CLECO CORP
Form S-3ASR
December 01, 2010

As filed with the Securities and Exchange Commission on November 30, 2010
Registration No. 333-162772

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

POST-EFFECTIVE AMENDMENT NO. 1
TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CLECO CORPORATION
(Exact name of registrant as specified in its charter)

Louisiana (State or other jurisdiction of incorporation or organization)	72-1445282 (I.R.S. Employer Identification No.)
2030 Donahue Ferry Road Pineville, Louisiana 71360-5226 (318) 484-7400 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)	Wade A. Hoefling Senior Vice President — General Counsel and Director of Regulatory Compliance 2030 Donahue Ferry Road Pineville, Louisiana 71360-5226 (318) 484-7400 (Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
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910 Louisiana
One Shell Plaza
Houston, Texas 77002-4995
(713) 229-1234

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price(1)(2)(3)	Amount of Registration Fee
Debt Securities				
Common Stock, par value $1 per share				
Total	$500,000,000	100%	$500,000,000	$31,000(4)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act and exclusive of accrued interest and dividends, if any.

(2) In no event will the aggregate initial offering price of all securities issued from time to time by the Registrant pursuant to this Registration Statement, as calculated pursuant to Rule 457, exceed $500,000,000 or the equivalent thereof in foreign currencies, foreign currency units or composite currencies. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate initial offering price of up to $500,000,000 or the equivalent thereof in foreign currencies, foreign currency units or composite currencies, less the dollar amount of any securities previously issued hereunder.

(3) Pursuant to Rule 416, there is also being registered such indeterminate amount of securities as may from time to time be issuable as a result of stock splits or stock dividends.

(4) In connection with its Registration Statement on Form S-3 (Registration No. 333-162772) that was filed with the Securities and Exchange Commission on October 30, 2009, Cleco Corporation previously paid a registration fee of $16,740 for a proposed maximum aggregate offering price of $300,000,000, at the then-current filing fee of $55.80 per $1,000,000. The additional $200,000,000 proposed aggregate offering price registered via this Post-Effective Amendment No. 1 is being registered at the filing fee of $71.30 per $1,000,000, resulting in a registration fee of $14,260. The $31,000 registration fee includes both the previously paid $16,740 registration fee and the $14,260 registration fee to file this Post-Effective Amendment No. 1.

Prospectus

$500,000,000

CLECO CORPORATION

Senior Debt Securities
Subordinated Debt Securities
Common Stock

Cleco Corporation
2030 Donahue Ferry Road
Pineville, Louisiana 71360-5226
(318) 484-7400

We may offer and sell up to $500,000,000 of our senior debt securities, subordinated debt securities and common stock in one or more series by using this prospectus. We will establish the terms for our securities at the time we sell them and we will describe them in one or more supplements to this prospectus. Our debt securities may be convertible into or exchangeable for shares of our common stock. You should read this prospectus and the related supplement carefully before you invest in our securities. This prospectus may not be used to offer and sell our securities unless accompanied by a prospectus supplement.

Investing in our securities involves risks. See "Risk Factors" beginning on page 7.

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

The date of this prospectus is November 30, 2010.

Table of Contents

About This Prospectus	2
Cautionary Statement Regarding Forward-Looking Statements	3
Cleco Corporation	6
Ratio of Earnings to Fixed Charges	6
Risk Factors	7
Use of Proceeds	15
Description of the Debt Securities	16
Description of Common Stock	24
Plan of Distribution	28
Where You Can Find More Information	30
Validity of Securities	31
Experts	31

About This Prospectus

This prospectus is part of a registration statement we have filed with the Securities and Exchange Commission using a "shelf" registration process. By using this process, we may offer up to $500,000,000 of our securities in one or more offerings. This prospectus provides you with a description of the securities we may offer. Each time we offer securities, we will provide a supplement to this prospectus. The prospectus supplement will describe the specific terms of the offering. The prospectus supplement may also add, update or change the information contained in this prospectus. Please carefully read this prospectus, the applicable prospectus supplement and the information contained in the documents we refer to in the "Where You Can Find More Information" section of this prospectus.

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus and the applicable prospectus supplement to our company include our subsidiaries.

You should rely only on the information contained or incorporated by reference in this prospectus and any accompanying prospectus supplement. We have not authorized anyone else to provide you with any additional or different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is current only as of the date of this prospectus, and any information incorporated by reference is current only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since those dates.

Cautionary Statement Regarding Forward-Looking Statements

This prospectus, including the information we incorporate by reference, includes "forward-looking statements" about future events, circumstances, and results. All statements other than statements of historical fact included in or incorporated by reference in this prospectus are forward-looking statements, including, without limitation, statements regarding Madison Unit 3; Cleco Power LLC's ("Cleco Power") 600 megawatt solid-fuel power plant in Boyce, Louisiana; J.P. Morgan Ventures Energy Corporation's performance under the Cleco Evangeline LLC ("Cleco Evangeline") tolling agreement; future capital expenditures; projections, including with respect to base revenue; business strategies; goals, beliefs, plans and objectives; market developments; development and operation of facilities; future environmental regulations and remediation liabilities; and the anticipated outcome of various regulatory and legal proceedings. Generally, you can identify our forward-looking statements by the words "anticipate," "estimate," "expect," "objective," "projection," "forecast," "goal" or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

In addition to any assumptions and other factors referred to specifically in connection with our forward-looking statements, the following list identifies some of the factors that could cause our actual results to differ materially from those expressed or implied by any of our forward-looking statements:

- factors affecting utility operations, such as unusual weather conditions or other natural phenomena; catastrophic weather-related damage (such as hurricanes and other storms); unscheduled generation outages; unanticipated maintenance or repairs; unanticipated changes to fuel costs; cost of and reliance on natural gas as a component of our generation fuel mix and their impact on competition and franchises, fuel supply costs or availability constraints due to higher demand, shortages, transportation problems or other developments; decreased customer load; environmental incidents; environmental compliance costs; or power transmission system constraints;

- our holding company structure and our dependence on the earnings, dividends, or distributions from our subsidiaries to meet our debt obligations and pay dividends on our common stock;

- Cleco Power's ability to operate and maintain, within its projected costs, any self-build projects identified in future integrated resource planning and request for proposal processes and its participation in any government grants;

- dependence of Cleco Power on energy from sources other than its facilities and the uncertainty of future sources of such additional energy;

- nonperformance by and creditworthiness of counterparties under tolling, power purchase, and energy service agreements, or the restructuring of those agreements, including possible termination;

- regulatory factors such as changes in rate-setting policies, recovery of investments made under traditional regulation, recovery of storm restoration costs, the frequency and timing of rate increases or decreases, the results of periodic North American Electric Reliability Corporation audits and fuel audits, the formation of independent coordinators of transmission, and the compliance with the Electric Reliability Organization's reliability standards for bulk power systems by Cleco Power, Acadia Power Partners, LLC ("Acadia Power Partners") and Cleco Evangeline;

- financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Public Company Accounting Oversight Board, the Federal Energy Regulatory Commission, the Louisiana Public Service Commission or similar entities with regulatory or accounting oversight;

- economic conditions, including the ability of customers to continue paying for utility bills, related growth and/or downsizing of businesses in our service area, monetary fluctuations, changes in commodity prices, and inflation rates;
- the current global and U.S. economic environment;
- credit ratings of us and Cleco Power;
- ability to remain in compliance with debt covenants;
- changing market conditions and a variety of other factors associated with physical energy, financial transactions, and energy service activities, including, but not limited to, price, basis, credit, liquidity, volatility, capacity, transmission, interest rates, and warranty risks;
- the availability and use of alternative sources of energy and technologies;
- impact of the imposition of energy efficiency requirements or of increased conservation efforts of customers;
- reliability of all Cleco Power and Cleco Midstream LLC generating facilities, particularly Madison Unit 3 during its first year of commercial operations;
- acts of terrorism or other man-made disasters;
- availability or cost of capital resulting from changes in our business or financial condition, interest rates or market perceptions of the electric utility industry and energy-related industries;
- uncertain tax positions;
- employee work force factors, including work stoppages and changes in key executives;
- legal, environmental, and regulatory delays and other obstacles associated with mergers, acquisitions, reorganizations, investments in joint ventures, or other capital projects, including the joint project to upgrade the Acadiana Load Pocket transmission system, Entergy Louisiana’s acquisition of Acadia Unit 2 at the Acadia Power Station, the Teche Blackstart Project, and the advanced metering infrastructure project;
- costs and other effects of legal and administrative proceedings, settlements, investigations, claims, and other matters;
- changes in federal, state, or local laws, and changes in tax laws or rates, or regulating policies;
- the impact of current or future environmental laws and regulations, including those related to greenhouse gases and energy efficiency, which could limit, or terminate, the operation of certain generating units, increase costs, reduce customer demand for electricity or otherwise materially adversely impact our financial condition or results of operations;
- the ability of Cleco Power to recover, from its retail customers, the costs of compliance with environmental laws and regulations;

- the ability of the Dolet Hills lignite reserve to provide sufficient fuel to the Dolet Hills Power Station until at least 2026; and

- other factors we discuss in this prospectus, any accompanying prospectus supplement and our other filings with the Securities and Exchange Commission.

We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions, or other factors affecting such statements.

Cleco Corporation

We are a regional energy services holding company that conducts substantially all of our business operations through our two primary subsidiaries:

- Cleco Power LLC, an integrated electric utility services company regulated by the Louisiana Public Service Commission and the Federal Energy Regulatory Commission, which determine the rates it can charge its customers, as well as other regulators. Cleco Power serves approximately 276,000 customers in 107 communities in central and southeastern Louisiana; and

- Cleco Midstream LLC, a merchant energy company regulated by the Federal Energy Regulatory Commission, which owns and operates a 755 MW, combined cycle, natural gas-fired merchant power plant located in Evangeline Parish, Louisiana (Coughlin Power Station). Cleco Midstream LLC also currently has a 50% indirect ownership interest in a 580 MW, combined cycle, natural gas-fired merchant power plant (Acadia Unit 2) located at the Acadia Power Station near Eunice, Louisiana.

Subject to certain limited exceptions, we are exempt from regulation as a public utility holding company pursuant to provisions of the Public Utility Holding Company Act of 2005.

Our principal executive offices are located at 2030 Donahue Ferry Road, Pineville, Louisiana 71360-5226, and our telephone number at this address is (318) 484-7400. Our homepage on the Internet is located at http://www.cleco.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the Securities and Exchange Commission are available, free of charge, through our web site, as soon as reasonably practicable after those reports or filings are electronically filed with or furnished to the Securities and Exchange Commission. Information on our web site or any other web site is not incorporated by reference into this prospectus or any accompanying prospectus supplement and does not constitute a part of this prospectus or any accompanying prospectus supplement. For additional information regarding reports and other information we file with or furnish to the Securities and Exchange Commission and obtaining other information about us, please read “Where You Can Find More Information” beginning on page 30 of this prospectus.

Ratio of Earnings to Fixed Charges

The following table sets forth, in accordance with Securities and Exchange Commission requirements, our ratio of earnings from continuing operations to fixed charges for each of the periods indicated:

	Nine Months Ended September 30,	Year Ended December 31,				
	2010	2009	2008	2007	2006	2005
Ratio of Earnings from Continuing Operations to Fixed Charges(1)	5.15x	2.71x	2.81x	3.68x	3.59x	6.31x

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(1) We do not believe that the ratio for the nine-month period is necessarily indicative of the ratios for the twelve-month periods due to the seasonal nature of our business. The ratios were calculated pursuant to applicable

rules of the Securities and Exchange Commission.

For the purpose of calculating the ratio of earnings to fixed charges, earnings represent the aggregate of income from continuing operations before income taxes, income or loss from equity investees, distributed income to equity investees and fixed charges. Fixed charges, include interest expensed, amortized premiums or discounts on capitalized expenses related to indebtedness, an estimate of the interest within rental expense and preferred stock dividends.

Risk Factors

Investing in our securities involves risk. You should carefully consider all of the information included or incorporated by reference in this prospectus and any accompanying prospectus supplement before deciding whether to make an investment in our securities. In particular, you should carefully consider the risks described below and in our annual report, quarterly reports and current reports incorporated by reference in this prospectus as well as the factors listed under "Cautionary Statement Regarding Forward-Looking Statements." There may be additional risks that are not currently known to us or that we do not currently consider material. These risks and uncertainties could have an adverse effect on our business, including, depending on the circumstances, our results of operations and financial condition, or could adversely affect the value of our securities.

Business Risks

The global economic downturn may negatively impact our business and financial condition.

The current economic downturn may have an impact on our business and financial condition. Our ability to access the capital markets may be severely restricted at a time when we would like, or need, to do so, which could have a material adverse impact on our ability to fund capital expenditures or debt service, or on our flexibility to react to changing economic and business conditions. If our or Cleco Power's credit ratings were to be downgraded by Moody's or by Standard & Poor's, we or Cleco Power, as the case may be, would be required to pay additional fees and higher interest rates under our respective bank credit and other debt agreements. Our pension plan portfolio has experienced significant volatility due to market conditions and may experience material losses in the future. The losses, in conjunction with plan funding requirements, could result in required pension plan contributions significantly higher and earlier than previously anticipated, which could have a material adverse impact on our results of operations, financial condition, and cash flows. Further, the current economic downturn could have a material adverse impact on our lenders or our customers, causing them to fail to meet their obligations to us or to delay payment of such obligations. Additionally, the current economic downturn could lead to reduced electricity usage, which could have a material adverse impact on our results of operations and financial condition.

Cleco Power's future electricity sales and corresponding base revenue and cash flows could be adversely affected by general economic conditions.

General market conditions can negatively impact the businesses of Cleco Power's industrial customers, resulting in decreased power purchases and lower base revenue. The current U. S. recession has led to reduced power usage by Cleco Power's industrial customers. Industrial kilowatt hours sales in 2009 were down 23% from 2008 levels. Lower sales to industrial customers were largely the result of decreased production at one of Cleco Power's large industrial customers and a large customer beginning to cogenerate a portion of its electricity requirements. Cleco Power's largest industrial customers, specifically those who manufacture wood and paper products (who generated $21.7 million in base revenue in 2009), have experienced a downturn in their respective markets. The paper industry has been vulnerable in recent years due to decreasing demand for the product, and the downturn in residential home construction has also caused a significant reduction in the demand and prices for lumber and other wood products. Reduced production or the shut down of any of these customers' facilities could substantially reduce Cleco Power's base revenue. For example, in 2009 a paper manufacturer announced the closing of a plant in Cleco Power's service territory, which is expected to decrease 2010 base revenue by $2.3 million from 2009 levels.

Future electricity sales could be impacted by industrial customers switching to alternative sources of energy, including on-site power generation, and retail customers consuming less electricity due to increased conservation efforts or increased electric usage efficiency.

The Louisiana Public Service Commission conducts fuel audits that could result in Cleco Power making substantial refunds of previously recorded revenue.

Generally, fuel and purchased power expenses are recovered through the Louisiana Public Service Commission-established fuel adjustment clause, which enables Cleco Power to pass on to its customers substantially

all such charges. Recovery of fuel adjustment clause costs is subject to a periodic fuel audit by the Louisiana Public Service Commission. The Louisiana Public Service Commission Fuel Adjustment Clause General Order issued November 6, 1997, in Docket No. U-21497 provides that an audit will be performed not less than every other year.

Cleco Power currently has fuel adjustment clause filings for 2003 through 2008 subject to audit. In July 2006, the Louisiana Public Service Commission informed Cleco Power that it was planning to conduct a periodic fuel audit that included fuel adjustment clause filings for January 2003 through December 2004. In March 2009, the Louisiana Public Service Commission indicated its intent to proceed with the audit for the years 2003 through 2008. The total amount of fuel expenses included in the audit is approximately $3.2 billion. Cleco Power has responded to four sets of data requests from the Louisiana Public Service Commission. These responses are currently under review by the Louisiana Public Service Commission. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of these audits, and such refund could result in a material adverse effect on our results of operations, financial condition, and cash flows. The most recent audit completed by the Louisiana Public Service Commission covered 2001 and 2002 and resulted in a refund of $16.0 million to Cleco Power's retail customers in the first quarter of 2005.

Cleco Power is subject to market risk associated with economic hedges relating to open natural gas contracts. Cleco has risk management policies which cannot eliminate all risk involved in its energy commodity activities.

Cleco Power utilizes economic hedges to mitigate the risks associated with a fixed-price wholesale power contract that is not included in Cleco Power's fuel adjustment clause. Any realized gain or loss attributable to these hedges is recorded on the income statement as a component of operating revenue, net. Accordingly, changes in the market value of these hedging arrangements caused by natural gas price volatility will impact our results of operations, financial condition, and cash flows.

Cleco Power also has entered into economic hedge positions to mitigate the volatility in fuel costs passed through to its retail customers. When these positions close, actual gains or losses are deferred and included in the fuel adjustment clause in the month the physical contract settles. However, recovery of any of these fuel adjustment clause costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the Louisiana Public Service Commission.

Cleco Power manages its exposure to energy commodity activities by establishing and enforcing risk limits and risk management procedures. These risk limits and risk management procedures may not be as effective as planned, particularly if intentional misconduct is involved, and cannot eliminate all risk associated with these activities.

Transmission constraints could have a material adverse effect on our results of operations, financial condition, and cash flows.

Because of Cleco Power's location on the transmission grid, Cleco Power relies on two main suppliers of electric transmission when accessing external power markets. At times, physical constraints limit the amount of purchased power these transmission providers can deliver into Cleco Power's service territory, which in turn can affect capacity or power purchases under long-term contracts, as well as spot market power purchases. If the amount of purchased power actually delivered into Cleco Power's transmission system were less than the amount of power contracted for delivery, Cleco Power may rely on its own generation facilities to meet customer demand. Cleco Power's incremental generation cost at that time could be higher than the cost to purchase power from the wholesale power market, thereby increasing its customers' ultimate cost. In addition, the Louisiana Public Service Commission may not allow Cleco Power to recover part or all of its incremental generation cost, which could be substantial.

Cleco Power is subject to the fluctuation in the market prices of various commodities which may increase the cost of producing power.

Cleco Power purchases coal, lignite, natural gas, petroleum coke and fuel oil under long-term contracts and on the spot market. Historically, the markets for oil, natural gas, petroleum coke and coal have been volatile and are

likely to remain volatile in the future. Cleco Power's retail rates include a fuel adjustment clause that enables it to adjust rates for monthly fluctuations in the cost of fuel and purchased power. However, recovery of any of these fuel adjustment clause costs is subject to, and may be disallowed as part of, a prudency review or a periodic fuel audit conducted by the Louisiana Public Service Commission.

Cleco Power's generation facilities are susceptible to unplanned outages, significant maintenance requirements and interruption of fuel deliveries.

The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel supply interruption and performance below expected levels of output or efficiency. Some of Cleco Power's facilities were originally constructed many years ago. Older equipment, even if maintained in accordance with good engineering practices, may require significant expenditures to operate at peak efficiency or availability, or in compliance with its environmental permits.

