		15,706,398
Common Stock purchase warrants		3,925,661		4,734,965
Unamortized stock based compensation		(5,833)		(39,096)
Accumulated other comprehensive (loss)		(64,110)		(50,862)
Accumulated deficit		(21,637,934)		(15,973,359)
Total stockholders' equity		367,014		4,956,141
Total Liabilities and Stockholders' Equity	$	3,585,237	$	6,108,874

See accompanying notes to consolidated financial statements.

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

	Year ended December 31, 2007	Year ended December 31, 2006
Net Revenue	$ 980,649	$ 398,134
Operating expenses		
Depreciation and amortization	73,616	37,403
General and administrative expenses	2,489,777	2,770,251
Professional fees	1,042,887	1,075,011
Development expenses	2,075,870	2,002,121
Selling and marketing expenses	1,004,130	3,179,401
Total operating expenses	6,686,280	9,064,187
Operating loss	(5,705,631)	(8,666,053)
Interest income	131,790	215,234
Interest expense	(43,424)	(3,192)
Other income and expense (Note 16)	(47,310)	(31,883)
Net loss	$ (5,664,575)	$ (8,485,894)
Foreign currency translation adjustment	(13,248)	44,797
Comprehensive loss	$ (5,677,823)	$ (8,441,097)
Net loss per share of common stock – basic and diluted	$ (0.10)	$ (0.17)
Weighted average number of shares of common stock outstanding – basic and diluted (Note 6)	57,813,250	48,841,115

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Series A & Series B Convertible Preferred Stock Shares	Series A & Series B Convertible Preferred Stock Amount	Warrants on Common Stock	Additional paid-in Capital	Unamortized Stock Based Compensation	Accumulated Comprehensive Income Amount	Accumulated Deficit	T Share Eq
Balance at December 31, 2005	37,907,395	$ 379,074	-	$ -	$ -	$ 7,064,433	$ (53,000)	$ (95,659)	$ (7,487,465)	$ (1
Stock option expense						332,988				3
Stock issued for acquired intangibles	800,000	8,000				590,400				5
Stock-based compensation	457,778	4,578				333,538	13,904			3
Exercise of employee stock options	43,334	434				68,902				
Common stock and warrants issued to Shuffle Master upon exercise of options	2,307,693	23,076			1,335,600	1,641,324				3,0
Reclassify warrants from liability to equity as of registration statement effective date					281,777					2
Issuance of penalty warrants					2,993					
Common stock and warrants issued under private placement, net of issuance costs	16,943,323	169,433			3,114,595	5,968,313				9,2
	(650,000)	(6,500)				(293,500)				(3

Repurchase of treasury stock										
Other comprehensive income								44,797		
Net loss									(8,485,894)	(8,4
Balance at December 31, 2006	57,809,523	$ 578,095	-	$ -	$ 4,734,965	$ 15,706,398	$ (39,095)	$ (50,862)	$ (15,973,359)	$ 4,9
Stock option expense						356,500				3
Stock-based compensation	23,334	233				12,774	33,262			
Expiration of warrants issued to Shuffle Master					(1,335,600)	1,335,600				
Issuance of warrants with convertible debenture					526,296	159,629				6
Other comprehensive income								(13,248)		
Net loss									(5,664,575)	(5,6
Balance at December 31, 2007	57,832,857	$ 578,328	-	$ -	$ 3,925,661	$ 17,570,902	$ (5,833)	$ (64,110)	$ (21,637,934)	$ 3

See accompanying notes to consolidated financial statements.

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

	Year ended December 31,	
	2007	2006
Cash provided by (used in):		
Operating activities		
Net loss	$ (5,664,575)	$ (8,485,894)
Adjustments for:		
Depreciation and amortization	73,616	37,403
Amortization of debt discount	20,959	–
Loss on write off of fixed assets	5,171	–
Write-off of in-process purchased technology	–	597,652
Amortization of restricted stock-based compensation	46,269	352,020
Stock-based compensation	356,500	332,988
Gain on revaluation of common stock purchase warrants	–	(468,326)
Issuance of penalty warrants	–	2,993
Changes in non-cash working capital assets and liabilities:		
Accounts receivable, net	84,727	208,743
Tax credits receivable	(7,652)	(12,639)
Prepaid expenses & deposits	(2,448)	18,723
Accounts payable	(33,902)	(175,299)
Accrued liabilities & payroll	98,125	(288,410)
Deferred revenue	(333,767)	259,275
Net cash used in operating activities	(5,356,977)	(7,620,771)
Investing activities		
Software development costs	(471,988)	–
Acquisition of property & equipment	(144,125)	(50,209)
Net cash used in investing activities	(616,113)	(50,209)
Financing activities		
Proceeds from the issuance of convertible debt, net of debt issuance costs of $324,184	2,675,816	–
Proceeds from the sale of common stock	–	7,802,148
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	2,675,816	12,021,677
Effect of exchange rate changes on cash & cash equivalents	(17,862)	44,553
Change in cash & cash equivalents during the period	(3,315,136)	4,395,250
Cash & cash equivalents, beginning of period	5,682,162	1,286,912
Cash & cash equivalents, end of period	$ 2,367,026	$ 5,682,162