If Cleco Power fails to make adequate expenditures for equipment maintenance, Cleco Power risks incurring more frequent unplanned outages, higher than anticipated operating and maintenance expenditures, increased fuel or power purchase costs and potentially the loss of revenue related to competitive opportunities. Newer equipment, such as that installed at Madison Unit 3, can be subject to startup issues, such as failures due to immaturity of control equipment safeguards and experience with operating under forced outage conditions. Equipment manufacturer warranty coverage will be subject to proof of Cleco Power's proper operation of the equipment.

Cleco Power's generating facilities are fueled primarily by coal, natural gas, petroleum coke and lignite. The deliverability of these fuel sources may be constrained due to such factors as higher demand, production shortages, weather-related disturbances or lack of transportation capacity. If the suppliers are unable to deliver the contracted volume of fuel, Cleco Power would have to replace any deficiency with alternative sources, which may not be as favorable and could increase the ultimate cost of fuel to customers. Fuel and purchased power expenses are recovered from customers through Cleco Power's fuel adjustment clause, which is subject to refund until either a prudency review or a periodic fuel audit is conducted by the Louisiana Public Service Commission.

Competition for access to other natural resources, particularly oil and natural gas, could negatively impact Cleco Power's ability to access its lignite reserves. Land owners may grant other parties access for oil and natural gas drilling in the same area to which Cleco Power has been granted access for lignite reserves. Placement of drilling rigs and pipelines for developing oil and gas reserves can preclude access to lignite in the same areas, making right of first access critical with respect to extracting lignite. Competition for the right of first access may need to be determined through legal processes. Additionally, Cleco Power could be liable for the impacts of other companies' activities on lands that have been mined and reclaimed by Cleco Power. Loss of access to the lignite reserves or the liability for impacts on reclaimed lands could have material adverse effects on our results of operations, financial condition, and cash flows.

In 2005, the Federal Energy Regulatory Commission's authority was expanded to include the establishment and enforcement of mandatory reliability standards on the transmission system, as well as the capacity to impose fines and civil penalties on those who fail to comply with those standards.

The Energy Policy Act of 2005 authorized the creation of an Electric Reliability Organization with authority to establish and enforce mandatory reliability standards, subject to Federal Energy Regulatory Commission approval, for users of the nation's transmission system. In July 2006, the Federal Energy Regulatory Commission named the North American Electric Reliability Corporation, or NERC, as the Electric Reliability Organization. The Federal Energy Regulatory Commission has approved numerous reliability standards developed by NERC. A final order was issued

by the Federal Energy Regulatory Commission in March 2007, and in June 2007, the Federal Energy Regulatory Commission began enforcing compliance with these standards. New standards are being developed and existing standards are continuously being modified.

As these standards continue to be adopted and modified, they may impose additional compliance requirements on Cleco Power, Acadia Power Partners and Evangeline, which may result in an increase in capital expenditures and operating expenses. Failure to comply with the reliability standards approved by the Federal

Energy Regulatory Commission can result in the imposition of material fines and civil penalties. The Southwest Power Pool, the Regional Transmission Organization for our region, completed an audit of us in April 2010. We have submitted mitigation plans to the Southwest Power Pool following the audit. We expect to have settlement discussions with the Southwest Power Pool concerning potential penalties resulting from the April 2010 audit, however, nothing has been scheduled to date. Management currently does not believe that any such settlement will result in a material adverse effect on our results of operations, financial condition, and cash flows.

Our costs of compliance with environmental laws and regulations are significant. The costs of compliance with new environmental laws and regulations, as well as the incurrence of incremental environmental liabilities, could be significant to us.

We are subject to extensive environmental oversight by federal, state and local authorities and are required to comply with numerous environmental laws and regulations related to air quality, water quality, waste management, natural resources, and health and safety. We are also required to obtain and comply with numerous governmental permits in operating our facilities. Existing environmental laws, regulations, and permits could be revised or reinterpreted, and new laws and regulations could be adopted or become applicable to us. We may incur significant capital expenditures or additional operating costs to comply with these revisions, reinterpretations, and new requirements. If we fail to comply with these revisions, reinterpretations, and requirements, we could be subject to civil or criminal liabilities and fines or may be forced to shut down or reduce productions from our facilities.

Environmental advocacy groups, states, other organizations, some government agencies and the presidential administration are focusing considerable attention on emissions from power generation facilities, including CO2 emissions, and their potential role in climate change. Future changes in environmental regulations governing power plant emissions could make some of our electric generating units uneconomical to maintain or operate. In addition, any legal obligation that would require us to substantially reduce our emissions beyond present levels could require extensive mitigation efforts and could raise uncertainty about the future viability of some fossil fuels as an energy source for new and existing electric generation facilities.

Cleco Power may request recovery from its retail customers of its costs to comply with new environmental laws and regulations. If revenue relief were to be approved by the Louisiana Public Service Commission, then Cleco Power’s retail rates could increase. If the Louisiana Public Service Commission were to deny Cleco Power’s request to recover all or part of its environmental compliance costs, there could be a material adverse effect on our results of operations, financial condition, and cash flows.

We operate in a highly regulated environment and adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on our businesses or result in significant additional costs.

Our business is subject to extensive federal, state, and local energy, environmental and other laws and regulations. The Louisiana Public Service Commission regulates our retail operations, and the Federal Energy Regulatory Commission regulates our wholesale operations. The construction, planning, and siting of our power plants and transmission lines also are subject to the jurisdiction of the Louisiana Public Service Commission and the Federal Energy Regulatory Commission. Additional regulatory authorities have jurisdiction over some of our operations and construction projects including the United States Environmental Protection Agency, the United States Bureau of Land Management, the United States Fish and Wildlife Services, the United States Department of Energy, the United States Army Corps of Engineers, the United States Department of Homeland Security, the United States Occupational Safety and Health Administration, the United States Department of Transportation, the Louisiana Department of Environmental Quality, the Louisiana Department of Health and Hospitals, the Louisiana Department of Natural Resources, the Louisiana Department of Public Safety, regional water quality boards, and various local

regulatory districts.

We must periodically apply for licenses and permits from these various regulatory authorities and abide by their respective orders. Should we be unsuccessful in obtaining necessary licenses or permits or should these regulatory authorities initiate any investigations or enforcement actions or impose penalties or disallowances on us, our business could be adversely affected. Existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to us or our facilities in a manner that may have a detrimental

effect on our business or result in significant additional costs because of our need to comply with those requirements.

The operating results of Cleco Power are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.

Weather conditions directly influence the demand for electricity, particularly kilowatt hours sales to residential customers. In Cleco Power's service territory, demand for power typically peaks during the hot summer months. As a result, Cleco Power's financial results may fluctuate on a seasonal basis. In addition, Cleco Power has sold less power, and consequently earned less income, when weather conditions were milder. Unusually mild weather in the future could have a material adverse impact on our results of operations, financial condition, and cash flows.

Severe weather, including hurricanes and winter storms, can be destructive, causing outages and property damage that can potentially result in additional expenses and lower revenue.

Cleco Power's retail electric rates and business practices are regulated by the Louisiana Public Service Commission.

Cleco Power's retail rates for residential, commercial and industrial customers and other retail sales are regulated by the Louisiana Public Service Commission, which conducts an annual review of Cleco Power's earnings and regulatory return on equity. Through 2009, Cleco Power filed annual monitoring reports with the Louisiana Public Service Commission for 12-month periods ended September 30. In 2010, the reports will be filed for 12-month periods ended June 30 and September 30. Beginning in 2011, Cleco Power will file annual monitoring reports for the 12-month period ended June 30. Cleco Power could be required to make a substantial refund of previously recorded revenue as a result of the Louisiana Public Service Commission review, and such refund could result in a material adverse effect on our results of operations, financial condition, and cash flows.

Cleco Power's wholesale electric rates and business practices are regulated by the Federal Energy Regulatory Commission.

Cleco Power's wholesale rates are regulated by the Federal Energy Regulatory Commission, which conducts a review of Cleco Power's generation market power every three years, in addition to each time generation capacity changes. If the Federal Energy Regulatory Commission determines that Cleco Power possesses generation market power in excess of certain thresholds, Cleco Power could lose the right to sell wholesale generation at market-based rates within its control area, which could result in a material adverse effect on our results of operations, financial condition, and cash flows.

Cleco Power has entered into an interest rate swap relating to its variable rate debt. The effectiveness of this contract is dependent on the ability of the counterparty to perform its obligations, and nonperformance could harm Cleco Power's results of operations, financial condition, and cash flows.

Cleco Power utilizes interest rate swaps to offset the effects of interest rate fluctuations on its variable rate debt. The effectiveness of these contracts is dependent, in part, upon the counterparties to these contracts honoring their financial obligations. If the counterparties to the interest rate swaps are unable to perform their obligations, Cleco Power would be exposed to the effect of the fluctuations of the LIBOR market on its variable rate debt and may have to pay increased interest expenses, which could have a material adverse impact on our results of operations, financial condition, and cash flows.

The Evangeline and Acadia Power Partners generation facilities are susceptible to unplanned outages, significant maintenance requirements, interruption of fuel deliveries and transmission constraints.

The operation of power generation facilities involves many risks, including breakdown or failure of equipment, fuel interruption, and performance below expected levels of output or efficiency. If adequate expenditures for equipment maintenance are not made, a facility may incur more frequent unplanned outages, higher than anticipated operating and maintenance expenditures, increased fuel costs, and potentially the loss of revenue related to competitive opportunities.

The Evangeline and Acadia Power Partners generating facilities are fueled by natural gas. The deliverability of this fuel source may be constrained due to such factors as higher demand, production shortages, weather-related disturbances or lack of transportation capacity.

Because of Acadia Power Partners' location on the transmission grid, Acadia Power Partners relies on two main suppliers of electric transmission when accessing external power markets. However, at times, physical constraints limit the amount of power these transmission providers can deliver.

The Louisiana Public Service Commission and the Federal Energy Regulatory Commission regulate the rates that Cleco Power can charge its customers.

Cleco Power's ongoing financial viability depends on its ability to recover its costs from its Louisiana Public Service Commission-jurisdictional customers in a timely manner through its Louisiana Public Service Commission-approved rates and its ability to pass through to its Federal Energy Regulatory Commission customers in rates its Federal Energy Regulatory Commission-authorized revenue requirements. Cleco Power's financial viability also depends on its ability to recover in rates an adequate return on capital, including long-term debt and equity. If Cleco Power is unable to recover any material amount of its costs in rates in a timely manner or recover an adequate return on capital, our results of operations, financial condition, and cash flows could be materially adversely affected.

Cleco Power's revenues and earnings are substantially affected by regulatory proceedings known as rate cases. During those cases, the Louisiana Public Service Commission determines Cleco Power's rate base, depreciation rates, operation and maintenance costs, and administrative and general costs that Cleco Power may recover from its retail customers through its rates. These proceedings may examine, among other things, the prudence of Cleco Power's operation and maintenance practices, level of subject expenditures, allowed rates of return, and previously incurred capital expenditures. The Louisiana Public Service Commission has the authority to disallow costs found not to have been prudently incurred. These regulatory proceedings typically involve multiple parties, including governmental bodies and officials, consumer advocacy groups, and various consumers of energy, who have differing concerns but who have the common objective of limiting rate increases or reducing rates. Rate cases generally have long timelines, which may be limited by statute. Decisions are typically subject to appeal, potentially leading to additional uncertainty.

Changes in technology may negatively impact the value of the Cleco Power, Evangeline, and Acadia Power Partners generation facilities.

A basic premise of our business is that generating electricity at central power plants achieves economies of scale and produces electricity at a relatively low price. There are alternate technologies which produce electricity, most notably fuel cells, microturbines, windmills, and photovoltaic (solar) cells. Research and development activities are ongoing to seek improvements in alternate technologies. It is possible that advances will reduce the cost of alternate methods of electricity production to a level that is equal to or below that of most central station production. Also, as new technologies are developed and become available, the quantity and pattern of electricity usage by customers could decline, with a corresponding decline in revenues derived by generators. In addition, the current presidential administration and U.S. Congress have voiced strong support for such alternative energy sources. The American Recovery and Reinvestment Act of 2009 specifically provides a total of $58.0 billion to be available for energy-related initiatives, primarily $20.0 billion in renewable energy tax credits to encourage development of wind, solar, and other renewable energy sources, and $32.0 billion for development of a "smart grid" in the United States. It is uncertain at this time to what extent these initiatives may impact our businesses, except that little impact is expected in the short term. As a result of these factors, the value of the Cleco Power, Evangeline and Acadia Power Partners generation facilities could be significantly reduced.

Man-made problems such as computer viruses or terrorism may negatively impact our operating results.

Man-made problems such as computer viruses or terrorism may disrupt our operations and harm our operating results. We operate in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite the implementation of security measures, all of our technology systems are vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and

other causes. If our technology systems were to fail and we were unable to recover in a timely way, we would be unable to fulfill critical business functions, which could have a material adverse effect on our business, operating results, financial condition, and cash flows. In addition, the Cleco Power, Evangeline, and Acadia Power Partners generation plants, fuel storage facilities, transmission and distribution facilities may be targets of terrorist activities that could disrupt our ability to produce or distribute some portion of their energy products. Any such disruption could result in a material decrease in revenues and significant additional costs to repair and insure our assets, which could have a material adverse effect on our business, operating results, financial condition, and cash flows. The continued threat of terrorism and heightened security and military action in response to this threat, or any future acts of terrorism, may cause further disruptions to the economies of the United States and other countries and create further uncertainties or otherwise materially harm our business, operating results, financial condition, and cash flows.

We may see increased costs arising from health care reform.

In March 2010, Congress passed, and the President signed, the Patient Protection and Affordable Care Act. This law may have a significant impact on health care providers, insurers and others associated with the health care industry. We are currently evaluating the impact of this comprehensive law on our business. Federal and state governments may propose other health care initiatives and revisions to the health care and health insurance systems. It is uncertain what legislative programs, if any, will be adopted in the future, or what action Congress or state legislatures may take regarding other health care reform proposals or legislation.

Offering Risks

We are a holding company, and our ability to meet our debt obligations and pay dividends on our common stock is dependent on the cash generated by our subsidiaries.

We are a holding company and conduct our operations primarily through our subsidiaries. Substantially all of our consolidated assets are held by our subsidiaries. Accordingly, our ability to meet our debt obligations and to pay dividends on our common stock is largely dependent upon the cash generated by these subsidiaries. Our subsidiaries are separate and distinct entities and have no obligation to pay any amounts due on our debt or to make any funds available for such payment. In addition, our subsidiaries' ability to make dividend payments or other distributions to us may be restricted by their obligations to holders of their outstanding securities and to other general business creditors. Moreover, Cleco Power, our principal subsidiary, is subject to regulation by the Louisiana Public Service Commission, which may impose limits on the amount of dividends that Cleco Power may pay us.

You assume the risk that the market value of our common stock may decline.

In the past few years, the stock market has experienced significant price and trading volume fluctuations, and the market prices of companies in our industry have been particularly volatile. It is impossible to predict whether the price of our common stock will rise or fall. Trading prices of our common stock will be influenced by our operating results and prospects and by economic, financial and other factors. In addition, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, and sales of substantial amounts of common stock by us in the market after any offering of common stock offered by this prospectus and the accompanying prospectus supplement, or the perception that such sales could occur, could adversely affect the price of our common stock.

Provisions of Louisiana law and of our amended and restated articles of incorporation and bylaws could restrict the acquisition of us, the acquisition of control or the removal of our incumbent officers and directors and could affect the market price of our common stock.

Some provisions of Louisiana law and our amended and restated articles of incorporation and bylaws could make an acquisition of us by means of a tender offer, an acquisition of control of us by means of a proxy contest or otherwise or removal of our incumbent officers and directors more difficult. In addition, we have a classified board of directors, our amended and restated articles of incorporation require a supermajority vote for the sale, lease or

disposition of all or any of our assets and Louisiana law and our bylaws require board and supermajority shareholder approval of mergers, consolidations or share exchanges with an interested shareholder. These provisions could delay or prevent an acquisition of us that an investor might consider to be in his or her best interest, including attempts that might result in a premium over the market price for our common stock. Please read “Description of Common Stock — Anti-Takeover Provisions” for a more detailed discussion of these provisions.

A downgrade in our or Cleco Power’s credit rating could result in an increase in their respective borrowing costs and a reduced pool of potential investors and funding sources.

While our and Cleco Power’s senior unsecured debt ratings are currently investment grade, in recent years such ratings have been downgraded or put on negative watch by Moody’s and Standard & Poor’s. We cannot assure that such current debt ratings will remain in effect for any given period of time or that one or more of such debt ratings will not be lowered or withdrawn entirely by a rating agency. Credit ratings are not recommendations to buy, sell, or hold securities and each rating should be evaluated independently of any other rating. If Moody’s or Standard & Poor’s were to downgrade our or Cleco Power’s long-term ratings, particularly below investment grade, the value of our debt securities would likely be adversely affected, and our borrowing cost would likely increase. In addition, we would likely be required to pay higher interest rates in future debt financings and be subject to more onerous debt covenants, and our pool of potential investors and funding sources could decrease.

Use of Proceeds

Unless we inform you otherwise in the prospectus supplement, we anticipate using net proceeds from the sale of the securities offered by this prospectus for general corporate purposes. The purposes may include, but are not limited to:

- working capital;
- capital expenditures;
- equity investments in existing and future projects;
- acquisitions; and
- the repayment or refinancing of our indebtedness or indebtedness of our subsidiaries.

Description of the Debt Securities

Our debt securities covered by this prospectus will be our general unsecured obligations. Our debt securities may be convertible into or exchangeable for shares of our common stock. We may issue senior debt securities on a senior unsecured basis under one or more separate indentures between us and a trustee that we will name in the applicable prospectus supplement. We refer to any such indenture as the senior indenture. We may issue subordinated debt securities under one or more separate indentures between us and a trustee that we will name in the applicable prospectus supplement. We refer to any such indenture as a subordinated indenture. We refer to the senior indentures and the subordinated indentures collectively as the indentures. The indentures will be substantially identical, except for provisions relating to subordination. The senior debt securities will constitute senior debt and will rank equally with all of our unsecured and unsubordinated debt. The subordinated debt securities will be subordinated to, and thus have a junior position to, our senior debt (as defined with respect to the series of subordinated debt securities) and may rank equally with or senior or junior to our other subordinated debt that may be outstanding from time to time.

We have summarized material provisions of the indentures and the debt securities below. This summary is not complete. We have filed the form of senior indenture and the form of subordinated indenture with the Securities and Exchange Commission as exhibits to the registration statement, and you should read the indentures for provisions that may be important to you. Please read “Where You Can Find More Information.”

In this summary description of the debt securities, unless we state otherwise or the context clearly indicates otherwise, all references to “us” or “we” mean Cleco Corporation only.

Provisions Applicable to Each Indenture

General. The indentures do not limit the amount of debt securities that may be issued under that indenture, and do not limit the amount of other unsecured debt securities that we may issue. We may issue debt securities under the indentures from time to time in one or more series, each in an amount authorized prior to issuance. The indentures also give us the ability to reopen a previous issue of a series of debt securities and issue additional debt securities of that series.

As of September 30, 2010, we had $150.0 million of unsecured and unsubordinated debt outstanding. Both the senior debt securities and the subordinated debt securities will be effectively subordinated to creditors of our subsidiaries. As of September 30, 2010, our subsidiaries had an aggregate of $1.2 billion of indebtedness. The indebtedness of our subsidiaries, with respect to the assets and operations of such subsidiaries, is effectively senior to both the senior debt securities and the subordinated debt securities.

Since we are a holding company, our ability to pay debt service on our debt securities is dependent upon the cash flows of our subsidiaries and the ability of our subsidiaries to pay dividends and make debt service payments to us. Certain of our subsidiaries have contractual restrictions on the amount of dividends that they may pay us. In addition, Cleco Power, our largest subsidiary, is subject to regulation by the Louisiana Public Service Commission, which may impose limits on the amount of dividends that Cleco Power may pay us.

Unless we inform you otherwise in the applicable prospectus supplement, the indentures do not contain any covenants or other provisions designed to protect holders of the debt securities in the event we participate in a highly leveraged transaction or upon a change of control. The indentures also do not contain provisions that give holders the right to require us to repurchase their debt securities in the event of a decline in our credit ratings for any reason, including as a result of a takeover, recapitalization or similar restructuring or otherwise.

Terms. The prospectus supplement relating to any series of debt securities being offered will include specific terms relating to the offering. These terms will include some or all of the following:

- whether the debt securities will be senior or subordinated debt securities;
- the title of the debt securities;

- the total principal amount of the debt securities;
- whether the debt securities will be issued in individual certificates to each holder or in the form of temporary or permanent global debt securities held by a depositary on behalf of holders;
- the date or dates on which the principal of and any premium on the debt securities will be payable;
- any interest rate, the date from which interest will accrue, interest payment dates and record dates for interest payments;
- any right to extend or defer the interest payment periods and the duration of the extension;
- whether and under what circumstances any additional amounts with respect to the debt securities will be payable;
- the place or places where payments on the debt securities will be payable;
- any provisions for optional redemption or early repayment;
- any right to convert or exchange the debt securities into shares of our common stock;
- any sinking fund or other provisions that would require the redemption, purchase or repayment of debt securities;
- the denominations in which the debt securities will be issued, if other than denominations of $1,000 and integral multiples thereof;
- whether payments on the debt securities will be payable in foreign currency or currency units or another form and whether payments will be payable by reference to any index or formula;
- the portion of the principal amount of debt securities that will be payable if the maturity is accelerated, if other than the entire principal amount;
- any additional means of defeasance of the debt securities, any additional conditions or limitations to defeasance of the debt securities or any changes to those conditions or limitations;
- any changes or additions to the events of default or covenants described in this prospectus;
- any restrictions or other provisions relating to the transfer or exchange of debt securities;
- any terms for the conversion or exchange of the debt securities for other securities of ours or any other entity;
- with respect to any subordinated indenture, any changes to the subordination provisions for the subordinated debt securities; and
- any other terms of the debt securities not prohibited by the applicable indenture.

We may sell the debt securities at a discount, which may be substantial, below their stated principal amount. These debt securities may bear no interest or interest at a rate that at the time of issuance is below market rates. If we sell these debt securities, we will describe in the prospectus supplement any material United States federal income tax consequences and other special considerations.

If we sell any of the debt securities for any foreign currency or currency unit or if payments on the debt securities are payable in any foreign currency or currency unit, we will describe in the prospectus supplement the restrictions, elections, tax consequences, specific terms and other information relating to those debt securities and the foreign currency or currency unit.

Consolidation, Merger and Sale of Assets. The indentures generally permit a consolidation or merger between us and another entity. They also permit us to sell, lease, convey, transfer or otherwise dispose of all or substantially all of our assets. We have agreed, however, that we will not consolidate with or merge into any entity or sell, lease, convey, transfer or otherwise dispose of all or substantially all of our assets to any entity unless:

- immediately after giving effect to the transaction, no default or event of default would occur and be continuing or would result from the transaction; and

- if we are not the continuing entity, the resulting entity or transferee assumes the due and punctual payments on the debt securities and the performance of our covenants and obligations under the applicable indenture and debt securities.

Upon any such consolidation or merger in which we are not the continuing entity or any such asset sale, lease, conveyance, transfer or disposition involving us, the resulting entity or transferee will be substituted for us under the applicable indenture and debt securities. In the case of an asset sale, conveyance, transfer or disposition other than a lease, we will be released from the applicable indenture.

Events of Default. Unless we inform you otherwise in the prospectus supplement, the following are events of default with respect to a series of debt securities:

- failure to pay interest when due on that series of debt securities for 30 days;

- failure to pay principal of or any premium on that series of debt securities when due;

- failure to make any sinking fund payment on that series of debt securities when required for that series for 30 days;

- failure to comply with any covenant or agreement in that series of debt securities or the applicable indenture (other than an agreement or covenant that has been included in the indenture solely for the benefit of one or more other series of debt securities) for 90 days after written notice by the trustee or by the holders of at least 25% in principal amount of the then outstanding debt securities of each series issued under that indenture that are affected by that failure;

- specified events involving our bankruptcy, insolvency or reorganization; and

- any other event of default provided for in that series of debt securities.

A default under one series of debt securities will not necessarily be a default under another series. The indentures provide that the trustee generally must mail notice of a default or event of default of which it has actual knowledge to the registered holders of the applicable debt securities within 90 days of occurrence. However, the trustee may withhold notice to the holders of the debt securities of any default or event of default (except in any payment on the debt securities) if the trustee considers it in the interest of the holders of the debt securities to do so.

If an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs, the principal of and interest on all the debt securities issued under the applicable indenture will become immediately due and payable

without any action on the part of the trustee or any holder. If any other event of default for any series of debt securities occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of the series affected by the default may declare the principal of and all accrued and unpaid interest on those debt securities immediately due and payable. The holders of a majority in principal amount

of the outstanding debt securities of the series affected by the event of default may in some cases rescind this accelerated payment requirement.

A holder of a debt security of any series issued under an indenture may pursue any remedy under that indenture only if:

- the holder gives the trustee written notice of a continuing event of default for that series;
- the holders of at least 25% in principal amount of the outstanding debt securities of that series make a written request to the trustee to pursue the remedy;
- the holders offer to the trustee indemnity satisfactory to the trustee;
- the trustee fails to act for a period of 60 days after receipt of the request and offer of indemnity; and
- during that 60-day period, the holders of a majority in principal amount of the debt securities of that series do not give the trustee a direction inconsistent with the request.

This provision does not, however, affect the right of a holder of a debt security to sue for enforcement of any overdue payment.

In most cases, holders of a majority in principal amount of the outstanding debt securities of a series may direct the time, method and place of:

- with respect to debt securities of a series, conducting any proceeding for any remedy available to the trustee and exercising any trust or power conferred on the trustee relating to or arising as a result of specified events of default; or
- with respect to all debt securities issued under the applicable indenture that are affected, conducting any proceeding for any remedy available to the trustee and exercising any trust or power conferred on the trustee relating to or arising other than as a result of such specified events of default.

The trustee, however, may refuse to follow any such direction that conflicts with law or the indentures, is unduly prejudicial to the rights of other holders of the debt securities, or would involve the trustee in personal liability. In addition, prior to acting at the direction of holders, the trustee will be entitled to be indemnified by those holders against any loss and expenses caused thereby.

The indentures require us to file each year with the trustee a written statement as to our compliance with the covenants contained in the applicable indenture.

Modification and Waiver. Each indenture may be amended or supplemented if the holders of a majority in principal amount of the outstanding debt securities of each series issued under that indenture that are affected by the amendment or supplement consent to it. Without the consent of the holder of each debt security issued under the indenture and affected, however, no modification to that indenture may:

- reduce the amount of debt securities whose holders must consent to an amendment, supplement or waiver;
- reduce the rate of or change the time for payment of interest on the debt security;

- reduce the principal of the debt security or change its stated maturity;
- reduce any premium payable on the redemption of the debt security or change the time at which the debt security may or must be redeemed;

- change any obligation to pay additional amounts on the debt security;
- make payments on the debt security payable in currency other than as originally stated in the debt security;
- impair the holder's right to institute suit for the enforcement of any payment on the debt security;
- make any change in the percentage of principal amount of debt securities necessary to waive compliance with certain provisions of the indenture or make any change in the provision related to modification;
- make any change that adversely affects the right to convert or exchange any debt security or decreases the conversion or exchange rate or increases the conversion price of any convertible or exchangeable debt security;
- with respect to the subordinated indenture, modify the provisions relating to the subordination of any subordinated debt security in a manner adverse to the holder of that security; or
- waive a continuing default or event of default regarding any payment on the debt securities.

Each indenture may be amended or supplemented or any provision of that indenture may be waived without the consent of any holders of debt securities issued under that indenture in certain circumstances, including:

- to cure any ambiguity, omission, defect or inconsistency;
- to provide for the assumption of our obligations under the indenture by a successor upon any merger or consolidation or asset sale, lease, conveyance, transfer or other disposition of all or substantially all of our assets, in each case as permitted under the indenture;
- to provide for uncertificated debt securities in addition to or in place of certificated debt securities or to provide for bearer debt securities;
- to provide any security for, any guarantees of or any additional obligors on any series of debt securities;
- to comply with any requirement to effect or maintain the qualification of that indenture under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act");
- to add covenants that would benefit the holders of any debt securities or to surrender any rights we have under the indenture;
- to add events of default with respect to any debt securities;
- to make any change that does not adversely affect any outstanding debt securities of any series issued under that indenture in any material respect; provided that any change made solely to conform the provisions of the indenture to a description of debt securities in a prospectus supplement will not be deemed to adversely affect any outstanding debt securities of that series issued in any material respect; and
- to supplement the provisions of an indenture to permit or facilitate defeasance or discharge of securities that does not adversely affect any outstanding debt securities of any series issued under that indenture in any material respect.

The holders of a majority in principal amount of the outstanding debt securities of any series may waive any existing or past default or event of default with respect to those debt securities. Those holders may not, however, waive any default or event of default in respect of any payment on any debt security or compliance with a provision that cannot be amended or supplemented without the consent of each holder affected.

Conversion. Any series of the debt securities may be convertible into or exchangeable for shares of our common stock. The terms on which any series of debt securities will be convertible into or exchangeable for shares of our common stock will be set forth in the prospectus supplement related to such debt securities.

Defeasance. When we use the term defeasance, we mean discharge from some or all of our obligations under an indenture. If any combination of funds or government securities are deposited with the trustee under an indenture sufficient to make payments on the debt securities of a series issued under that indenture on the dates those payments are due and payable, then, at our option, either of the following will occur:

- we will be discharged from our obligations with respect to the debt securities of that series ("legal defeasance"); or
- we will no longer have any obligation to comply with the consolidation, merger and sale of assets covenant and other specified covenants relating to the debt securities of that series, and the related events of default will no longer apply ("covenant defeasance").

If a series of debt securities is defeased, the holders of the debt securities of the series affected will not be entitled to the benefits of the applicable indenture, except for obligations to register the transfer or exchange of debt securities, replace stolen, lost or mutilated debt securities or maintain paying agencies and hold moneys for payment in trust. In the case of covenant defeasance, our obligation to pay principal, premium and interest on the debt securities will also survive.

Unless we inform you otherwise in the prospectus supplement, we will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance would not cause the holders of the debt securities to recognize income, gain or loss for U.S. federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the U.S. Internal Revenue Service or a change in law to that effect.

Governing Law. New York law will govern the indentures and the debt securities.

Trustee. We will name the trustee under the relevant indenture in the prospectus supplement relating to the senior debt securities or the subordinated debt securities, as the case may be.

If an event of default occurs under an indenture and is continuing, the trustee under that indenture will be required to use the degree of care and skill of a prudent person in the conduct of that person's own affairs. The trustee will become obligated to exercise any of its powers under that indenture at the request of any of the holders of any debt securities issued under that indenture only after those holders have offered the trustee indemnity satisfactory to it.

Each indenture contains limitations on the right of the trustee, if it becomes our creditor, to obtain payment of claims or to realize on certain property received for any such claim, as security or otherwise. The trustee is permitted to engage in other transactions with us. If, however, it acquires any conflicting interest, it must eliminate that conflict or resign within 90 days after ascertaining that it has a conflicting interest and after the occurrence of a default under the applicable indenture, unless the default has been cured, waived or otherwise eliminated within the 90-day period.

Form, Exchange, Registration and Transfer. The debt securities will be issued in registered form, without interest coupons. There will be no service charge for any registration of transfer or exchange of the debt securities. However,

payment of any transfer tax or similar governmental charge payable for that registration may be required.

Debt securities of any series will be exchangeable for other debt securities of the same series, the same total principal amount and the same terms but in different authorized denominations in accordance with the applicable indenture. Holders may present debt securities for registration of transfer at the office of the security registrar or any transfer agent we designate. The security registrar or transfer agent will effect the transfer or exchange if its requirements and the requirements of the applicable indenture are met.

The trustee will be appointed as security registrar for the debt securities. If a prospectus supplement refers to any transfer agents we initially designate, we may at any time rescind that designation or approve a change in the location through which any transfer agent acts. We are required to maintain an office or agency for transfers and exchanges in each place of payment. We may at any time designate additional transfer agents for any series of debt securities.

In the case of any redemption, we will not be required to register the transfer or exchange of:

- any debt security during a period beginning 15 business days prior to the mailing of any notice of redemption or mandatory offer to repurchase and ending on the close of business on the day of mailing of such notice; or
- any debt security that has been called for redemption in whole or in part, except the unredeemed portion of any debt security being redeemed in part.

Payment and Paying Agent. Unless we inform you otherwise in the prospectus supplement, payments on the debt securities will be made in U.S. dollars at the office of the trustee and any paying agent. At our option, however, payments may be made by wire transfer for global debt securities or by check mailed to the address of the person entitled to the payment as it appears in the security register. Unless we inform you otherwise in the prospectus supplement, interest payments will be made to the person in whose name the debt security is registered at the close of business on the record date for the interest payment.

Unless we inform you otherwise in the applicable prospectus supplement, the trustee under the applicable indenture will be designated as the paying agent for payments on debt securities issued under that indenture. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts.

If the principal of or any premium or interest on debt securities of a series is payable on a day that is not a business day, the payment will be made on the next succeeding business day as if made on the date that the payment was due and no interest will accrue on that payment for the period from and after the due date to the date of that payment on the next succeeding business date. For these purposes, unless we inform you otherwise in the prospectus supplement, a “business day” is any day that is not a Saturday, a Sunday or a day on which banking institutions in any of New York, New York or New Orleans, Louisiana or a place of payment on the debt securities of that series is authorized or obligated by law, regulation or executive order to remain closed.

Subject to the requirements of any applicable abandoned property laws, the trustee and paying agent will pay to us upon written request any money held by them for payments on the debt securities that remains unclaimed for two years after the date upon which that payment has become due. After payment to us, holders entitled to the money must look to us for payment. In that case, all liability of the trustee or paying agent with respect to that money will cease.

Notices. Any notice required by the indentures to be provided to holders of the debt securities will be given by mail to the registered holders at the addresses as they appear in the security register.

Replacement of Debt Securities. We will replace any debt securities that become mutilated, destroyed, stolen or lost at the expense of the holder upon delivery to the trustee of the mutilated debt securities or evidence of the loss, theft or destruction satisfactory to us and the trustee. In the case of a lost, stolen or destroyed debt security, indemnity satisfactory to the trustee and us may be required at the expense of the holder of the debt securities before a replacement debt security will be issued.

Book-Entry Debt Securities. The debt securities of a series may be issued in the form of one or more global debt securities that would be deposited with a depositary or its nominee identified in the prospectus supplement. Global debt securities may be issued in either temporary or permanent form. We will describe in the prospectus supplement the terms of any depositary arrangement and the rights and limitations of owners of beneficial interests in any global debt security.

Provisions Applicable Solely to Subordinated Debt Securities

Subordination. Under the subordinated indenture, payment of the principal of and any premium and interest on the subordinated debt securities will generally be subordinated and junior in right of payment to the prior payment in full of all Senior Debt, as described below. Unless we inform you otherwise in the prospectus supplement, we may not make any payment of principal of or any premium or interest on the subordinated debt securities if we fail to pay the principal, interest, premium or any other amounts on any Senior Debt when due.

The subordination does not affect our obligation, which is absolute and unconditional, to pay, when due, the principal of and any premium and interest on the subordinated debt securities. In addition, the subordination does not prevent the occurrence of any default under the subordinated indenture.

The subordinated indenture does not limit the amount of Senior Debt that we may incur. As a result of the subordination of the subordinated debt securities, if we become insolvent, holders of subordinated debt securities may receive less on a proportionate basis than other creditors.

Unless we inform you otherwise in the prospectus supplement, “Senior Debt” will mean all debt, including guarantees, of ours, unless the debt states that it is not senior to the subordinated debt securities or our other junior debt. Senior Debt with respect to a series of subordinated debt securities could include other series of debt securities issued under a subordinated indenture.

Description of Common Stock

We have summarized selected aspects of our capital stock below. For a complete description, you should refer to our amended and restated articles of incorporation and bylaws, both of which are exhibits to the registration statement of which this prospectus is part.

Our authorized capital stock consists of:

- 100,000,000 shares of common stock, par value $1 per share;
- 1,491,900 shares of preferred stock, par value $100 per share, which we refer to as the "$100 preferred stock;" and
- 3,000,000 shares of preferred stock, par value $25 per share, which we refer to as the "$25 preferred stock."

As of September 30, 2010, 60,495,797 shares of our common stock were outstanding, 10,288 shares of our $100 preferred stock were outstanding and no shares of our $25 preferred stock were outstanding.

Common Stock

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of shareholders, except in the election of directors, in which case holders of common stock have cumulative voting rights. Cumulative voting gives each shareholder the right to multiply the number of votes to which he or she is entitled by the number of directors to be elected and to cast all of those votes for one candidate or distribute them among any two or more candidates. Subject to preferences that may be applicable to any outstanding preferred stock and to restrictive covenants in certain debt instruments of ours, the holders of common stock are entitled to dividends when, as and if declared by the board of directors out of funds legally available for that purpose. If we are liquidated, dissolved or wound up, the holders of common stock will be entitled to a pro rata share in any distribution to shareholders, but only after satisfaction of all of our liabilities and of the prior rights of any outstanding class of our preferred stock.

The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

The common stock is listed on the New York Stock Exchange and trades under the symbol "CNL."

Anti-Takeover Provisions

Some provisions of Louisiana law and our amended and restated articles of incorporation and bylaws could make the following more difficult:

- acquisition of us by means of a tender offer;
- acquisition of control of us by means of a proxy contest or otherwise; or
- removal of our incumbent officers and directors.