There were no amounts paid in cash for taxes in 2007. There was $22,000 paid in interest during fiscal 2007. During fiscal 2006 there were no amounts paid in cash for taxes or interest.

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.

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 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. 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 December 31, 2007, the Company had total cash and cash equivalents of $2.4 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 May 2008. 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 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. Our target customer base includes casinos, horse racing

Note 2. Company Background and Description of Business (cont'd)

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. Our 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 our 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 (“SGS”) and the Sona Wireless Platform (“SWP”).

In 2006, in conjunction with the Company’s strategic alliance with Shuffle Master and because of the perceived opportunities for wireless and server-based 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 audited consolidated financial statements of Sona Mobile Holdings Corp. and its subsidiaries, included herein have been prepared by the Company in accordance with accounting principally generally acceptable in the United States of America (“GAAP”). The audited consolidated financial statements herein include the accounts of the Company and its wholly-owned subsidiary, Sona Mobile, Inc. and Sona Mobile’s wholly-owned subsidiary, Sona Innovations Inc., a Canadian company. All material inter-company accounts and transactions have been eliminated in consolidation.

Recently issued accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated financial statements. The FASB may delay a portion of this standard.

Note 3. Summary of Significant Accounting Policies (cont'd)

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 to have a material impact on our consolidated financial statements.

In December 2007, the 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 acquiree 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.

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

(c) Foreign currency translation

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

(d) Property and equipment

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

(e) Use of estimates

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

Note 3. Summary of Significant Accounting Policies (cont'd)

(f) Software rights

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

(g) Income taxes

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

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 fiscal year ended December 31, 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 December 31, 2007, 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 December 31, 2007 and 2006, the balances for tax credits receivable on the balance sheet were $51,220 and $43,568, respectively, which related to

Ontario research and development tax credits assessed, but not received, as of the financial statement date.

(h) Revenue recognition

The Company follows specific and detailed guidance in measuring revenue, although certain judgments affect the application of our revenue recognition policy. These judgments include, for example, the determination of a customer's creditworthiness, whether two separate transactions with a customer should be accounted for as a

Note 3. Summary of Significant Accounting Policies (cont'd)

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 (e.g., 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 our vendor specific objective evidence. As a result, future revenue associated with multiple element arrangements could differ significantly from our historical results.

Percentage of Completion Accounting. Fees from licenses sold together with consulting services are generally recognized upon shipment of the licenses, provided (i) the criteria described in subparagraphs (a) through (d) in the second paragraph under "Revenue Recognition" above are met; (ii) payment of the license fee is not dependent upon performance of the consulting services; and (iii) the consulting services are not essential to the functionality of the licensed software. If the services are essential to the functionality of the software, or performance of services is a condition to payment of license fees, both the software license and consulting fees are recognized under the "percentage of completion" method of contract accounting. Under this method, management 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 our 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.

(i) Research and software development costs

The Company incurs costs on activities that relate to research and the development of new software products. Research costs are expensed as they are incurred. Costs are reduced by tax credits where applicable. Software development costs to establish the technological feasibility of software applications developed by the Company are charged to expense as incurred. In accordance with SFAS 86, certain costs incurred subsequent to achieving technological feasibility are capitalized. Accordingly, a portion of the internal labor costs and external consulting costs associated with essential wireless software development and enhancement activities are capitalized. Costs associated with conceptual design and feasibility assessments as well as maintenance and routine changes are

Note 3. Summary of Significant Accounting Policies (cont'd)