These provisions, as well as our ability to issue preferred stock, are designed to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection give us the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us,

and that the benefits of this increased protection outweigh the disadvantages of discouraging those proposals, because negotiation of those proposals could result in an improvement of their terms.

These provisions could delay or prevent an acquisition of us that a shareholder might consider to be in his or her best interest, including attempts that might result in a premium over the market price for our common stock.

Classified Board of Directors

Our board of directors is divided into three classes. The directors in each class will serve for a three-year term, with only one class being elected each year by our shareholders. This system of electing and removing directors may discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for shareholders to replace a majority of the directors. Subject to special provisions for cumulative voting, holders of 80% of the shares of common stock entitled to vote in the election of directors may remove a director for cause, but shareholders may not remove any director without cause.

Shareholder Meetings

Our articles of incorporation and bylaws provide that special meetings of shareholders may be called by the chief executive officer, the president, a majority of the board of directors, a majority of the executive committee of the board of directors or by shareholders holding 51% of our total voting power. In some cases, shareholders holding specified amounts of preferred stock may also call a special meeting. A majority of the outstanding shares of common stock entitled to vote is a quorum for a shareholder meeting. In general, a majority of votes cast decides a matter brought before a meeting.

Shareholder Proposals and Nominations of Directors

Shareholders can submit proposals and nominate candidates for our board of directors if the shareholders follow advance notice procedures described in our bylaws.

To make a proposal or nominate a candidate for our board of directors, a shareholder must submit a timely notice to our secretary. Generally, a shareholder's proposal must be received at least 120 days prior to the meeting for which the proposal is made. If we give less than 135 days' notice or prior public disclosure of the meeting, we must receive the proposal no later than 15 days after the day we give notice or make public the date of the meeting. A shareholder's director nomination must be received at least 180 days before the meeting at which the person is proposed to be nominated. Shareholder proposals or nominations must give specified information about the shareholder and the proposal being made or the director being nominated, as the case may be.

Shareholder proposals and director nominations that are late or that do not include the required information may be rejected. This could prevent shareholders from bringing certain matters before a meeting, including making nominations for directors.

Supermajority Vote for Certain Transactions

Our amended and restated articles of incorporation provide that we may sell, lease or otherwise dispose of all or any of our assets upon the affirmative vote of two-thirds of all directors. But if such a transaction involves the receipt of shares or securities of another corporation, we may engage in the transaction only upon receiving the affirmative vote of two-thirds of all directors and holders of a majority of our outstanding capital stock. Additionally, unless we redeem all outstanding shares of preferred stock, we may not take any of the following actions without the consent of holders of two-thirds of any outstanding preferred stock:

- voluntarily liquidate, dissolve or wind up;

- sell or transfer substantially all of our assets; or
- consolidate or merge with another company or entity.

Interested Shareholder Transactions

Louisiana law and our bylaws require that mergers, consolidations or share exchanges with a shareholder owning 10% or more of our voting power be recommended by the board and approved by:

- 80% of the votes entitled to be cast by outstanding shares of voting stock; and
- two-thirds of votes entitled to be cast by voting stock other than the interested shareholder.

Our bylaws provide that a quorum for purposes of voting on such a transaction consists of 80% of the votes entitled to be cast, unless 80% of the "continuing directors," as defined in our bylaws, approves the transaction prior to submission of the matter to a shareholder vote.

Transactions that do not alter the contract rights of our stock or convert our shares and satisfy certain consideration and procedural requirements are exempt from these requirements.

Limitation of Liability of Officers and Directors

Section 24 of the Louisiana Business Corporation Law authorizes corporations to limit or eliminate the personal liability of officers and directors to corporations and their shareholders for monetary damages for breach of officers' and directors' fiduciary duties, except for:

- any breach of the officer's or director's duty of loyalty to us or our shareholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 92D of the Louisiana Business Corporation Law; or
- any transaction from which the officer or director derived an improper personal benefit.

Our amended and restated articles of incorporation limit the liability of our officers and directors to us and our shareholders to the fullest extent permitted by Louisiana law. The inclusion of these provision in our amended and restated articles of incorporation may reduce the likelihood of derivative litigation against our officers and directors, and may discourage or deter shareholders or management from bringing a lawsuit against our officers and directors for breach of their duty of care, even though such an action, if successful, might have otherwise benefited us and our shareholders. Our bylaws provide indemnification to our officers and directors and certain other persons.

Other Provisions

Except for specified cases in which our board of directors may amend our articles of incorporation, amendment of our articles of incorporation requires the affirmative vote, at a meeting, of holders of the majority of our outstanding capital stock. Additionally, our bylaws provide that amendments to our articles of incorporation that affect any of the following items will not be effective until at least one year after the adoption of the amendment by the shareholders:

- quorum requirements for our shareholder meetings;
- procedures and votes required for amending our articles of incorporation or bylaws;

- votes required for approving mergers and other business combinations;
- number, classification, powers and qualifications of our directors;

- procedures relating to our directors, including appointment and removal; or
- procedures relating to our shareholder meetings.

Our bylaws may be amended by the affirmative vote of a majority of the board of directors, subject to the power of the shareholders to amend the bylaws upon the affirmative vote of 80% of all shares of our stock entitled to vote thereon.

Shareholder proposals to amend our amended and restated articles of incorporation or bylaws must be received by the secretary at least 180 days before the meeting at which the proposal is to be considered and must contain specified information. These proposals may be rejected if not made in time or if they fail to include the required information.

Transfer Agent and Registrar

Computershare Trust Company, N.A., Providence, Rhode Island, is the transfer agent and registrar for our common stock.

Plan of Distribution

We may sell securities in and outside the United States:

- directly to purchasers;
- through an underwriter or underwriters;
- through dealers;
- through agents; or
- through a combination of any of these methods.

We will describe the terms of any offering of securities in the prospectus supplement, including:

- the method of distribution;
- the name or names of any underwriters, dealers or agents, and any managing underwriter or underwriters;
- the purchase price of the securities and the proceeds we receive from the sale;
- any underwriting discounts, agency fees or other form of underwriters' compensation;
- any discounts and concessions allowed, reallowed or paid to dealers or agents; and
- the expected time of delivery of the offered securities.

We may change the initial public offering price and any discount or concessions allowed or reallowed to dealers from time to time.

If we use underwriters to sell our securities, the underwriting agreement will provide that the obligations of the underwriters are subject to certain conditions precedent and that the underwriters will be obligated to purchase all of the offered securities if any are purchased. In connection with the sale of securities, underwriters may receive compensation from us or from purchasers of securities for whom they may act as agents in the form of discounts, concessions or commissions. Underwriters may sell securities to or through dealers, and dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents.

If we use a dealer to sell securities, we will sell the securities to the dealer as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale. These dealers may be deemed underwriters, as such term is defined in the Securities Act of 1933, of the securities they offer and sell. If we elect to use a dealer to sell securities, we will provide the name of the dealer and the terms of the transaction in the prospectus supplement.

Securities may also be offered and sold in connection with a remarketing upon their purchase, in accordance with a redemption or repayment by their terms or otherwise by one or more remarketing firms acting as principals for their own accounts or as our agents. We will identify any remarketing firm, the terms of any remarketing agreement and the compensation to be paid to a remarketing firm in the prospectus supplement. Remarketing firms may be deemed

underwriters under the Securities Act of 1933.

Underwriters, agents and dealers participating in the distribution of our securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of securities may be deemed to be underwriting discounts and commissions under the Securities Act of 1933.

We may enter into agreements with the underwriters, agents, purchasers, dealers or remarketing firms who participate in the distribution of our securities that will require us to indemnify them against specified liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that they or any person controlling them may be required to make for those liabilities. Underwriters, agents or dealers may be our customers. They may also engage in transactions with us or perform services for us or for our affiliates in the ordinary course of business.

Unless we inform you otherwise in the applicable prospectus supplement, each series of our securities (other than shares of our common stock) will be a new issue with no established trading market. We may elect to list any such series of securities on an exchange. However, we are not obligated to do so. It is possible that one or more underwriters may make a market in a series of our securities. However, they will not be obligated to do so and may discontinue market making at any time without notice. We cannot assure you that a liquid trading market for the securities will develop.

In connection with an offering, the underwriters or agents may purchase and sell our securities in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of bids or purchases for the purpose of preventing or retarding a decline in the market price of the securities. Syndicate short positions involve the sale by the underwriters or agents of a greater number of securities than they are required to purchase from us in the offering. The underwriters also may impose a penalty bid, in which selling concessions allowed to syndicate members or other broker dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if the securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the securities, which may be higher than the price that might otherwise prevail in the open market, and these activities, if commenced, may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC") in accordance with the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain further information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings are also available to the public over the Internet at the SEC's web site located at http://www.sec.gov and on our web site located at http://www.cleco.com. In addition, you may inspect our reports at the offices of the New York Stock Exchange, Inc. at 20 Broad Street, New York, New York 10005.

The SEC allows us to "incorporate by reference" into this prospectus information we file with the SEC. This means we can disclose important information to you by referring you to the documents containing the information. The information we incorporate by reference is considered to be part of this prospectus, unless we update or supersede that information by the information contained in this prospectus, a prospectus supplement or information that we file subsequently that is incorporated by reference into this prospectus. We are incorporating by reference into this prospectus the following documents that we have filed with the SEC, and our future filings with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding information deemed to be furnished and not filed with the SEC) until the offering of the securities is completed (File No. 1-15759):

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on February 25, 2010;

- our Quarterly Reports on Form 10-Q for the quarterly period ended March 31, 2010, filed with the SEC on May 5, 2010, for the quarterly period ended June 30, 2010, filed with the SEC on August 4, 2010, and for the quarterly period ended September 30, 2010, filed with the SEC on October 29, 2010;

- our Proxy Statement and Notice of Annual Meeting of Shareholders on Schedule 14A filed with the SEC on March 18, 2010;

  - our Current Reports on Form 8-K filed with the SEC on February 22, 2010, March 26, 2010, April 27, 2010, August 4, 2010, August 5, 2010, October 22, 2010, November 2, 2010 and November 15, 2010; and

- the description of our common stock contained in Post-Effective Amendment No. 1 to our registration statement on Form S-4 (Registration Statement No. 333-71643), filed with the SEC on June 30, 1999, as may be amended from time to time to update that description.

This prospectus is part of a registration statement we have filed with the SEC relating to our securities. As permitted by SEC rules, this prospectus does not contain all of the information included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You should read the registration statement and the exhibits and schedules for more information about us and our securities. The registration statement, exhibits and schedules are also available at the SEC's Public Reference Room or through its web site.

You may also obtain a copy of our filings with the SEC at no cost by writing to or telephoning us at:

Cleco Corporation
2030 Donahue Ferry Road
Pineville, Louisiana 71360-5226
Attn: Corporate Secretary

(318) 484-7400

- 30 -

Validity of Securities

The validity of any debt securities offered hereby will be passed upon for us by Baker Botts L.L.P., Houston, Texas. Wade A. Hoefling, our Senior Vice President — General Counsel and Director of Regulatory Compliance, will pass upon all matters of Louisiana law in this connection. The validity of any shares of our common stock offered hereby will be passed upon for us by Mr. Hoefling. Baker Botts L.L.P. will pass upon other legal matters for us in this connection. At September 30, 2010, Mr. Hoefling beneficially owned 17,707 shares of our common stock (including shares held under employee benefit plans). None of such shares were issued or granted in connection with the offering of the securities offered by this prospectus. Any underwriters or agents will be advised about the validity of the securities by their own counsel, which counsel will be named in the applicable prospectus supplement.

Experts

The consolidated financial statements, financial statement schedules and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) of Cleco Corporation incorporated in this prospectus by reference to the Annual Report on Form 10-K of Cleco Corporation for the year ended December 31, 2009 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Acadia Power Partners, LLC incorporated in this prospectus by reference to the Annual Report on Form 10-K of Cleco Corporation for the year ended December 31, 2009 have been so incorporated in reliance on the report (which contains an explanatory paragraph relating to substantial doubt about Acadia Power Partners, LLC's ability to continue as a going concern) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

Cleco Corporation (the “Company”) estimates that expenses in connection with the offering described in this Registration Statement will be as follows:

Securities and Exchange Commission registration fee	$	31,000*
Blue sky fees and expenses		10,000
Attorneys’ fees and expenses		100,000
Independent registered public accounting firm’s fees and expenses		10,000
Printing and engraving expenses		10,000
Rating agency fees		50,000
Trustee’s fees and expenses		20,000
Miscellaneous expenses		69,000
Total	$	300,000

* Actual; all other expenses are estimated.

Item 15. Indemnification of Directors and Officers.

Section 83 of the Business Corporation Law of the State of Louisiana (the “LBCL”) provides that a corporation may indemnify any person against whom an action, suit or proceeding is brought or threatened, by reason of the fact that he is or was a director, officer, employee or agent of the corporation or was serving at the request of the corporation as a director, officer, employee or agent of another business, corporation, partnership or other enterprise, against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any such action, suit or proceeding if he acted in good faith and in a manner he 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 his conduct was unlawful. In the case of actions by or in the right of the corporation, the indemnity is limited to expenses, including attorneys’ fees and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the action to conclusion, actually and reasonably incurred in connection with a defense or settlement; provided that no indemnity may be made in respect of any matter in which the person shall have been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable for willful or intentional misconduct in performance of his duty to the corporation unless and only to the extent that the court determines upon application that such person is fairly and reasonably entitled to such indemnity. To the extent a person has been successful on the merits or otherwise in defense of any action, the statute provides that he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith. Section 83 also provides for, among other things, procedures for indemnification; advancement of expenses; non-exclusivity of the provisions of Section 83 with respect to indemnification and advancement of expenses; and insurance, including self-insurance, with respect to liabilities incurred by directors, officers and others.

Article IV of the Bylaws of the Company provides that the Company shall indemnify any person who was or is, or is threatened to be made, a party to or otherwise involved in any pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or other proceeding, whether civil, criminal, administrative or investigative (any such threatened, pending or completed proceeding being hereinafter called a

"Proceeding") by reason of the fact that he is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another business, foreign or nonprofit corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (whether the basis of his involvement in such Proceeding is alleged action in an official capacity or in any other capacity while serving as such), to the fullest extent permitted by applicable law, from and against expenses, including attorney's fees, judgments, fines, amounts paid or to be paid in settlement, liability and loss, ERISA excise taxes, actually and reasonably incurred by him or on his behalf or suffered in connection with such Proceeding or

any claim, issue or matter therein; provided, however, that, subject to certain exceptions set forth therein, the Company shall indemnify any such person claiming indemnity in connection with a Proceeding initiated by such person only if such Proceeding was authorized by the board of directors.

The Bylaws further provide that (i) the Company shall from time to time pay, in advance of final disposition, all Expenses (as therein defined) incurred by or on behalf of any person claiming indemnity thereunder in respect of any Proceeding, (ii) the right to indemnification provided therein is a contract right and no amendment, alteration or repeal of the Bylaws shall restrict the indemnification rights granted by the Bylaws as to any person claiming indemnification with respect to acts, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal, (iii) any such indemnification may continue as to any person who has ceased to be a director, officer, employee or agent and may inure to the benefit of the heirs, executors and legal representative of such person and (iv) the right of indemnification and to receive advancement of expenses contemplated by Section 1 of Article IV of the Bylaws are not exclusive of any other rights to which any person may at any time be otherwise entitled, provided that such other indemnification may not apply to a person's willful or intentional misconduct. The Bylaws also set forth certain procedural and evidentiary standards applicable to the enforcement of a claim thereunder.

The Bylaws also provide that the Company (i) may procure or maintain insurance or other similar arrangement, at its expense, to protect itself and any director, officer, employee or agent of the Company or other corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss asserted against or incurred by such person, whether or not the Company would have the power to indemnify such person against such expense or liability and (ii) shall indemnify officers and directors of the Company to the extent they are not covered by the insurance, whether or not such persons would otherwise be entitled to indemnification under the Bylaws, as provided in policies covering liabilities up to $100 million incurred by directors and officers in their capacities as such, and has fiduciary and employee benefit liability insurance policies covering liabilities up to $60 million incurred by directors, officers and certain other employees of the Company in connection with the administration of the Company's employee benefit plans.

Section 24(C)(4) of the LBCL provides that a corporation may eliminate or limit the liability of a director or officer to the corporation or its shareholders for monetary damages for breach of fiduciary duty, except for liability (i) for any breach of the director's or officer's duty of loyalty to the corporation or its shareholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 92(D) of the LBCL relating to unlawful dividends and other unlawful distributions, payments or returns of assets and (iv) for any transaction from which the director or officer derived an improper personal benefit. The Company's Articles of Incorporation include a provision consistent with Section 24(C)(4) of the LBCL. Such provision further provides that (a) if the LBCL is subsequently amended to authorize action further eliminating or limiting a director's or officer's liability, such liability will be eliminated or limited to the fullest extent permitted by such law, as so amended, and (b) if such provision limiting or eliminating liability is repealed or modified, the right or protection of a director or officer of the Company existing at the time of such repeal or modification will not be affected thereby.

Item 16. Exhibits.

See Index to Exhibits beginning on page II-7.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the 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 Securities and Exchange Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent 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 material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Securities and Exchange Commission by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be 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.

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser

(i) Each prospectus filed by the registrant pursuant to Rule 424(b)(3)shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. 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 effective date, 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 effective date.

(5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: the undersigned registrant undertakes that

in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be 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.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 15 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant 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 registrant 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 of 1933 and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of section 310 of the Trust Indenture Act of 1939 (the "Act") in accordance with the rules and regulations prescribed by the Commission under section 305(b)(2) of the Act.

SIGNATURES

Pursuant to 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-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pineville, the State of Louisiana, on November 30, 2010.

CLECO CORPORATION

By: /s/ Michael H. Madison

Michael H. Madison

President and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Darren J. Olagues, Wade A. Hoefling and Charles A. Mannix, and each of them severally, his or her true and lawful attorney or attorneys-in-fact and agent or agents, with full power to act with or without the other, and with full power of substitution and resubstitution, to execute in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including pre-effective and post-effective amendments) to this Registration Statement and any registration statement for the same offering filed pursuant to Rule 462 under the Securities Act of 1933, as amended, and all instruments necessary or incidental thereto, 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 in the name and on behalf of the undersigned, in any and all capacities, each and every act and thing necessary or desirable to be done in and about the premises, to all intents and purposes and as fully as they might or could do in person, hereby ratifying, approving and confirming all that said attorneys-in-fact and agents or their substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Michael H. Madison Michael H. Madison	President, Chief Executive Officer and Director (Principal Executive Officer)	November 30, 2010
/s/ Darren J. Olagues Darren J. Olagues	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	November 30, 2010
/s/ R. Russell Davis R. Russell Davis	Vice President of Investor Relations and Chief Accounting Officer (Principal Accounting Officer)	November 30, 2010
/s/ Sherian G. Cadoria Sherian G. Cadoria	Director	November 30, 2010
/s/ Richard B. Crowell	Director	

Richard B. Crowell November 30, 2010

/s/ J. Patrick Garrett&0pt;background-color: #ffffff; border-bottom: 1px solid #ffffff;"> 2004

Net Revenue	$ 565,489	$ 401,536
Operating expenses:		
Depreciation and amortization	439,370	142,588
General and administrative expenses	1,348,461	174,790
Professional fees	927,425	93,859
Development expenses	894,287	211,359
Selling and marketing expenses	3,672,346	385,602
Total operating expenses	7,281,889	1,008,198
Operating income/(loss)	$ (6,716,400)	$ (606,662)
Interest income	76,415	1,137
Interest expense	(6,480)	(28,314)
Other income and expense	(100,020)	7,683
Net income/(loss)	$ (6,746,485)	$ (626,156)
Gain/(loss) on currency translation	(70,007)	(27,952)
Comprehensive income/(loss)	$ (6,816,492)	$ (654,108)

Revenue

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

Operating Expenses

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

24

Depreciation and Amortization Expenses

Depreciation and amortization expenses, relating primarily to the cost of acquiring, developing and enhancing our suite of software products, including the SWP, MobileMarkets™ and ServiceDesk,™ was $439,370 for 2005 compared to

$142,588 for 2004, a 208% increase. The increase reflects the write-off of $416,000 representing the unamortized balances of the software rights and deferred development costs resulting from the acquisition of Innovations in November 2003. Depreciation expense for 2005 is $23,000.

General and Administrative Expenses

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

Professional Fees

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

Development Expenses

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

Sales and Marketing Expenses

Sales and marketing expenses for 2005 were $3,672,346 compared to $385,602 for 2004, an 852% increase. The increased expenses are attributable to the significant effort undertaken in 2005 to raise awareness of the SWP and related products in our two large vertical markets, (a) media, entertainment and gaming and (b) financial services, and enterprise software, which we believe hold the greatest opportunities. We hired additional sales personnel, sales consultants and customer support personnel increasing our payroll and related expenses to $2.2 million in 2005 from $271,000 in 2004. Our travel and entertainment expenses related to sales and marketing increased proportionately to $539,000 in 2005, from $38,000 in 2004. We also substantially increased our marketing and advertising efforts, including development of marketing literature, participation in trade shows, attendance at trade conferences, and advertising targeted to specific industries within the market segments where we focus. Our marketing, advertising and licensing expenses increased to $678,000 in 2005 from $1,600 in 2004.

Interest Income

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

Interest Expense

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

Other income and expense

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

Loss on Currency Translation

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

Liquidity and Capital Resources

Because of our limited capital, we are dependent on external sources of financing to support our working capital and capital expenditure requirements. We have relied upon the proceeds of private securities transactions to satisfy our financing needs. Through December 31, 2005, we had accumulated losses of approximately $7.5 million, which were financed primarily through sales of equity securities. At the Merger Date, we had a net book value of approximately $1.146 million – mostly cash and cash equivalents. In the year ended December 31, 2005, we consummated the following financing transactions:

- in March, (i) the holder of a $100,000 convertible promissory note issued by us in June 2004 converted that note into 1,162,655 shares of our Common Stock. Those shares were converted

into shares of our Series A Preferred Stock in the Merger and (ii) we sold 1,831,184 shares of our Common Stock for $475,000, which shares were subsequently converted into 25,000 shares of our Series A Preferred Stock in the Merger; and

- In June, we sold 3,848.7 shares of our Series B Preferred Stock and warrants to purchase 962,175 shares of our Common Stock (the ''Warrants''). The gross proceeds from the sale of the Series B Preferred Stock and the warrants were approximately $5.05 million.

26

At December 31, 2005, we had total cash and cash equivalents of $1.3 million held in current and short-term deposit accounts. Our working capital at December 31, 2005 was approximately $394,000, compared to our negative working capital of $452,000 at December 31, 2004. Our current ratio at December 31, 2005 was 1.3 to 1 compared to our current ratio of 0.4 to 1 at December 31, 2004. The current ratio is derived by dividing current assets by current liabilities and is a measure used by lending sources to assess our ability to repay short-term liabilities.

Overall, for year ended December 31, 2005, we had a net cash increase of $1.2 million attributable primarily to net cash provided by investing and financing activities of $6.8 million offset by net cash used in operating activities of $5.6 million. The primary components of our operating cash flows are net loss adjusted for non-cash expenses, such as depreciation and amortization, and the changes in accounts receivable, and accounts payable. The largest component of cash flow provided by financing activities was the proceeds from the Series B Preferred Stock financing with accompanying warrants, which generated over $5 million in gross proceeds of which approximately $4.7 was realized in the second quarter and $300,000 in the third quarter.

Capital expenditures for the year ended December 31, 2005 were approximately $167,000, which consisted primarily of computers and communication devices.

At December 31, 2005, we had no indebtedness, other than accrued salaries owing to two employees, including $104,000 owing to our chief executive officer.

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

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

As of December 31, 2005, we had cash and cash equivalents of approximately $1.3 million. We believe that this existing cash on hand, in combination with $3,000,000 in proceeds received subsequent to year end from the sale of shares to Shuffle Master, will be sufficient to fund our planned activities through at least June 2006. Accordingly, we will have to raise additional capital during 2006. We currently plan on raising capital to finance our planned activities at least through 2006. The form of the financing may include the sale of additional equity securities or the issuance of options or warrants. In addition to our efforts to raise additional capital, our management is implementing a program of careful management of our cash, reduction of expenses, including a reduction in work force, and seeking to develop new project work.

We cannot assure you that we will be able to successfully implement our plans to raise additional capital, increase our revenue and reduce our expenses. We may not be able to obtain the required additional capital or obtain additional project work on a timely basis, on favorable terms, or at all. If we cannot successfully implement our plans, our liquidity, financial condition and business prospects will be materially and adversely affected. Such a financing could dilute the interests of the existing shareholders or increase our operating expenses. If we cannot meet our revenue and cash flow forecasts, secure additional financing and reduce our expenses, we may have to significantly curtail our operations or take other restructuring actions.

Our consolidated financial statements included elsewhere in this report have been prepared assuming that we will continue as a going concern. Since our inception in November 2003, we have generated minimal revenue and have incurred net losses. Accordingly, we have not generated cash flow from operations and have primarily relied upon the sale of shares of our Common Stock and the Series B Preferred Stock financing to fund our operations. In view of our continuing losses, our auditors, in their report on our consolidated financial statements, have stated that these continuing losses raise substantial doubt about our ability to continue as a going concern.

27

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.

Shares of our Common Stock and warrants sold to Shuffle Master and included in a registration statement (of which this prospectus is a part) may have been offered and sold without an exemption from the registration requirements of the Securities Act.

In January 2006, while the registration statement was pending review by the U.S. Securities and Exchange Commission, we entered into a strategic alliance licensing and distribution agreement with Shuffle Master under which we agreed to develop certain wireless gaming technology for Shuffle Master. In connection with that agreement, we sold 2,307,693 shares of our Common Stock and warrants to purchase up to an additional 1,200,000 shares of our Common Stock to Shuffle Master for $3.0 million. The proceeds from the sale of those securities were intended to provide us with the working capital we would need to fulfill our obligations under the agreement. Since we agreed to register the purchased shares and the shares underlying the warrants, we included them in the pending registration statement. We were subsequently informed by the staff of the Commission that, because we included those securities in a pending registration statement, they were questioning the availability of the exemption from registration that we were claiming. The sale of these securities to Shuffle Master was made in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") as provided in Section 4(2) of the Securities Act. The exemption provided in Section 4(2) is available for transactions by an issuer not involving any public offering. At the time of the transaction with Shuffle Master, we had filed this Form SB-2 and were therefore deemed to be engaged in a public offering at the time of the sale of the securities to Shuffle Master. The availability of the exemption requires that the transaction have a conclusion. Including the Shuffle Master securities in the pending registration statement raises the question whether the transaction with Shuffle Master ever concluded. The Commission suggested that we remove the Shuffle Master securities from the pending registration statement, which we have done.

Notwithstanding that removal, if a court of competent jurisdiction were to ultimately determine that an exemption was not available, we may have to offer Shuffle Master rescission rights. If Shuffle Master asserted that right and prevailed

we would be required to "buy back" the securities from Shuffle Master for $3 million, in which event we may not have the resources to return the consideration and we might have to seek bankruptcy protection. If Shuffle Master no longer desired to be an investor in our company and they could not dispose of these securities in a transaction or transactions in which they would receive in excess of $3 million they might elect to pursue rescission. In addition, we, and possibly some of our officers, may also be subject to penalties. However, we believe the sale of securities to Shuffle Master was exempt from the registration requirements of the Securities Act as a valid private placement transaction under Sections 4(2) and 4(6) of the Securities Act. Our belief is based on a variety of factors, including the following:

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

For all of the foregoing reasons and because at this time the Commission has only questioned the availability of an exemption, we have determined that, in connection with this matter, we are not required to charge our 2005 earnings for any estimated loss contingency, provide pro forma financial data or disclose the existence of a loss contingency. Nevertheless, we have disclosed in the notes to our consolidated financial statements the fact that the Commission has questioned the availability of an exemption.

BUSINESS

Introduction

We are a Wireless Software and Service Provider specializing in value-added services to data-intensive vertical and horizontal market segments. Through our subsidiaries, we develop, market and sell wireless data application software

for mobile devices in the rapidly growing wireless data marketplace. Our revenues consist project, licensing and support fees relating to the Sona Wireless Platform™ ("SWP") and related end-user wireless application software products made available to enterprises and cellular operators.

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

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

As a result, the Merger has been accounted for as a reverse merger with Sona-Washington deemed to be the accounting acquirer. In connection with the merger, Merger Sub changed its name to Sona Mobile, Inc. and, on November 17, 2005, we changed our corporate name from PerfectData to Sona Mobile Holdings Corp. See Part II, Item 6, ''Management's Discussion and Analysis or Plan of Operation.''

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

- Financial services and enterprise software. Our products and services extend enterprise applications to the wireless arena, such as customer relationship management systems, sales force automation systems, information technology (IT) service desk and business continuity protocols, all of which we believe are delivered in compliance with the current regulatory environment. One of our primary focuses is to develop software for the data-intensive investment banking community and client-facing applications for the retail banking industry.
- Media, entertainment and gaming. We propose to deliver content via significant channel partners and content partners, including live streaming television, digital radio, specific theme phones and gaming applications.

We have sales offices in New York, London and Toronto and research and development operations in Boulder, Colorado and Toronto. Our principal executive office is located at 825 Third Avenue, 32nd Floor, New York, New York 10022 and our telephone number is (866) 274-4040. Our Web address is www.sonamobile.com.

Mission Statement

Our mission is to allow widely distributed enterprise employees to use the standards based Sona Wireless Platform™ (''SWP''), a secure client-server wireless development environment, to achieve real-time wireless transactional solutions to their business problems, and to ultimately become the de facto industry standard. We believe that wireless services will have a direct and positive impact on those these enterprises and on carriers who are able to adapt to the evolution of wireless business applications. We believe that this business dynamic will become the natural extension to existing business systems, platforms and technologies.

29

Our value proposition is based on the fact that today's workspace has expanded far beyond the desk. In today's highly competitive global economy, business is conducted everywhere, from airports and convention centers to construction sites and distribution facilities. In a constantly evolving technological business environment, wireless tools are quickly becoming a necessity and not simply ‘‘nice to have.’’ People need access to relevant business content on mobile devices. Our wireless software products transform handheld devices into easy-to-use, secure and reliable pocket-sized computers. By giving mobile workforces the power to connect to existing enterprise systems, we help businesses reach a new level of efficiency. Employees are now capable of interacting with corporate databases and accessing applications or mission-critical business information to mobile devices, whether it is marketplace information, order forms or even live streaming TV feeds.

Since our inception, we have understood that to be a leader in the wireless application software workspace we would need to balance the current market requirement for cutting edge vertical application software with the need to eventually deliver a development platform for enterprise and carrier applications. With this in mind, we have identified specific market segments in the wireless arena that demand real-time, live and accurate information, and which also require transactional capabilities and interaction with this information in order to help generate our initial commercial successes.

The market demand for mobile and wireless application software, both at the enterprise and consumer levels, continues to grow rapidly. We believe that we are well-positioned to exploit this opportunity with various focused initiatives, ranging from direct and channel sales efforts to the enterprise market, combined with anticipated strategic alliance and joint venture agreements with content providers, to satisfy the significant growth in demand from the consumer market for these types of services.

Growth Strategy

In the highly competitive wireless application software market, we believe that our principal competitive advantages are our focus and expertise. We are singularly focused on wireless business applications based on our broad understanding of wireless technology and how best to leverage wireless technology to increase productivity and efficiency. Our expertise has earned us the 2004 Frost & Sullivan Award for Technology Innovation of the Year for the SWP, version 2.5 and the Sona Mobile Markets™ product set as well as accreditation by Research in Motion (‘‘RIM’’), Microsoft, Palm Source, Vodafone, O2, and Cingular.

We believe that most competitive software products originate from outside the wireless world. More often than not, our competitors attempt to migrate their software from PC-based ‘‘fat’’ data created for high-speed environments to thin wireless devices using cellular networks that are slower, use smaller screens, and have less processing power. Another issue is that many competitors offer narrowly focused products built on platforms that cannot be leveraged for other multiple wireless applications. We believe these approaches negatively impact performance, efficiency, user satisfaction and adoption.

Our approach is to aggregate best-of-breed technology, data and content into our device-independent SWP and application software, which we believe will enable customers to extend the functionality of their current wireless devices. We continuously search for best-of-breed technology to be incorporated into our products and so that these products will remain adaptable as market requirements change.

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

performance or security.

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

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

Financial Services

Financial markets are open 24 hours a day, five days a week, and are often prone to volatility. Financial institutions and professionals are demanding market related information 24 hours a day, seven days a week, as well as cost-effective mobile solutions, in order to increase information visibility, service availability, productivity, risk management and, ultimately, profitability. For these enterprises, we have developed application software products that deliver in real-time information that may be required by professionals in the finance sector, including traders, risk managers, investment bankers and stock brokers. Such information takes the form of live market data and news, proprietary data and risk systems, research, internal Web casts, as well as trade execution and regulatory compliance. With the convergence of technologies, devices, connectivity, availability and pricing, there is now an opportunity to deliver financial and business data services in a wireless format, which meets the needs of the end users in both the professional and retail space.

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

- Technology driven. Many technology companies provide their clients with complex technology products rather than solutions that meet their unique requirements — ease-of-use, timely data and reliability.
- Single technology delivery. Most technology companies offer only one common technology to deliver such data, whereas varying types of data will require different modes of delivery.
- Narrow product. Competitors offer narrow products rather than robust and customer-driven products. These narrow products are designed to meet only specific requirements, leaving the customer to cobble together an array of products on varying platforms to replicate the workplace environment.

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

Sona Mobile Markets™

Sona Mobile Markets™ is a suite of application software programs that we believe answers the needs of trading, corporate finance and research professionals in the financial services industry. This suite provides real-time market

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

Sona TransAct™

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

31

Enterprise Software

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

The emergence of a new generation of mobile computers has compelled enterprises to deploy mobile applications software in many areas. Mobile employees can access enterprise data and applications and transact with them while in the field providing increased efficiency, productivity, employee satisfaction, and responsiveness.

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

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

Sona Mobile Workflow and Mobile Forms™

This application software allows organizations with mobile workers to capture data anywhere utilizing PDAs, Rugged PDAs and SmartPhones instead of entering data into paper based forms or on costly industrial notebook computers on a regular basis, with a need to update enterprise databases. Sona Mobile Forms™ allows companies to simplify the

process of building mobile electronic forms for hand-held devices effortlessly. This application eliminates the cumbersome effort of transferring traditional paper based forms into electronic formats across Palm, Pocket PC, RIM Blackberry or Tablet PC platforms.

Sona Service Desk™

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

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

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

- Increases the adoption of Help Desk features for better trouble shooting.

32

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

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

SalesMaster™

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

We recognize the value in mobilizing business processes, rather than simply mobilizing applications. Whereas most of our competitors approach mobilizing SFA from a pure ‘‘mobilize the application’’ perspective, we approach mobilizing

SFA from a business process perspective, with the aim of creating a product that addresses all of the needs of the mobile sales executive, some of which are addressed by particular SFA applications. The mobilization of an SFA application is an important first step in this process. The progression of steps is as follows:

1. Build mobile SFA platform with connectors to various back-end SFA systems.
2. Integrate key business processes into product that the particular SFA back-end system does not currently offer. As an example, we can integrate remote file searching and printing capabilities from a user's handheld device to their desktop and file server.
3. Partner with leading companies to create a broader offering that addresses the wider range of mobile executives' needs, such as information and alerts related to traffic.

Other features of SalesMaster™ include the following:

- Device Agnostic: SalesMaster™ will support a wide range of devices that run on the most widely used operating systems, including RIM Blackberry, PalmSource, Windows Mobile and Symbian. Support for various devices will be rolled out over time.
- On-Line and Off-Line Capabilities: SalesMaster™ functions whether or not the device is in cell range. When the device is out of range, it will store required actions and will execute them immediately upon returning to coverage.
- Highly Intuitive: In designing mobile SFA significant focus has been placed on assuring an intuitive, easy-to-navigate user experience. The goal was to give users an experience similar to salesforce.com on a wireless handheld device - without ever needing the help of a user manual. Most of the functionality and layout of the mobile screens will mimic what the user sees online at salesforce.com. To assure a close tie-back to the salesforce.com experience, our default product will use salesforce.com icons and color schemes (with flexibility to tailor look-and-feel to particular customer requirements).
- Seamless Integration to Back-end Systems: While most (if not all) mobile SFA competitors have built point solutions for a particular SFA system, our platform-based Mobile SFA integrates seamlessly into any SFA system — be it hosted / on-demand or deployed.

33

- Sona Mobile Web Preferences: We intend to deploy two versions of our Preference Management website, to enable the enterprise SFA administrator to configure the wireless preferences, access, custom fields, and other variables and end users to customize their preferences. We believe that this web preferences tool will grow as the product grows from application mobilization to business process mobilization, giving the end user greater options and control.
- Easy-to-Install and Manage: The client SFA program downloads over-the-air, as will upgrades and updates. The product requires a maximum of one megabyte of random access memory but will function with less space if necessary. In cases where there is less space available, the application will alert the end user of the amount of space available and the fact that the application will store fewer records on the device.
- Highly Intuitive: In designing mobile SFA significant focus has been placed on assuring an intuitive, easy-to-navigate user experience. The goal was to give users an experience similar to salesforce.com on a wireless handheld device — without ever needing the help of a user manual. Most of the functionality and layout of the mobile screens will mimic what the user sees online at salesforce.com. To assure a close tie-back to the salesforce.com experience, our default

product will use salesforce.com icons and color schemes (with flexibility to tailor look-and-feel to particular customer requirements).