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. Capitalized software development costs are periodically evaluated for impairment. Gross software development costs for the fiscal years ended December 31, 2007, and 2006 were $2,075,870 and $2,002,121, respectively. During the fiscal year ended December 31, 2007, $471,988 of the gross software development costs related to the development of the Company's server based casino gaming products, the Sona Gaming System, met the criteria of SFAS 86 for capitalization of software development costs. Commercial feasibility was determined to be established on August 31, 2007 with our first field trial in Lima, Peru at which point we ceased capitalization of any additional costs related to the development of this product. Three additional games were certified for use with the SGS in November 2007 and shortly after this time, the Company made the determination that the software was available for general release to customers. The Company intends to commence amortization of these capitalized costs on a straight-line basis as of January 1, 2008 over an estimated useful life of three years. The Company has estimated that there are significant revenue opportunities for its server based casino gaming product and as such, has determined that there are no impairment charges required as of December 31, 2007, to the value of the capitalized development costs. Capitalized software development costs were $471,988 as of December 31, 2007.

(j) Stock-based compensation

As of January 1, 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with, FASB Statement of Financial Accounting Standards No. 123 — revised 2004 ("SFAS 123R"), "Share-Based Payment" which replaced Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. The valuation provisions 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 fiscal 2007, the Company issued stock options to directors, officers, and employees under the 2006 Incentive Plan (the "2006 Plan") as described in Note 14 to our consolidated financial statements. During fiscal 2006, the Company issued stock options to directors, officers, and employees under the Amended and Restated Stock Option Plan of 2000 which is also described in Note 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.

(k) Reclassifications

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

(l) Derivatives

Note 3. Summary of Significant Accounting Policies (cont'd)

The Company follows the provisions of SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”) along with related interpretations EITF No. 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock” (“EITF 00-19”) and EITF No. 05-2 “The Meaning of ‘Conventional Convertible Debt Instrument’ in Issue No. 00-19” (EITF 05-2). SFAS No. 133 requires every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivative’s fair value recognized currently in earnings unless specific hedge accounting criteria are met. The Company values these derivative securities under the fair value method at the end of each reporting period, and their value is marked to market with the gain or loss recognition recorded against earnings. The Company uses the Black-Scholes option-pricing model to determine fair value. Key assumptions of the Black-Scholes option-pricing model include applicable volatility rates, risk-free interest rates and the instrument’s expected remaining life. These assumptions require significant management judgment. At December 31, 2007 and 2006, there were no derivative instruments reported on the Company’s balance sheet.

Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, management continually monitors the financial condition of its customers to reduce the risk of loss. Customer account balances with invoices dated over 90 days are considered delinquent. The Company maintains reserves for potential credit losses based upon its loss history, its aging analysis and specific account review. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Such losses have been within management's expectations. The Company has some exposure to a concentration of credit risk as it relates to specific industry segments, as historically its customers have been primarily concentrated in the financial services industry. Since revenues are derived in large part from single projects, the Company bears some credit risk due to a high concentration of revenues from individual customers. During the fiscal year ended December 31, 2007, 62.1% of total revenues were generated from two customers that individually represented over 10% of total revenue each (Customer A – 47.4%, Customer B – 14.7%). During the fiscal year ended December 31, 2006, 60.0% of total revenues were generated from three customers individually representing over 10% of total revenue each (Customer C – 24.2%, Customer D – 21.5%, Customer E – 14.3%).

We had a balance of $52,175 in our Allowance for Doubtful Accounts provision as of December 31, 2007. This balance consists of provisions made in previous and current quarters. There has been a total of $15,000 of bad debt write-offs against the provision during fiscal year end December 31, 2007. There was a total of $22,792 of bad debt write offs against the provision in 2006 and a balance of $25,531 in the allowance for doubtful accounts provision as of December 31, 2006.

Note 5. Stockholders’ Equity

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

equity. See Note 11.

Note 6. Earnings per Share

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

The calculation of diluted earnings (loss) per share for the fiscal years ended December 31, 2007 and 2006 did not include shares of the Company's common stock issuable upon the exercise of options, shares issuable upon exercise of common stock warrants, nor the conversion of the long term convertible notes, as their inclusion in the calculation would be anti-dilutive. The number of options and warrants outstanding as of December 31, 2007 and 2006 are illustrated in the table below, as well as the number of shares underlying the 2007 Notes. Each stock option and warrant is exercisable in to one share of common stock:

Outstanding at December 31,	2007	2006
Stock options	6,997,000	5,869,277
Common stock warrants	12,775,718	10,642,385
Common shares underlining convertible notes	6,666,667	–
Total options, warrants, and convertible notes	26,439,385	16,511,662

Note 7. Contractual Obligations, Long-Term Liability and Commitments

Contractual Obligations and Long-Term Liability

The Company leases office space in Toronto, Ontario and Boulder, Colorado which run to February 2012 and September 2010 respectively. The Company is currently leasing space in New York, New York on a short-term basis under a lease which runs to June 2008, for its corporate headquarters and sales and support functions. The Company intends to renew its New York lease on substantially the same terms on a short-term basis when the current lease agreement expires. In addition, in 2007 we leased approximately 1,000 square feet in Las Vegas, Nevada, for our corporate apartment which was leased on an annual basis until February 2008, at a monthly rent of approximately $2,300. Our frequent trips to Las Vegas made this lease a cost effective way to house our employees during business trips for meetings with our 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. Office lease expenses for the fiscal years ended December 31, 2007 and 2006 were $423,771 and $602,633, respectively.

The Company also leases office equipment. These leases have been classified as operating leases. Office equipment lease expenses for the fiscal years ended December 31, 2007 and 2006 were $154,360 and $85,317, 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 had 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 years are as follows:

Note 7. Contractual Obligations, Long-Term Liability and Commitments (cont'd)

Contractual Obligations and Long-Term Liability
(US$)

	Total	2008	2009	2010	2011	2012+
Office Space Leases:						
United States	$ 563,554	$ 239,652	$ 183,100	$ 140,802	$ –	$ –
Canada	517,570	115,988	119,570	123,212	126,916	31,884
Total Office Space	1,081,124	355,640	302,670	264,014	126,916	31,884
Office Equipment	208,418	146,298	61,426	694	–	–
Convertible Debt	3,000,000	–	–	3,000,000	–	–
Interest on Convertible Debt	700,000	240,000	240,000	220,000	–	–
Total	$ 4,989,542	$ 741,938	$ 604,097	$ 3,484,708	$ 126,916	$ 31,884

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

Note 8. Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, 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 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 debtors do not meet their obligations. The Company monitors the age of its accounts receivable and may delay development or terminate information fees if debtors do not meet payment terms.

The Company is subject to foreign currency risk with respect to financial instruments denominated in a foreign currency. As of December 31, 2007, approximately 7.7% of the Company's assets and 13.3% 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, as at December 31:

	2007	2006
Accrued payroll and related expenses	$ 233,557	$ 211,020
Accrued professional fees	148,638	157,943
Accrued vendor obligations	88,863	32,334
Accrued interest payable	22,000	–
Other taxes payable	17,863	11,499
Total	$ 510,921	$ 412,796

Note 10. Deferred Revenues

Deferred revenue occurs where the Company invoices customers for project work that has not been completed at the balance sheet date. The Company's deferred revenue balance as of December 31, 2007 and 2006 was $55,795 and $389,562, respectively.

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 had 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 ;
- any time after the Issue Date in whole or part, at the option of the holder, at any time and from time to time until such 2007 Note is no longer outstanding.

The conversion price of the 2007 Notes is $0.45 per share and is subject to downward adjustment in the event of the issuance by the Company of any common stock or Common Stock Equivalents (as defined in the 2007 Notes

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Note 11. Long Term Debt (cont'd)

agreement) at a price per share less than the then applicable conversion price of the 2007 Notes. In addition, the conversion price is subject to adjustment upon the occurrence of certain enumerated events.

The 2007 Warrants were exercisable immediately as of the Issue Date and for a period of five years from the Issue Date at an exercise price of $0.50 per share. The Black-Scholes valuation model was use to estimate the fair value of these warrants using the following assumptions: volatility of 55%, term and expected life of five years, risk free interest rate of 3.40%, market value of underlying common stock of $0.395, and a zero dividend rate. The Company determined the estimated fair value of the warrants to be $582,664.

The 2007 Notes have been accounted for as long term debt, net of a debt discount consisting of the allocated value of the warrants and a beneficial conversion feature. The embedded conversion feature has been deemed to be a beneficial conversion feature pursuant to EITF 98-5, Accounting for Convertible Securities with beneficial Conversion feature or Contingently Adjustable Conversion Ratio, and EITF 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments. These standards require that the fair value of the conversion feature of the instrument be treated as a debt discount against the liability portion of the note. This beneficial conversion feature is calculated by computing the intrinsic value between the effective conversion price and fair value of common stock on the Issue Date. The effective conversion price is based on the allocation of the relative values of the 2007 Notes and the 2007 Warrants on a relative fair value basis. The debt discount resulting from the beneficial conversion feature was determined to be $159,629. The allocated fair value of the warrants was determined to be $526,296, which was also recorded as a debt discount. The Company is amortizing the combined debt discount of $685,925 over the term of the 2007 Notes on a straight-line basis, which approximates the effective interest method. The amortization of the debt discount is being recorded as additional interest expense.