- Sona Mobile Web Preferences: We intend to deploy two versions of our Preference Management website, to enable enterprise SFA administrators to configure the wireless preferences, access, custom fields, and other variables and end users to customize their preferences. We believe that this web preferences tool will grow as the product grows from application mobilization to business process mobilization, giving the end user greater options and control.
- Easy-to-Install and Manage: The client SFA program downloads over-the-air, as will upgrades and updates. The product requires a maximum of one megabyte of random access memory but will function with less space if necessary. In cases where there is less space available, the application will alert the end user of the amount of space available and the fact that the application will store fewer records on the device.

Media, Entertainment and Gaming

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

By partnering with content providers, we plan to offer the ability to view streamed video in real-time on most wireless devices (JAVA phones, PDAs, and SmartPhones).

In January 2006, we entered into a strategic alliance distribution and licensing agreement with Shuffle Master, Inc. (‘‘Shuffle Master’’), a leading provider of table gaming content, to license, develop, distribute and market "in casino" wireless handheld gaming content and delivery systems to gaming venues throughout the world. Under the terms of the agreement, we have agreed to develop a Shuffle Master-branded wireless gaming platform powered by Sona’s SWP for in-casino use, which would feature handheld versions of Shuffle Master's proprietary table game content as well as other popular public domain casino games.

34

Technology

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

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

- API Integration to any back-end trading, billing or other legacy systems;
- API Integration to most third party systems or applications (profiling, IM, chat, CRM, etc.);
- Integration of any defined content;
- Creation or modification of required features;
- Full customization on the terminal side: special features, graphical user interface (GUI), look and feel' etc. We are actively marketing four core wireless building-block products that ride on the SWP. Each of these building blocks is targeted to specific markets; however, each can be modified easily to address similar needs in different markets.

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

Sales and Marketing

We utilize a comprehensive distribution channel strategy in order to seek to penetrate a market as rapidly as possible and to reach a significantly high number of users, while seeking to keep resource consumption low. A channel marketing strategy involves integrating marketing methods with distribution channels to reach customers. We are also in the initial stages of deploying a direct sales strategy, in tandem with this channel strategy. We are currently targeting are companies in the following businesses within the communications and information technology (‘‘IT’’) sectors:

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

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

Product Development Strategy

We seek to operate according to the stringent requirements providing real time financial data. We have developed implementation processes and procedures that we believe surpass requirements of the

35

typical business environment. Our strategy seeks to deliver our software products worldwide in a flexible architecture. This flexible approach allows clients to select the approach best suited to them. We have combined a straightforward installation process with a hosting capability we believe to be world class, and industry leading systems integrators and support teams.

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

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

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

With production proven installation processes, installing our SWP can be done by the client. The installation processes are documented in the Installation Guide Box with easy to follow steps and testing procedures. Our goal is to provide SWP flexibly so that the individual needs of our clients are met through the above described multi pronged approach. For example:

- a client may take a do-it-yourself approach, using our Installation Guide Box as a complete implementation toolkit; or
- a client can provide services to their customers simply by connecting to MDS's hosting environment (which, in many cases, they are already connected to); or
- a client could elect to have SWP installed by Atos Origin, procedures that it may have experienced with Atos Origin for other services.

Regardless of the approach selected, we seek to provide our clients with multi-tier support capabilities on a seven day, 24 hour basis.

Competition

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

We believe that our principal competitive advantages are our focus and expertise. We are focused on wireless applications based on our broad understanding of wireless technology and how best to leverage wireless technology to

increase productivity and efficiency. The competitive factors important to us are our technology, development and engineering expertise, subject matter expertise, customer support and customer relationships. Industry competitive factors include, but are not, limited to, technology, engineering capability, customer support, breadth and depth of strategic relationships, financial condition, and marketing initiatives. We seek to leverage the quality of our development

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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, Ontario, Canada and Boulder, Colorado. At March 31, 2006, we employed 14 persons in research and development and engineering. We find it advantageous to have the majority of our research and development activities in Toronto due to the abundance of available, affordable and talented software engineers in addition to the favorable tax conditions associated with software research and development in Canada. Total costs incurred in research and development amounted to approximately $894,000 for the year ended December 31, 2005 and $211,000 for the year ended December 31, 2004.

Intellectual Property

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

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

‘‘Sona’’ is a registered trademark of ours. In addition, we have applied for federal registration of other marks. However, we may not be successful in obtaining the service marks and trademarks for which we have applied.

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

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

proprietary technology, our business, financial condition and results of operations could be harmed significantly.

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

Employees

At March 31, 2006, we had 41 full-time employees and one part-time employee. Approximately 22 of our employees are engaged in sales and marketing, six are engaged in executive management,

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finance and administration, and 14 in engineering. No employees are covered by a collective bargaining agreement. We believe that we have a good relationship with all of our employees.

Properties

We lease a total of approximately 12,000 square feet of office space for sales, support, research and development, accounting and administrative functions. Of this total, we lease

- approximately 3,600 square feet in Toronto, Canada for sales, research and development, administrative and accounting functions under a lease expiring in April 2007, at an annual rental of approximately $82,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building;
- approximately 5,500 square feet in New York, New York, for our corporate headquarters and sales and support functions under a lease expiring in December 2007, at an annual rental of approximately $385,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building; and
- approximately 2,600 square feet of office space in Boulder, Colorado for research and development under a lease expiring in October, 2010, at annual rental of approximately $61,000, subject to escalation for our pro rata share of real estate taxes and operating expenses of the building.

We also lease a small sales office in London, England.

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	43	Chairman of the Board and Director
John Bush	42	President, Chief Executive Officer and Director
John C. Rudy	63	Vice President and Chief Financial Officer
Lance Yu	36	Senior Vice President and Chief Technology Officer
Bryan Maizlish	43	Director
Frank J. Fanzilli, Jr.	48	Director
Michael P. Castellano	64	Director
Paul C. Meyer	58	Director
Joseph V. Vittoria	70	Director

Shawn Kreloff, 43, has been our Chairman 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 2003, Mr. Kreloff was executive vice president of sales, marketing and business development of Predictive Systems, Corp., a network infrastructure and security consulting company. Mr. Kreloff was a founding investor of Insight First, a company that provides 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, 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., (OTCBB: SSVC.OB). 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 NM: KEYN). Mr. Kreloff holds a BS degree in Operations Research from Syracuse University, 1984.

John Bush, 42, has been our President and Chief Executive Officer and a director since our inception in November 2003. He was a founding investor of Sona-Washington. He has been a senior telecommunications and technology executive for over 17 years. From November 2001 through December 2003, he was self-employed and a private investor. From December 1998 through December 2001, he was Vice President – Enterprise Marketing for Sprint Canada.

Michael P. Castellano, 64, was appointed to the Board on September 14, 2005 and was immediately named chairman of the Audit Committee. Mr. Castellano is a certified public accountant with more than 40 years of experience in the financial sector. His career includes executive positions in corporate accounting, finance, and administration at companies such as Avis, Inc., E.F. Hutton, Inc., and Fidelity Investments. At Fidelity, he held the positions of Vice President and Corporate Controller and was later appointed Senior Vice President and Chief Accounting Officer of the Fidelity Institutional Group. Later assignments included the positions of Executive Vice President and Chief Administrative Officer at Kobren Insight Group where he became a member of the Board of Directors in 1997. He was also a director and head of the Audit Committee for Puradyn Filter Technologies from 2001 through 2005 and ResortQuest International, a New York Stock Exchange listed property management company, from 2002 until November 2003 when it was acquired by Gaylord Entertainment. Mr. Castellano currently serves as a director and

chairman of the Audit Committees of Globetel Communications Corp. and Sun Capital Advisers Trust.

Bryan Maizlish, 43, was a director of PerfectData from March 31, 2000 through the Merger Date and has continued to serve on our board since the Merger Date. Mr. Maizlish joined Lockheed Martin Corporation in August 2000 and has held various managerial positions since then. He is currently serving as the Chief Technology Officer – Program Team in the Integrated Systems and Solutions

39

Division of Lockheed Martin Corporation. From January 1998 to August 2000, he was employed by Magnet Interactive Inc., a private Internet professional services company and its affiliate, Noor Group Ltd., a full service Internet solutions and infrastructure provider offering a full range of services from networking, hosting, and Internet service provision to web-based services and entertainment based in Cairo, Egypt, his last position at both companies being Executive Vice President, Chief Strategy Officer and Chief Financial Officer. Prior thereto, he held various managerial and consulting positions for over a decade in the new media and entertainment industries, such as MCA Inc., Gulf Western Corporation and Gene Roddenberry's Norway Corporation.

Frank J. Fanzilli, Jr., 48, was appointed to the Board on July 19, 2005 and is Chairman of the Compensation and Nominating Committee and a member of the Audit Committee. Mr. Fanzilli is a private investor and has been an independent business consultant since June 2002. From 1985 through June 2002 Mr. Fanzilli was employed at Credit Suisse First Boston. In 1996 he was named Managing Director and the Global Chief Information Officer of the bank. In that capacity he was responsible for the firm's world-wide information technology infrastructure, operations and applications. Mr. Fanzilli is also a director of InterWoven Inc. (Nasdaq NM: IWOV), the Open Source Development Labs, a non-profit organization dedicated to promoting open source, and several private firms. Mr. Fanzilli received a BS in Management from Fairfield University and MBA in Finance from the New York University Stern School of Business.

Paul C. Meyer, 58, was appointed to the Board on March 28, 2006. He has served as President of Shuffle Master, Inc., a publicly traded casino gaming supply company, since October 2003 and was appointed as Shuffle Master's chief operating officer in February 2004. Mr. Meyer served as president of the Integrated Solutions Division of Concurrent Computer Corporation from December 2000 until October to November 1998.

Joseph V. Vittoria, 70, was appointed to the Board on September 14, 2005. Mr. Vittoria is chairman of Autoeurope, Inc., American Coach Lines and Puradyn Filter Technologies, Inc. In September 2000, he retired as Chairman and Chief Executive Officer of Travel Services International, Inc., a company he founded and took public in 1997. Earlier in 2000, he had sold the company to Airtours, plc, a large British tour operator. From 1987 to 1997, he was Chairman and Chief Executive Officer of Avis, Inc., and was President and Chief Operating Officer for the prior five years. Mr. Vittoria serves as an Advisory Director of the National Crime Prevention Counsel. In recognition of his efforts on behalf of missing children, he served on President Reagan's Child Safety Partnership. He was the founding chairman of the Board of Visitors of the Georgetown University School of Languages and Linguistics and is a member of the Board of Overseers of the Columbia Business School.

John C. Rudy, 63, was appointed as Vice President and Chief Financial Officer on September 14, 2005. Mr. Rudy is the founder and principal of Beacon Consulting Associates, a firm specializing in providing financial consulting services. Mr. Rudy is a certified public accountant in New York State.

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

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

Committees of the Board of Directors

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

Audit Committee

The Audit Committee reviews our accounting functions, operations and management, our financial reporting process and the adequacy and effectiveness of our internal controls and internal

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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 Audit Committee held eight meetings during 2005.

Until the Merger Date, the members of the Audit Committee were Timothy D. Morgan (Chairman), Bryan Maizlish and Tracie Savage. Mr. Morgan and Ms. Savage resigned as directors on the Merger Date. From that the Merger Date until July 19, 2005, the entire Board functioned as the Audit Committee. On July 19, 2005, two new directors were appointed to the Board — Frank Fanzilli and Paul McAleese. Messrs. Fanzilli and McAleese were immediately appointed to serve on the Audit Committee, with Mr. Fanzilli appointed as Acting Chairman until we could identify an ‘‘audit committee financial expert’’ (see below). On September 14, 2005, Mr. Castellano, who qualifies as an ‘‘audit committee financial expert,’’ was appointed as the Chairman of the Audit Committee. Messrs. Castellano and Fanzilli currently serve as the sole members of the Audit Committee by reason of the resignation of Mr. McAleese as a director effective March 6, 2006.

Audit Committee Financial Expert

During our 2005 fiscal year prior to the Merger Date, the Board had determined that Timothy D. Morgan, then Chairman of the Audit Committee, was an ‘‘audit committee financial expert,’’ as such term is defined in Item 401(e)(1) of Regulation S-B, and that Mr. Morgan was independent, pursuant to Item 401(e)(1)(ii) of Regulation S-B. As discussed above, Mr. Morgan resigned from the Board on the Merger Date. On September 14, 2005, Mr. Castellano was appointed as Chairman of the Audit Committee and designated as the ‘‘audit committee financial expert.’’ Our Board has determined that Mr. Castellano qualifies as an "audit committee financial expert," as defined in the Item 401(e)(1) of Regulation S-B, and Mr. Castellano is independent, pursuant to Item 401(e)(1) (ii) of Regulation S-B. See

"Management – Executive Officers and Directors" for a description of Mr. Castellano's relevant experience.

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.

From the Merger Date until July 19, 2005, we did not have a nominating committee or a committee performing similar functions. On July 19, 2005, our Board established the Compensation and Nominating Committee and approved and adopted a Compensation and Nominating Committee Charter. Mr. Fanzilli and Mr. McAleese were appointed the sole members of the Compensation and Nominating Committee, with Mr. McAleese appointed as Chairman. Mr. Fanzilli currently serves as the sole member of the Compensation and Nominating Committee by reason of the resignation of Mr. McAleese as a director effective March 6, 2006.

Code of Ethics

Our Board has adopted a Code of Ethics, which remains in effect. The Code 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) 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.

EXECUTIVE COMPENSATION

The following table provides certain summary information concerning the compensation earned for services rendered to us in all capacities during each of the fiscal years indicated by the persons who served as our Chief Executive Officer and our Senior Vice President and Chief Technology Officer during the fiscal year ended December 31, 2005, except that amounts shown for Harris Shapiro, Chief Executive Officer and Chairman of the Board of Perfectdata prior to the Merger, for fiscal 2003, 2004 and 2005 are for years ended March 31 (PerfectData's fiscal year prior to the Merger). No other executive officer earned salary and bonus in excess of $100,000 during the fiscal year ended December 31, 2005. See "Certain Relationships and Related Party Transactions" for information as to consulting fees paid and options granted to certain officers in fiscal 2005.

Summary Compensation Table

Annual Compensation

Name and Principal Position	Year	Salary ($)	Long-Term Compensation Securities Underlying Options (#)	All Other Compensation ($)
John Bush, President and Chief Executive Officer [1]	2005	$ 190,479	87,665	$ 106,666[2]
	2004	0	—	$ 37,574[2]
	2003	0	—	0
Lance Yu, Senior Vice President – Chief Technology Officer [3]	2005	$ 137,946	150,000	$ 5,453[4]
	2004	$ 54,645	—	0
	2003	$ 5,883	—	0
Harris A. Shapiro [5]	2005	$ 71,250	25,000[6]	$ 1,750[7]
	2004	$ 150,000	—	$ 2,500[7]
	2003	$ 150,000	35,000	$ 2,250[7]

[1]Mr. Bush has served as our President and Chief Executive Officer since November 12, 2003 (inception).

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

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

[4]Represents payment of a vehicle expense allowance.

[5]Mr. Shapiro served as Chief Executive Officer and Chairman of the Board of PerfectData from September 2000 through the Merger Date.

[6]Mr. Shapiro was granted an option to purchase 25,000 shares of our Common Stock on June 30, 2004.

[7]Mr. Shapiro was paid cash compensation for his services as a director in accordance with the fee arrangements for directors as described below under "Compensation of Directors."

Option, Grants, Exercises and Values

The following table provides certain summary information concerning the granting of options during our fiscal year ended December 31, 2005 to the persons who served as our Chief Executive Officer and our Senior Vice President – Chief Technology Officer during that fiscal year:

Option Grants In Last Fiscal Year

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

The following table provides certain summary information concerning the exercise of options during the fiscal year ended December 31, 2005 and unexercisable options held as of the end of such fiscal year by the persons who served as our Chief Executive Officer and Senior Vice President – Chief Technology Officer:

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

Name	Shares Acquired On Exercise	Value Realized	Number of Unexercised Options Held at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at FY-End[1] Exercisable/Unexercisable
John Bush	-0-	-0-	29,221/58,444	$5,844/$11,689
Lance Yu	-0-	-0-	50,000/100,000	$10,000/$20,000
Harris A. Shapiro	-0-	-0-	60,000/-0- [2]	$54,000/$-0-

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

(2) As of December 31, 2005, options were exercisable to purchase 60,000 shares.

Compensation of Directors

During the 2005 fiscal year prior to the Effective Date, each of the directors of PerfectData then serving was granted an option under PerfectData's pre-merger compensation plan for directors to purchase 25,000 shares of Common Stock. In addition, each director was eligible to receive $500 for each meeting attended in person, plus reimbursement for out-of-pocket expenses, and $250 for each meeting attended telephonically.

On July 19, 2005, our Board adopted a new compensation plan for directors. Under the new plan, each non-employee director, immediately upon his or her election or appointment to the Board, receives 40,000 shares of Common Stock, of which 20,000 shares will vest immediately and 20,000 will vest on the first anniversary of his or her election to the Board. If the director leaves the Board for any reason, voluntarily or involuntarily, before the first anniversary of his or her election to the Board, he or she will forfeit any unvested shares. In addition, each non-employee director receives an annual director's fee of $5,000 and an option to purchase 5,000 shares of Common Stock, which option will become exercisable in equal 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.

The Chairmen of the Audit Committee and the Compensation and Nominating Committee each receive an annual fee of $1,000, payable in equal quarterly installments. Each member of the Audit Committee and the Compensation and Nominating Committee receives $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 $75.00 if they attend the committee meeting telephonically.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For the years ended December 31, 2005 and December 31, 2004, we paid aggregate consulting fees of $140,808 and $0, respectively, to Mr. Kreloff and $207,215 and $36,269, respectively, to Mr. Glinsman. In addition, relocation

expense of $32,884 was incurred by us in 2005 for Mr. Glinsman's benefit. On December 1, 2005, Mr. Kreloff became our full-time employee at an annual salary of $150,000, increasing to $240,000 for 2006. We also granted options expiring October 13, 2010 to each of Messrs. Kreloff and Glinsman to purchase up to 250,000 shares of our Common Stock at an exercise price of $1.60.

On July 18, 2005, we entered into a two-year consulting agreement with Mr. Frank Fanzilli, a director, under which we pay him $5,000 per month for consulting services. We also issued to each of Messrs. Castellano, Fanzilli and Vittoria in connection with their appointment to our Board of Directors in 2005, 40,000 shares of our Common Stock (an aggregate of 120,000 shares) pursuant to the restricted stock equity compensation plan described under "Management — Compensation of

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Directors." Mr. Paul McAleese, who was also appointed to our Board of Directors in 2005 and who resigned from the Board effective March 6, 2006, was also awarded 40,000 shares of our Common Stock under this equity compensation plan , but, as provided in the plan, forfeited 20,000 shares by reason of his resignation from the Board. We have filed a registration statement with the Securities and Exchange Commission seeking to register all these shares for resale by such persons under the Securities Act. We also granted options to purchase up to 5,000 shares of our Common Stock to each of such persons in 2005 in connection with their appointment to our Board of Directors.