Total interest expense related to the 2007 Notes, including amortization of debt discount, for fiscal year ended December 31, 2007, is $42,959 which consisted of $22,000 in interest paid and $20,959 relating to the amortization of the debt discount.

There was $324,184 of debt issuance costs including placement agent fees and legal expenses. These costs have been capitalized as an asset and are being amortized over the three year term of the 2007 Notes. In the fourth quarter of 2007, amortization of these costs in the amount of $9,005 resulted in net reported debt issuance costs of $315,179 as of December 31, 2007.

As of December 31, 2007, the amount on the Company’s balance sheet for the long term convertible debt was $2,335,034.

Note 12. Income Taxes

The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Under the liability method, deferred income tax assets and liabilities are computed annually for temporary 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. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

A reconciliation of the federal statutory income tax rate to the effective income tax rate on loss from continuing operations is as follows:

Note 12. Income Taxes (cont'd)

	2007	2006
Estimated tax rate (U.S, State, and foreign)	38%	37%
Adjustments:		
Non-deductible expenses	(0)%	(3)%
Change in valuation allowance	(38)%	(34)%
Total benefit (provision)	0%	0%

Changes in the deferred tax balances and the deferred tax valuation allowances for the years ended December 31, 2007, and 2006 were as follows:

	2007	2006
Deferred tax assets	5,352,770	2,449,693
Change in net operating loss carryforward	2,449,723	3,132,323
Impact of non-deductable expenses	-	(229,246)
Total Deferred tax assets	7,802,493	5,352,770
Less valuation allowance	(7,802,493)	(5,352,770)
Net deferred tax asset	-	-

Deferred tax benefits arising from net operating loss carry forwards were determined using the applicable statutory rates in the various tax jurisdictions in which we operate. At December 31, 2007, the Company had net deferred tax assets of approximately $7,802,493 arising from net operating loss (“NOL”) carry forwards. Of the $7,802,493 NOL, $4,619,410 relates to tax losses incurred in the U.S and $3,183,083 relates to Canadian tax losses. The NOL carry forwards, which are available to offset future profits of the Company begin to expire in 2010 if not utilized and expire in varying amounts through 2027. These deferred taxes benefits are fully offset by valuation allowances as there can be no assurance that the Company will earn sufficient future profits to utilize the loss carry forwards.

The Company adopted the provisions of FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109,” (“FIN 48”) on January 1, 2007. As the Company has a valuation allowance against the full amount of its net deferred tax asset, the adoption of FIN 48 did not have an impact on the financial statements for the fiscal year ended December 31, 2007. The Company does not expect FIN 48 to have an impact on the financial statements during fiscal year 2008.

At the adoption date, the Company applied FIN 48 to all tax positions for which the statue of limitations remained open. As a result of the implementation of FIN 48 there were no unrecognized tax benefits and, accordingly, there has been no effect on the Company’s financial condition or result of operations.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related taxes laws and regulations and require significant judgment to apply. The Company is no longer subject to U.S. federal and state examinations for years before 2004, and Canadian federal and provincial tax examination for years before 2004. Management does not believe there will be any material changes in the Company’s unrecognized tax position over the next 12 months.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses for all periods presented. There was no accrued interest or penalties associated with any

unrecognized tax benefits, nor was any interest expense recognized during the fiscal period ended December 31, 2007.

Note 13. Related Party Transactions

There were no related party transactions during the fiscal year ended December 31, 2007.
In July 2006, a balance of $58,285 relating to compensation earned but not paid in 2004 to the former CEO was fully repaid. Also, during fiscal 2006 the Company paid consulting fees of $202,500 to former directors and officers of the Company. Total consultant fees paid included $95,000 to Mr. Glinsman, a former officer and director, $20,000 to Bryan Maizlish, a former director, $52,500 to John Bush, a former officer and director, and $35,000 to Frank Fanzilli, a former director.

During fiscal 2006, payments of $57,736 were made to Shuffle Master (a 10% beneficial shareholder at that time, whose President was a member of our board of directors from March 2006 until June 2007). These payments were entirely for the reimbursement of expenses paid by Shuffle Master on behalf of the Company, relating to the development and certification of the wireless gaming platform.