Messrs. Bryan Maizlish and Paul Meyer were each awarded 40,000 restricted shares of our Common Stock and options to purchase 5,000 shares of our Common Stock in connection with their appointments to our Board of Directors. The restricted stock awards and option grants were effected on March 28, 2006

In January 2006, we entered into a strategic alliance licensing and distribution agreement with Shuffle Master, Inc. under which we agreed to develop certain wireless gaming technology for Shuffle Master. Pursuant to this agreement we are 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. The agreement has a term of five years and will automatically be renewed for additional five year periods if the gross revenues from such sales exceed $15 million on an annualized basis, based on the gross revenues in the final quarter prior to the expiration of each such five year period. If such gross revenues on an annualized basis are less than $15 million then Shuffle Master may terminate the agreement. One of our directors, Mr. Paul Meyer, is the President of Shuffle Master.

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

The following table sets forth, as of March 28, 2006, 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 and director nominees:
- each executive officer named in the Summary Compensation Table above; and
- all of our directors and executive officers as a group.

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

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)(2)	Percentage of Common Stock Beneficially Owned(2)
Shawn Kreloff c/o Sona Mobile Holdings Corp. 825 Third Avenue, 32 nd Floor New York, NY 10022	2,963,244(3)	7.3%
John Bush c/o Sona Mobile Holdings Corp. 825 Third Avenue, 32 nd Floor New York, NY 10022	6,262,775(4)	15.5%
Bryan Maizlish 9705 Conestoga Way Potomac, MD 20854	104,256(5)(6)	*
Frank J. Fanzilli, Jr. 5 Old Lantern Place Norwalk, CT 06851	571,727(6)(7)	1.4%
Michael P. Castellano 16 Sheldrake Lane Palm Beach Gardens, FL 33418	42,500(6)(8)	*
Joseph V. Vittoria 1616 S. Ocean Blvd. Palm Beach, FL 33480	42,500(6)(7)	*
Lance Yu c/o Sona Mobile Holdings Corp. 44 Victoria Street, Suite 801 Toronto, Ontario M5C1Y2 Canada	1,228,734(10)	3.0%
Harris A. Shapiro c/o PerfectData Corporation 1445 East Los Angeles Avenue Simi Valley, CA 93065	344,500(11)	*

45

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned[1][2]	Percentage of Common Stock Beneficially Owned[2]
John C. Rudy c/o Sona Mobile Holdings Corp. 825 Third Avenue, 32 nd Floor New York, NY 10022	—	*
Paul C. Meyer c/o Shuffle Master, Inc. 1006 Palms Airport Drive Las Vegas, Nevada 89119	41,250[6][9]	*
All directors and officers as a group (Nine in number)	11,171,986[12]	27.6%
Thomas R. Ellis c/o P.T. Houston, LLC 2323 North 30th Street, Suite 100 Tacoma, WA 98403	3,961,190[13]	9.8%
Steven L. Martin c/o Slater Asset Management, LLC 825 Third Avenue, 33 rd Floor New York, NY 10022	3,430,104[14]	8.3%
Shuffle Master, Inc. 1106 Palms Airport Drive Las Vegas, Nevada 89119	3,507,693[15]	8.5%

*Less than 1%.

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

(2)None of the information in this table regarding number of shares and percentage of Common Stock beneficially owned takes into account the Additional Shares (as described on page 16) that we will issue to the former holders of the Series A Preferred Stock and Series B Preferred Stock if and when we satisfy certain conditions relating to our operating results. As of the date of this prospectus, none of these conditions have been met and none of the Additional Shares have been issued. The shares of Series A Preferred Stock and the Series B Preferred Stock have been converted into shares of our Common Stock. As of March 31, 2006, 40,316,710 shares of our Common Stock were outstanding.

(3)Includes 83,333 shares underlying currently exercisable options.

(4)The shares of our Common Stock reported in the table reflect 6,182,587 shares owned by Mr. Bush, including 29,221 shares underlying currently exercisable options, and 80,168 shares owned by his wife.

(5)The shares reported in the table include 60,000 shares issuable upon the exercise of options granted under our Stock Option Plan of 2000 (the "Original Plan"). All these options expire on April 19, 2008.

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

(7)Includes 3,750 shares underlying options currently exercisable or exercisable within 60 days of the date

of this prospectus.

[8]Includes 2,500 shares underlying options currently exercisable or exercisable within 60 days of the date of this prospectus.

[9]Includes 1,250 shares underlying options currently exercisable or exercisable within 60 days of the date of this prospectus.

[10]Includes 50,000 shares underlying exercisable options.

[11]Mr. Shapiro was the Chairman of the Board, Chief Executive Officer and a director of PerfectData until April 19, 2005 when he resigned in connection with the Merger. The shares of Common Stock reported in the table reflect (a) 284,500 shares owned by Millennium Capital Corporation ("Millennium"), for which Mr. Shapiro has voting power as its President; (b) 10,000 shares issuable upon the exercise of an option expiring June 19, 2012 under the Original Plan (c) 25,000 shares issuable upon the exercise of an option expiring September 25, 2012 under the Original Plan; and (d) 25,000 shares issuable upon the exercise of a an option expiring June 9, 2014 under the Original Plan. As a result of the Merger, all three options expire April 19, 2008.

46

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[12]Includes 235,054 shares underlying options granted to these officers and directors and does not include Mr. Shapiro's beneficial ownership.

[13]All shares are registered in the name of PT Houston LLC, of which Mr. Ellis is the sole member and manager.

[14]Includes shares owned directly by Mr. Martin (278,104) as well as shares he is deemed to beneficially own through his wife (8,000), through his IRA (152,400) and through his wife's IRA (76,200); 628,800 shares underlying warrants held by Mr. Martin, certain of the entities mentioned in this footnote and his wife’s IRA; but does not include shares underlying certain warrants that may be issuable by us to Mr. Martin, certain of the entities mentioned in this footnote and his wife’s IRA if the registration statement in which this prospectus is included does not become effective by March 19, 2006. Mr. Martin also has voting and investment control over shares owned by Slater Equity Partners, L.P. (1,372,000), Slater Equity Partner's Offshore Fund Ltd. (762,200) and Slater FF&E Fund, LLC (152,400) 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. and the manager of Slater FF&E Fund, LLC.

[15]Includes 1,200,000 shares underlying warrants. Dr. Mark L. Yoseloff and Messrs. Ken Robson, Garry W. Saunders and Louis Castle are all members of Shuffle Master’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.

47

DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 92,000,000 shares, including 90,000,000 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 March 31, 2006, we had 40,316,710 shares of our Common Stock were 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. 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;

48

- preferences over our Common Stock as to dividends and distributions in liquidation;
- conversion and redemption rights, including the right to convert into shares of our Common Stock; and
- sinking fund provisions.

Outstanding Options and Warrants

At March 31, 2006, we had outstanding stock options granted to employees and consultants to purchase 1,880,833 shares of Common Stock. These options have exercise prices ranging from $0.52 to $3.43 per share, with an average weighted exercise price of $1.51, and expire between April 18, 2008 and March 28, 2011. Of the options outstanding at March 31, 2006, 905,647 are vested and currently exercisable. We also had outstanding non-compensatory warrants issued to purchase 2,162,175 shares of Common Stock. Of these warrants, 962,175 warrants have an exercise price of $1.92969 (as adjusted) and expire on June 21, 2009 and 1,200,000 warrants have an exercise price of $2.025 per share and expire on July 12, 2007.

Registration Rights

We have not granted any registration rights, other than the registration rights with respect to the shares offered by this Prospectus.

Transfer Agent

The transfer agent and registrar for our Common Stock is U. S. Stock Transfer Corporation, 1745 Gardena Ave., Glendale, California 91204-2991.

49

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 March 31, 2006. 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 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 two years, we currently have no agreements, arrangements or understandings with the selling stockholders regarding the sale of any of their shares.

Selling Stockholders	Number of Shares Owned Before the Offering	Number of Shares Offered	Number of Shares Owned After the Offering	Percentage of Class of Shares
			—	—
Slater Equity Partners LP.	1,715,000(1)[(9)]	1,715,000	—	—
Slater Equity Partners Offshore Fund Ltd.	952,750(2)[(9)]	952,750	—	—
Slater FF&E Fund, LLC	190,500(3)[(9)]	190,500	—	—
Steven L. Martin Rollover IRA	190,500[(4)]	190,500	—	—
Jodee R. Martin Rollover IRA	95,250[(5)]	95,250	—	—
Potomac Capital Partners LP	630,250(6)[(10)]	630,250	—	—
Potomac Capital International Ltd.	380,125(7)[(10)]	380,125	—	—
Pleiades Investment Partners-R LP	418,750(8)[(10)]	418,750	—	—
Free Market Capital, LP	553,373[(11)]	142,500	410,873	1.0%
James Fuld Jr.	95,250[(12)]	95,250	—	—
EuroAmerican Investment Corporation	403,211[(13)]	403,211	—	—
William B. Wachtel	150,000[(14)]	150,000	—	
Albert Kula	253,211[(15)]	253,211	—	—
Matthew A. Smith	253,211[(16)]	253,211	—	—
RB & AJ Associated Holdings, Inc. (16)	126,630[(17)]	126,630	—	—
Stephen Rosenblum	126,630[(18)]	126,630	—	—
The Leonida Group, LLC (17)	63,315[(19)]	63,315	—	—
Carter Management Group LLC	63,315[(20)]	63,315	—	—
Glenn Golenberg	63,315[(21)]	63,315	—	—
Paul McAleese (18)	22,500[(22)]	20,000	2,500	*
Frank J. Fanzilli, Jr. (18)	571,727[(23)]	40,000	531,727	1.3%
Michael P. Castellano (18)	41,250[(24)]	40,000	1,250	*
Joseph V. Vittoria (18)	41,250[(25)]	40,000	1,250	*
Rupert Benson (19)	53,333[(26)]	20,000	33,333	*

*Less than 1%.

(1)In June 2005, as part of the Series B Financing, Slater Equity Partners LP purchased 1,372 shares of our Series B Preferred Stock (convertible into 1,372,000 shares of our Common Stock) and Warrants to purchase 343,000 shares of our Common Stock for an investment of $149,568. In November 2005, such shares of Series B Preferred Stock were automatically converted to 1,372,000 shares of our Common Stock. The shares included in this prospectus for the account of Slater Equity Partners LP include the 343,000 shares underlying such Warrants. See "Recent Developments—The Series B Preferred Stock and the Warrants.

(2)In June 2005, as part of the Series B Financing, Slater Equity Partners Offshore Fund Ltd. purchased 762.2 shares of our Series B Preferred Stock (convertible into 762,200 shares of our Common Stock) and Warrants to purchase 190,550 shares of our Common Stock for an investment of $1,000,006.40. In November 2005, such shares of Series B Preferred Stock were

automatically converted to 762,200 shares of our Common Stock. The shares included in this prospectus for the account of Slater Equity Partners Offshore Fund Ltd. include the 190,550 shares underlying such Warrants. See "Recent Developments—The Series B Financing."

(3)In June 2005, as part of the Series B Financing, Slater FF&E Fund Ltd. purchased 152.4 shares of our Series B Preferred Stock (convertible into 152,400 shares of our Common Stock) and Warrants to purchase 38,100 shares of our Common Stock for an investment of $199,948.80. In November 2005, such shares of Series B Preferred Stock were automatically converted to 152,400 shares of our Common Stock. The shares included in this prospectus for the account of Slater FF&E Fund Ltd. include the 38,100 shares underlying such Warrants. See "Recent Developments—The Series B Financing."

(4)In June 2005, as part of the Series B Financing, the Steven L. Martin Rollover IRA purchased 152.4 shares of our Series B Preferred Stock (convertible into 152,400 shares of our Common Stock) and Warrants to purchase 38,100 shares of our Common Stock for an investment of $199,948.80. In November 2005, such shares of Series B Preferred Stock were automatically converted to 152,400 shares of our Common Stock. The shares included in this prospectus for the account of Steven L. Martin Rollover IRA include the 38,100 shares underlying such Warrants. See "Recent Developments—The Series B Financing."

(5)In June 2005, as part of the Series B Financing, the Jodee R. Martin Rollover IRA purchased 76.2 shares of our Series B Preferred Stock (convertible into 76,200 shares of our Common Stock) and Warrants to purchase 19,050 shares of our Common Stock for an investment of $99,974.40. In November 2005, such shares of Series B Preferred Stock were automatically converted to 76,200 shares of our Common Stock. The shares included in this prospectus for the account of Jodee R. Martin Rollover IRA include the 19,050 shares underlying such Warrants. See "Recent Developments—The Series B Financing."

(6)In June 2005, as part of the Series B Financing, Potomac Capital Partners LP purchased 504.2 shares of our Series B Preferred Stock (convertible into 504,200 shares of our Common Stock) and Warrants to purchase 126,050 shares of our Common Stock for an investment of $661,510.40. In November 2005, such shares of Series B Preferred Stock were automatically converted to 504,200 shares of our Common Stock. The shares included in this prospectus for the account of Potomac Capital Partners L.P. include the 126,050 shares underlying such Warrants. See "Recent Developments—The Series B Financing."

(7)In June 2005, as part of the Series B Financing, Potomac Capital International Ltd. purchased 304.1 shares of our Series B Preferred Stock (convertible into 304,100 shares of our Common Stock) and Warrants to purchase 76,025 shares of our Common Stock for an investment of $661,510.40. In November 2005, such shares of Series B Preferred Stock were automatically converted to 304,100 shares of our Common Stock. The shares included in this prospectus for the account of Potomac Capital International Ltd. include the 76,025 shares underlying such Warrants. See "Recent Developments—The Series B Financing."

(8)In June 2005, as part of the Series B Financing, Pleiades Investment Partnership-R LP purchased 335 shares of our Series B Preferred Stock (convertible into 335,000 shares of our Common Stock) and warrants to purchase 83,750 shares of our Common Stock for an investment of $83,750. In November 2005, such shares of Series B Preferred Stock were automatically converted to 335,000 shares of our Common Stock. The shares included in this prospectus for the account of Pleiades Investment Partnership-R LP include the 83,750 shares underlying such warrants. See "Recent Developments— The Series B Financing."

(9)Steven L. Martin has voting and investment control over these securities because 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. and the Manager of Slater FF&E Fund, LLC.

(10)

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.

(11)In June 2005, as part of the Series B Financing, Free Market Captial LP purchased 114 shares of our Series B Preferred Stock (convertible into 114,000 shares of our Common Stock) and warrants to purchase 28,500 shares of our Common Stock for an investment of $149,568. In November 2005, such shares of Series B Preferred Stock were automatically converted to 114,000 shares of our Common Stock. The shares included in this prospectus for the account of Free Market Captial LP include the 28,500 shares underlying such warrants. See "Recent Developments—The Series B Financing." Lucille B. Amato as the President, a director and the sole shareholder of Global Assessments, Inc., the sole general partner of Free Market Capital, LP, has the sole voting and investment control over these securities.

(12)In June 2005, as part of the Series B Financing, James Fuld, Jr. purchased 76.2 shares of our Series B Preferred Stock (convertible into 76,200 shares of our Common Stock) and warrants to purchase 19,050 shares of our Common Stock for an investment of $99,974.40. In November 2005, such shares of Series B Preferred Stock were automatically converted to 76,200 shares of our Common Stock. The shares included in this prospectus for the account of Mr. Fuld include the 19,050 shares underlying such warrants. See "Recent Developments—The Series B Preferred Financing."

51

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(13)On the Merger Date, pursuant to the terms of the Merger, EuroAmerican Investment Corporation ("EIC"), as a stockholder of Sona-Washington, exchanged 52,631 shares of the common stock of Sona-Washington (acquired in February 2005 for an investment of $100,000) for 5,263 shares of Series A Preferred Stock (convertible into 253,211 shares of our Common Stock). In November 2005, such shares of Series B Preferred Stock were automatically converted to 253,211 shares of our Common Stock. In addition, PerfectData issued 150,000 shares of Common Stock to EIC, as assignee of Joseph Kowal, the consideration for PerfectData's issuance of such shares being the termination of Mr. Kowal's consulting agreement with PerfectData, and the consideration for Mr, Kowal's assignment of his right to receive such shares to EIC being the cancellation of indebted owing to EIC. William B. Wachtel as the President, sole director and sole shareholder of EuroAmerican Investment Corporation has sole voting and investment control over these securities.

(14)The 150,000 shares were initially acquired from us by Wachtel & Masyr, LLP, a law firm that represented PerfectData prior to the Merger, in lieu of legal fees, but were subsequently sold to Mr. Wachtel, who is a senior partner of such law firm.

(15)On the Merger Date, pursuant to the terms of the Merger, Albert Kula, as a stockholder of Sona-Washington, exchanged 52,631 shares of common stock of Sona-Washington (acquired in February 2005 for an investment of $100,000) for 5,263 shares of our Series A Preferred Stock (convertible into 253,211 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 253,211 shares of our Common Stock.

(16)On the Merger Date, pursuant to the terms of the Merger, Lisa L. Smith and Matthew A. Smith, as a stockholder of Sona-Washington, exchanged 52,631 shares of common stock of Sona-Washington (acquired in February 2005 for an investment of $100,000) for 5,263 shares of our Series A Preferred Stock (convertible into 253,211 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 253,211 shares of our Common Stock and issued in the Matthew A. Smith. From the Merger Date through December 31, 2005, Mr. Smith performed

consulting services for us at the monthly rate of $20,000.

(17)On the Merger Date, pursuant to the terms of the Merger, RB & AJ Associated Holdings, Inc. as a stockholder of Sona-Washington, exchanged 26,315 shares of common stock of Sona-Washington (acquired in March 2005 for an investment of $50,000) for 1,316 shares of our Series A Preferred Stock (convertible into 126,630 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 126,630 shares of our Common Stock. Robert B. Prag and Elizabeth B. Prag, as the sole executive officers, directors and shareholders of RB & AJ Associated Holdings, Inc. have shared voting and investment control over these securities.

(18)On the Merger Date, pursuant to the terms of the Merger, Stephen Rosenblum, as a stockholder of Sona-Washington, exchanged 26,315 shares of common stock of Sona-Washington (acquired in February 2005 for an investment of $50,000) for 2,632 shares of our Series A Preferred Stock (convertible into 126,230 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 126,630 shares of our Common Stock. Mr. Rosenblum is an affiliate of a registered broker-dealer and has informed us that these securities were not acquired for resale in the ordinary course of business.

(19)On the Merger Date, pursuant to the terms of the Merger, The Leonida Group, LLC, as a stockholder of Sona-Washington, exchanged 13,157 shares of common stock of Sona-Washington (acquired in February 2005 for an investment of $25,000) for 1,316 shares of our Series A Preferred Stock (convertible into 63,315 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 63,315 shares of our Common Stock. Michael Manis, as the managing member of The Leonida Group, LLC, has sole voting voting and investment control over these securities.