Note 14. Stock-Based Compensation

The Company's 2006 Incentive Plan (the "2006 Plan"), which is stockholder approved, permits the grant of options, restricted stock, and other stock awards, to its directors, officers, and employees for up to 7 million shares of common stock, in addition to the options already issued under the Amended and Restated Stock Option Plan of 2000. The Company believes such awards align the interest of its directors, officers, and employees with those of its shareholders and encourage directors, officers, and employees to act as equity owners of the Company. Prior to the adoption of the 2006 Plan, the Company had an Amended and Restated Stock Option Plan of 2000, which was terminated with respect to future grants effective upon the stockholder's approval of the 2006 Plan in September 2006.

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

SFAS 123R requires the cash flow from tax benefits for deductions in excess of the compensation costs recognized for share-base payments awards to be classified as financing cash flows. Due to the Company's loss position, there was no such tax benefit during fiscal years ending December 31, 2007, and 2006.

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

	2007	2006
Expected term (years)	2.9 years	3.1 years
Risk-free interest rate	4.84%	4.73%
Volatility	55.0%	65.0%
Expected forfeiture	33.3%	33.3%

Dividend yield	0.0%	0.0%

As of December 31, 2007, the number of outstanding stock options as a percentage of the number of outstanding shares was approximately 12.1%. There were 1,840,000 stock options granted and 712,277 stock options cancelled during fiscal year ended December 31, 2007. The following table summarizes option transactions under the Company's stock option plans since January 1, 2007:

Note 14. Stock-Based Compensation (cont'd)

	Number of Options	Weighted Average Exercise Price	Weighted average Remaining Contractual Term
Outstanding, January 1, 2007	5,869,277	0.807	8.459
Granted	1,840,000	0.446	8.658
Exercised	–	–	–
Cancelled	(712,277)	1.001	7.336
Outstanding, December 31, 2007	6,997,000	0.706	8.006
Vested and expected to vest at December 31, 2007	5,301,499	0.729	8.080
Exercisable at December 31, 2007	2,644,376	0.926	6.398

The total fair value of stock options that vested during the years December 31, 2007 and 2006 was $402,770 and $685,008, respectively. The aggregate intrinsic value of options outstanding, options vested and expected to vest, and options exercisable as of December 31, 2007 was nil, nil, and nil respectively. All of the options outstanding had exercise prices greater than the market price on December 31, 2007. The intrinsic value is calculated as the difference between the market price on exercise date and the exercise price of the shares. The closing market price as of December 31, 2007 was $0.40 as reported on the OTC Bulletin Board.

A summary of the status of the Company's non-vested options as of December 31, 2007, is as follows:

Non-vested Options	Number of Options	Weighted average Grant-Date Fair Value
Non-vested at January 1, 2007	4,918,909	0.2993
Granted	1,840,000	0.2036
Vested	(1,802,453)	0.2987
Cancelled	(603,832)	0.3270
Non-vested at December 31, 2007	4,352,624	0.2322

As of December 31, 2007, there was $604,010 of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the 2006 Plan and the Amended and Restated Stock Option Plan of 2000. The unrecognized compensation cost is expected to be realized over a weighted average period of 1.8 years.

Restricted Stock Awards

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

Note 14. Stock-Based Compensation (cont'd)

Compensation expense recognized for the amortization of stock-based compensation related to restricted stock was $46,269 and $352,020, respectively for the fiscal years ended December 31, 2007, and 2006.

Note 15. Geographic Information

As described above in Note 2, the Company primarily markets its products and services to two different sales verticals. However, management has determined that the Company operates as one business segment which focuses on the development, sale and marketing of wireless application software. The Company currently maintains development, sales and marketing operations in the United States and Canada. The following table shows revenues by geographic segment for the fiscal years ended December 31, 2007 and 2006:

	Twelve months ended December 31,	
Revenue	2007	2006
North America	$ 926,622	$ 310,958
South America	–	8,783
Europe	54,027	78,393
Total	$ 980,649	$ 398,134

Revenue by geographic segment is determined based on the location of our customers. For the fiscal years ended December 31, 2007 and 2006, sales to customers in North America accounted for 94% and 78% of total revenues respectively; while sales outside North America accounted for 6% and 22% of total revenue respectively.

Property and Equipment	2007	2006
United States	$ 101,247	$ 49,804
Canada	60,510	32,994
Total	$ 161,757	$ 82,798

Property and equipment includes only assets held for use, and is reported by geographic segment based on the physical location of the assets as at December 31, 2007.

Note 16. Other Income and Expense

Other income and expenses include miscellaneous items such as foreign exchange gains or losses and nonrecurring transactions such as gains or losses from the revaluation of derivatives and related instruments. For the fiscal year ended December 31, 2007, other income and expense was a loss of $47,310 consisting of a loss of $5,171 related to a write off of fixed assets and an exchange loss of $42,139. Comparatively, during the fiscal year ended December 31, 2006, other income and expense was a loss of $31,883, which consisted of a gain of $614,981 relating to the reclassification of the Series B Warrants, which were issued in June 2005 private placement financing, from a liability to equity as of the registration statement effective date in the second quarter of 2006, in accordance with the provisions of EITF 00-19, a gain arising from the adjustment of other taxes in the amount of $12,164, a foreign exchange loss of $61,376 and a loss related to the write off of in-process purchased technology in the amount of $597,652.

26,760,742 SHARES

COMMON STOCK

SONA MOBILE HOLDINGS CORP.

_____

PROSPECTUS

_____

_____, 200

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 and officers against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with specified actions, suits or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation — a "derivative action"), if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses (including attorneys' fees) incurred in connection with the defense or settlement of such actions, and the statute requires court approval before there can be any indemnification in which the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's charter, bylaws, disinterested director vote, stockholder vote, agreement or otherwise.

Our Certificate of Incorporation also provides that a director will not be personally liable to us or to our stockholders for monetary damages for breach of the fiduciary duty of care as a 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 or dividends or unlawful stock repurchases or redemptions); or
- for any improper benefit.

We have indemnity agreements with two of our directors which allow for certain procedural protections.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons pursuant to our Certificate of Incorporation, Bylaws and the Delaware General Corporation Law, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy and is, 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. Other than the SEC registration fee all of such fees expenses are estimated.

Registration fee	$ 2,198.00
Printing expenses	15,000.00
Accounting fees and expenses	10,000.00
Legal fees and expenses	65,000.00
Miscellaneous	5,000.00

Total	$97,198.00

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 Convertible Preferred Stock, par value $.01 per share; 539,733 shares were issued to the former shareholders of Sona Mobile and 28,407 were issued to Sona Mobile's financial advisor in connection with the Merger. These shares are convertible into 27,334,165 shares of our common stock. In issuing the shares of the Series A Preferred Stock, we relied on Section 4(2) of the Securities Act.

In April 2005 we agreed to issue 150,000 shares of common stock to Wachtel & Masyr LLP, our former counsel, in full payment for legal services. The shares were actually issued in June 2005. In issuing these shares of common stock, we relied on Section 4(2) of the Securities Act. We believe that Section 4(2) was available because the issuance did not involve a public 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 Convertible Preferred Stock and warrants to 10 accredited investors. The investors purchased an aggregate of 3,848.7 shares of the Series B Preferred Stock, convertible into 3,848,700 shares of our common stock, and warrants to purchase an aggregate of 962,175 shares of our common stock at an exercise price of $1.92969 (as adjusted) per share at any time up until June 20, 2009. The sale of the Series B Preferred Stock and the Warrants were made pursuant to an exemption from securities registration afforded by the provisions of Section 4(2) and Rule 506 of Regulation D as promulgated by the Commission under the Securities Act. We believe that Section 4(2) was available because the issuance did not involve a public offering and there was not general solicitation or general advertising involved in the offer or sale.

In January 2006, we sold 2,307,693 shares of our common stock to Shuffle Master for $3.0 million and issued an 18-month warrant to purchase 1,200,000 shares of our common stock to Shuffle Master. This warrant had an exercise price of $2.025 per share and expired on July 12, 2007 without being exercised. The sale of these shares and the issuance of this warrant were in connection with a strategic alliance distribution and licensing agreement between us and Shuffle Master and was made pursuant to an exemption from securities registration afforded by Section 4(2) of the Securities Act.

On July 7, 2006 we sold 16,943,323 shares of our common stock and 8,471,657 warrants to purchase shares of our common stock to 34 accredited investors for an aggregate purchase price of approximately $10.1 million. The warrants have a five-year term, expiring on July 7, 2011, and an exercise price of $0.83 per share, subject to adjustment in certain circumstances, including the failure by the Company to achieve certain financial targets. The warrants include a cashless exercise feature under certain circumstances when there is not an effective registration statement available for the resale of the shares of common stock issuable upon exercise of the warrants. The sale of these shares and the issuance of the warrants were made pursuant to an exemption from securities registration afforded by Section 4(2) and Rule 506 of Regulation D.

On November 28, 2007, we sold our 8% senior unsecured convertible debentures due 2010 in the aggregate principal amount of $3.0 million and warrants to purchase 3,333,333 shares of our common stock to accredited investors for an aggregate purchase price of $3.0 million. The debentures bear interest at a rate of 8% per annum, payable quarterly on January 1, April 1, July 1 and October 1 in cash or shares of common stock, or combination thereof. The debentures mature November 28, 2010 and are convertible into shares of common stock at an initial conversion price of $0.45 per share, subject to adjustment in certain circumstances. The warrants have a five-year term, expiring on November 28, 2012, and an exercise price of $0.50 per share, subject to adjustment in certain circumstances. The warrants are exercisable for cash or, at certain times, cashless exercise.

All of the above offerings and sales were deemed by the Company to be exempt under Section 4(2) of the Securities Act. We believe no advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors or directors, executive officers or advisers of our company, and transfer was restricted in accordance with the requirements of the Securities Act of 1933 (including by legending of certificates representing the securities). In addition to relying on representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment.

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 on Form 10-KSB for its fiscal year ended March 31, 2005; (iii) Certificate of Designations for Series B Preferred Stock filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 22, 2005; (iv) Appendix IV to the Company's Definitive Proxy Statement dated October 27, 2005 and filed on the same date; and (v) Appendix I to the Company's Definitive Proxy Statement dated August 22, 2007 and filed on the same date).
3.2	By-laws of the Company, as amended July 20, 2007 (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-QSB, filed August 14, 2007).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Company's Form SB-2 (file number 333-130461), filed February 2, 2006).
4.2	Form of 8% Senior Unsecured Convertible Debenture due November 28, 2010 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed November 27, 2007).
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).
10.9	Compensation Plan for Directors, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB, filed August 14, 2006).
10.10	Form of Non-Employee Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-QSB, filed August 14, 2006).
10.11	Form of Non-Employee Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-QSB, filed August 14, 2006).
10.12	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-QSB, filed August 14, 2006).

10.13	Private Label Partner Agreement, dated as of September 1, 2006, between the Company and Motorola, Inc., formerly Symbol Technologies, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K/A, filed November 1, 2006).+
10.14	2006 Incentive Plan (incorporated by reference to Appendix A of the Company's Definitive Proxy Statement, filed August 30, 2006).
10.15	Employment Agreement, dated as of August 28, 2006 between the Company and Shawn Kreloff (incorporated by reference to Exhibit 10.2 to the Company Quarterly Report on 10-QSB, filed August 14, 2006).
10.16	Amended and Restated Licensing And Distribution Agreement, effective as of February 28, 2007, among the Company, Sona Mobile, Inc. and Shuffle Master, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed March 2, 2007).
10.17	Amended and Restated Master Services Agreement, effective as of February 28, 2007, 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 March 2, 2007).+
10.18	Form of Securities Purchase Agreement dated November 26, 2007 (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, filed November 27, 2007).
10.19	Form of Registration Rights Agreement dated November 26, 2007 (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K, filed November 27, 2007).
10.20	Form of Common Stock Purchase Warrant dated November 28, 2007 (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K, filed November 27, 2007).
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 of the Company's Registration Statement on Form SB-2 (file no. 333-148254), filed on December 21, 2007).
23.1	Consent of Horwath Orenstein, LLP*
23.2	Consent of Bryan Cave LLP**
23.3	Consent of Morse, Zelnick, Rose & Lander**
24.1	Power of Attorney (included in signature page).

*Filed herewith
**Previously filed
+Portions omitted pursuant to a request for confidential treatment

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 registration statement:

(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 fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective 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-effective amendment as a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) (i) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

(ii) In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) Each prospectus filed pursuant to Rule 424(b)(§230.424(b) of this chapter) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A (§230.430A of this chapter), shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and authorized this registration statement to be signed on its behalf by the undersigned in the city of New York, state of New York, on April 1, 2008.

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 Fellows, and each of them (with full power to each of them to act alone), his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities to sign on his behalf individually and in each capacity stated below any further amendment, (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents and either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this registration statement has been signed by the following person in the capacities and on the dates set forth below.

Signature	Title	Date
/s/ SHAWN KRELOFF Shawn Kreloff	President and Chief Executive Officer, and Director (principal executive officer)	April 1, 2008
/s/ STEPHEN FELLOWS Stephen Fellows	Chief Financial Officer (principal financial officer and principal accounting officer)	April 1, 2008
/s/ M. JEFFREY BRANMAN M. Jeffrey Branman	Director	April 1, 2008
/s/ ROBERT P. LEVY	Director	April 1, 2008

Robert P. Levy