(20)Carter Management Group LLC, as a stockholder of Sona-Washington, exchanged 13,157 shares of common stock of Sona-Washington (acquired in February 2004 for an investment of $25,000) for 1,316 shares of our Series A Preferred Stock (convertible into 63,315 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 63,315 shares of our Common Stock. John C. Lipman, as the sole and managing member of Carter Management Group LLC, has sole voting and investment control over these securities. Mr. Lipman is affiliated with a registered broker-dealer and has informed us that the foregoing securities were not acquired for resale in the ordinary course of business.

(21)On the Merger Date, pursuant to the terms of the Merger, Glenn Golenberg, as a stockholder of Sona-Washington, exchanged 13,157 shares of common stock of Sona-Washington (acquired in February 2005 for an aggregate investment of $25,000) for 1,316 shares of our Series A Preferred Stock (convertible into 63,315 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 63,315 shares of our Common Stock.

(22)In connection with his appointment to our Board of Directors in July 2005, Mr. McAleese received a grant of 40,000 shares of our Common Stock (of which 20,000 shares were forfeited by reason of his resignation as a director in March 2006) and an option to purchase 5,000 shares of our Common Stock, of which 2,500 of such underlying shares are currently exercisable. He also received fees from us for his services as a director. See "Management--Executive Compensation --Compensation of Directors."

(23)On the Merger Date, pursuant to the terms of the Merger, Frank J. Fanzilli, Jr., as a stockholder of Sona-Washington, exchanged 109,740 shares of common stock of Sona-Washington (acquired in June and August 2004 for an aggregate

investment of $61,336) for 10,974 shares of our Series A Preferred Stock (convertible into 527,977 shares of our Common Stock). In November 2005, such shares of Series A Preferred Stock were automatically converted to 527,977 shares of our Common Stock. In connection with his appointment to our Board of Directors in July 2005, Mr. Fanzilli received a grant of 40,000 shares of our Common Stock and an option to purchase 5,000 shares of our Common Stock, of which 3,750 of such underlying shares are currently exercisable or exercisable within 60 days of the date of this prospectus. He has also received fees from us for his services as director and acting committee chairman. See "Executive Compensation—Compensation of Directors." Also, see "Certain Transactions and Related Party Transactions" for information about Mr. Fanzilli's consulting agreement with us.

(24)In connection with his appointment to our Board of Directors in September 2005, Mr. Castellano received a grant of 40,000 shares of our Common Stock and an option to purchase 5,000 shares of our Common Stock, of which 2,500 of such underlying shares are currently exercisable or exercisable within 60 days of the date of this prospectus. He has also received fees from us for his services as a director and committee chairman. See "Executive Compensation —Compensation of Directors".

(25)In connection with his appointment to our Board of Directors in September 2005, Mr. Vittoria received a grant of 40,000 shares of our Common Stock (and an option to purchase 5,000 shares of our Common Stock, of which 2,500 of such underlying shares are currently exercisable or exercisable within 60 days of the date of this prospectus. He has also received fees from us for his services as a director. See "Executive Compensation—Compensation of Directors."

(26)Mr. Benson is an employee of our United Kingdom subsidiary and in connection with his employment was granted an option to purchase 100,000 shares of our Common Stock in November 2005, of which 33,333 shares are currently exercisable. We also issued 20,000 shares of our Common Stock to Mr. Benson in lieu of accrued salary.

The selling stockholders have informed us that, other than registration covenants entered into with us at the time they acquired their securities, they did not have at such time any agreements, understandings or arrangements with any other persons, directly or indirectly, to dispose of their securities.

The securities we issued in a private placement in February and March 2006 prior to the Merger Date and in connection with the Merger were exempt from registration under the Securities Act pursuant to the exemption from registration under Section 4(2) of the Securities Act.

The securities sold in our the Series B Financing were exempt from registration pursuant to Rule 506 of Regulation D, Sections 4(2) and 4(6) of the Securities Act. Securities issued for services rendered by the law firm of Wachtel & Masyr were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act. See "Risk Factors—General Company Related Risk Factors" for information as to our obligation to register these securities and to issue additional common stock purchase warrants to investors in this placement if such registration is not declared effective by certain dates.

The shares of our Common Stock issued in November 2005 upon conversion of the shares of Series A Preferred Stock issued in connection with the Merger and the Series B Preferred Stock issued in such private placement, were exempt from registration pursuant to an exemption from registration under Section 3(a)(9) of the Securities Act.

All of the share and warrant certificates issued in connection with the Merger, the June 2005 private placement, the conversion of the Series A Preferred Stock and Series B Preferred Stock and the transactions with Shuffle Master, Inc. or issued in compensatory transactions or under Regulation S of the Act were imprinted with a legend restricting transfer unless pursuant to an effective registration statement or an available exemption under the Securities Act.

In private placements, the investors were required to represent and warrant (i) that the securities were purchased entirely for their own account with no intention, at the time of purchase, of dividing the securities with others or of reselling or otherwise disposing of any portion of the securities unless covered by an effective registration statement or pursuant to an available exemption from such registration; (ii) that the securities will be held for investment

purposes and not with a view toward further distribution or sale; and (iii) further agree that they will not engage in any short selling.

53

PLAN OF DISTRIBUTION

The shares of Common Stock covered by this prospectus may be sold from time to time by the selling stockholders. Such sales may be made on one or more exchanges or in the over-the-counter market, or otherwise at prices and at terms then prevailing or at prices related to the then-current market price, or in negotiated transactions. The shares may be sold by selling stockholders in one or more of the following types of transactions: (i) a block trade in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (ii) purchases by a broker or dealer as principal and resale by such broker or dealer for its account pursuant to the registration statement of which this prospectus is a part; (iii) an exchange distribution in accordance with the rules of such exchange; (iv) ordinary brokerage transactions and transactions in which the broker solicits purchasers; and (v) transactions between sellers and purchasers without a broker/dealer. In addition, any securities covered by the registration statement which qualify for sale pursuant to Rule 144 may be sold under Rule 144, rather than pursuant to the registration statement. From time to time the selling stockholders may engage in short sales, short sales versus the box, puts and calls and other transactions in securities of the issuer or derivatives thereof, and may sell and deliver the shares in connection therewith. In effecting sales, brokers or dealers engaged by the selling Investors may arrange for other brokers or dealers to participate. Brokers or dealers will receive commissions or discounts from selling stockholders in amounts to be negotiated immediately prior to the sale.

The selling stockholders will be subject to the prospectus delivery requirements of the Securities Act. We have informed the selling shareholders that in connection with the resale of thier securities they will be subject to applicable rules under the Securities Exchange Act of 1934, including, without limitation, the anti-manipulative provisions of Regulation M under the Exchange Act.

54

LEGAL MATTERS

The validity of the shares of Common Stock offered by this prospectus have been passed upon for us by Morse, Zelnick, Rose & Lander LLP, New York, New York.

EXPERTS

Our consolidated financial statements as of December 31, 2004 and 2005 included in this prospectus have been audited by Horwath Orenstein, LLP, independent registered public accounting firm, as stated in their report dated

February 28, 2006. 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 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.

Financial Statements

Financial Statements	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations and Comprehensive Loss	F-4
Consolidated Statement of Stockholders' Deficiency	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

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, 2005 and 2004, and the related consolidated statements of operations and comprehensive loss, stockholders' deficiency, and cash flows for each of the years in the two-year period ended December 31, 2005. 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 Inc. and Subsidiary as of December 31, 2005 and 2004 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the 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 this regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 21 to the consolidated financial statements, during the fourth quarter of 2005, the Company corrected its method of accounting for certain warrants.

/s/ Horwath Orenstein LLP
Chartered Accountants

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

SONA MOBILE HOLDINGS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As at December 31, 2005	As at December 31, 2004
Assets		
Current:		
Cash and cash equivalents	$ 1,286,912	$ 113,629
Accounts receivable (net of allowance for doubtful accounts of $37,479 and $0, respectively)	413,122	131,630
Tax credits receivable	30,929	90,433
Prepaid expenses & deposits	114,691	17,852
Total current assets	1,845,654	353,544
Property and equipment:		
Computer equipment	152,686	9,761
Furniture and equipment	29,761	5,469
Less: accumulated depreciation	(19,393)	(3,936)
Total property and equipment	163,054	11,294

Software rights, net	—	415,935
Total assets	$ 2,008,708	$ 780,773
Liabilities and Stockholders' Equity		
Current:		
Accounts payable	$ 619,729	$ 93,027
Accrued liabilities	701,206	375,975
Note Payable and other short term notes	—	55,325
Redeemable Preferred Shares	—	280,000
Deferred revenue	130,287	1,432
Total current liabilities	1,451,222	805,759
Convertible note payable	—	85,630
Common stock purchase warrants carried as a liability – 962,175 issued and outstanding (see Note 21)	750,103	—
Total Liabilities	2,201,325	891,389
Stockholders' equity:		
Common Stock – 90,000,000 shares authorized, par value $.01 per share – 37,907,350 and 11,413,232 shares issued and outstanding respectively	379,074	775,697
Additional paid-in capital	7,064,433	205,555
Unamortized stock based compensation	(53,000)	(325,237)
Accumulated other comprehensive income	(95,659)	(25,651)
Accumulated deficit	(7,487,465)	(740,980)
Total stockholders' deficiency	(192,617)	(110,616)
Total liabilities and stockholders' equity	$ 2,008,708	$ 780,773

See accompanying notes to consolidated financial statements.

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

	Year ended December 31, 2005	Year ended December 31, 2004
Net Revenue	$ 565,489	$ 401,536
Operating expenses		
Depreciation and amortization	439,370	142,588
General and administrative expenses	1,348,461	174,790
Professional fees	927,425	93,859
Development expenses	894,287	211,359
Selling and marketing expenses	3,672,346	385,602
Total operating expenses	7,281,889	1,008,198
Operating loss	(6,716,400)	(606,662)
Interest income	76,415	1,137

Interest expense		(6,480)		(28,314)
Other income and expense		(100,020)		7,683
Net loss	$	(6,746,485)	$	(626,156)
Foreign currency translation adjustment		(70,007)		(27,952)
Comprehensive loss	$	(6,816,492)	$	(654,108)
Net loss per share of common stock – basic and diluted	$	(0.22)	$	(0.06)
Weighted average number of shares of common stock outstanding – basic and diluted		30,916,820		10,626,442

See accompanying notes to consolidated financial statements.

F-4

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

	Common Stock		Series A & Series B Convertible Preferred Stock		Additional paid-in Capital	Unamortized Based Compensation	Accumulated Comprehensive Income	Accumu Defic
	Shares	Amount	Shares	Amount			Amount	
Balance at December 31, 2003	6,812,010	$ 35,000	—	$ —	$ —	$ —	$ 2,301	$ (114
Issuance of shares for cash	4,601,222	368,997						
Value of conversion option of convertible note					30,555			
Cash received in advance for common stock subscriptions					175,000			
Deferred stock based compensation		371,700				(325,237)		
Foreign exchange translation							(27,952)	
Net loss								(626
Balance at December 31, 2004	11,413,232	775,697	—	—	205,555	(325,237)	(25,651)	(740
	14,758,233	683,707						

Sona common stock issued prior to reverse merger								
Convertible note conversion	1,162,655	70,420						
Common stock acquired in the reverse merger	6,584,530	65,845			1,146,433			
Recapitalization and exchange of stock pursuant to merger	(27,334,120)	(1,529,823)			1,478,905	325,237		
Issuance of Series A Convertible Preferred Stock pursuant to merger			568,140	5,681				
Issuance of Series B Convertible Preferred Stock			3,849	38	4,365,049			
Conversion of Series A and Series B Convertible Preferred Stock into common stock	31,182,820	311,828	(571,989)	(5,719)	(306,109)			
Deferred stock based compensation	140,000	1,400			174,600	(53,000)		
Foreign exchange translation							(70,008)	
Net loss								(6,746
Balance at December 31, 2005	37,907,350	$ 379,074	0	0	$7,064,433	($53,000)	($95,659)	($7,487

See accompanying notes to consolidated financial statements.

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

	Year ended December 31, 2005	Year ended December 31, 2004
Cash provided by (used in):		
Operating activities		
Net loss	$ (6,746,485)	$ (626,156)
Adjustments for:		
Depreciation and amortization	439,370	142,588
Amortization of deferred interest	15,210	16,185
Revaluation of stock purchase warrants	100,020	
Changes in non-cash working capital assets and liabilities:		
Accounts receivable	(272,578)	(122,571)
Tax credits receivable	59,504	69,184
Prepaid expenses & deposits	(96,839)	(11,659)
Accounts payable	534,041	(67,929)
Accrued liabilities	330,882	244,263
Deferred revenue	128,855	1,432
Net cash provided by (used in) operating activities	$ (5,508,020)	$ (354,663)
Investing activities		
Capital expenditures	(167,217)	(2,155)
Net cash provided by (used in) investing activities	$ (167,217)	$ (2,155)
Financing activities		
Convertible note payable, net	—	100,000
Redeemable preferred shares	150,000	130,000
Proceeds from the sale of common stock	683,707	368,997
Proceeds from stock based compensation	53,000	46,463
Proceeds from deposits on share subscriptions	—	175,000
Cash acquired in reverse merger	1,101,858	—
Proceeds from the issuance of Series B Preferred Stock	4,365,087	—
Proceeds from the issuance of common stock purchase warrants	650,083	—
Repayment of note payable and other loans	(55,325)	(322,274)
Net cash provided by financing activities	$ 6,948,410	$ 498,186
Effect of exchange rate changes on cash	(99,890)	(27,952)
Change in cash during the period	1,173,283	113,416
Cash, beginning of period	113,629	213
Cash, end of period	$ 1,286,912	$ 113,629

There were no amounts paid in cash for taxes or interest in 2005 or 2004. There were several non-cash financing transactions in 2005. In early 2005, prior to the Merger Date, a convertible note in the principal amount of $100,000 was converted to 1,162,655 shares of Common Stock. On November 17, 2005, the outstanding shares of Series A and B Preferred Stock were automatically converted to 31,182,820 shares of Common Stock upon authorization of the increase in the authorized number shares of Common Stock to 90,000,000 shares.

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 have been prepared assuming that the Company will continue as a going concern. Since our inception in November 2003, we have generated minimal revenue and have incurred substantial losses. Accordingly, we have not generated cash flow from operations and have primarily relied upon the sale of shares of our common stock and the Series B Preferred Stock financing to fund our operations. These conditions raise substantial doubt about our ability to continue as a going concern.

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

As of December 31, 2005, the Company had cash and cash equivalents of approximately $1.3 million. Our management believes that this existing cash on hand, in combination with $3,000,000 in proceeds received subsequent to year end from the sale of shares to Shuffle Master, will be sufficient to fund our planned activities through at least June 2006. Accordingly, we will have to raise additional capital during 2006. We currently plan to raise capital to finance our planned activities at least through 2006. The form of the financing may include the sale of additional shares of our common stock or preferred stock or the issuance of options or warrants. We cannot assure that we will be successful in raising a sufficient amount of capital in a timely manner. If we are not successful in raising additional capital in a timely manner, our liquidity, financial condition and business prospects will be materially and adversely affected. Such a financing could dilute the interests of our existing shareholders or increase our operating expenses. If we cannot meet our revenue and cash flow forecasts and are also unable to secure additional financing, we may have to significantly curtail our operations or take other restructuring actions.

Note 2. Basis of Presentation

The accompanying audited consolidated financial statements of Sona Mobile Holdings Corp. (the ‘‘Company’’) and its subsidiaries, included herein have been prepared by the Company in accordance with U. S. generally accepted accounting principles ("GAAP"). The audited consolidated financial statements herein include the accounts of the Company and its wholly-owned subsidiary, Sona Mobile, Inc. (‘‘Sona Mobile’’) and Sona Mobile’s wholly-owned subsidiary, Sona Innovations, Inc. (‘‘Innovations’’), a Canadian company, and Sona UK, Ltd., a wholly-owned subsidiary of the Company formed in the United Kingdom in September 2005. All material inter-company accounts and transactions have been eliminated in consolidation.

Recently issued accounting pronouncements

In December 2004, the Financial Accounting Standards Board (‘‘FASB’’) issued Statement of Financial Accounting Standards ("SFAS) No. 123 (R), "Share Based Payment," which addresses the accounting for share-based payment transactions. SFAS No. 123 (R) eliminates the ability to account for share-based compensation transactions using APB No. 25, and generally requires instead that such transactions be accounted and recognized in the statement of income based on their fair values. SFAS No. 123 (R) will be effective for public companies that file as small business issuers as of the first interim period in fiscal years that begin after December 15, 2005. Management is evaluating the provisions of this standard. Depending upon the number and terms of options that may be granted in future periods, management believes that the implementation of this Standard could have a material impact on the Company's

financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No.

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150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset is some circumstances). Mandatorily redeemable instruments (i.e. instruments issued in the form of shares that unconditionally obligate the issuer to redeem the shares for cash or by transferring other assets) are to be reported as liabilities by their issuers. This statement does not affect the classification or measurement of convertible bonds, puttable stock, or other outstanding shares that are conditionally redeemable. The provisions of SFAS No. 150 are generally effective for all financial instruments entered into or modified after May 31, 2003, except for those provisions relating to mandatorily redeemable non-controlling interests, which have been deferred. The Company has complied with the provisions of SFAS No. 150 since its inception in November 2003. If the deferred provisions of SFAS No. 150 are finalized in their current form, management does not expect adoption to have a material effect on the Company's financial position or results of operations.

Note 3. Company Background and Description of Business

PerfectData Corporation (‘‘PerfectData’’) was incorporated in the State of California on June 8, 1976. On November 29, 2004, after obtaining the requisite shareholder approval, PerfectData reincorporated in the State of Delaware.

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

As contemplated by the Merger Agreement, on the Merger Date, four of PerfectData’s five directors resigned, including the Chairman of the Board, and the remaining director appointed three designees of Sona-Washington to fill those vacancies. Also, on the Merger Date the Company’s chief executive officer resigned and the reconstituted board appointed designees of Sona-Washington as the Company’s new executive officers.

In the Merger, the Sona-Washington shareholders received an aggregate of 539,733 shares of the Company’s Series A Convertible Preferred Stock (the ‘‘Series A Stock’’). The conversion ratio for the Series A Stock was 48.11159 to one – meaning each share of Series A Stock was convertible into 48.11159 shares of the Company’s common stock, par value $.01 per share (the ‘‘Common Stock’’), or a total of 25,967,413 shares of Common Stock. Sona Mobile’s financial advisor in connection with the Merger received 28,407 shares of the Series A Stock, convertible into 1,366,706 shares of Common Stock. The holders of the Series A Stock vote together with the holders of the Company’s Common Stock on all matters submitted for vote to the Company’s shareholders on an as converted basis. As a result, the holders of the Series A Stock had 80% voting control of the Company on the Merger Date. An additional 11,389,217 shares of Common Stock will be issued to the original holders of the Series A Stock and the Series B Stock (see Note 6 below) if either of the following two conditions are satisfied: (1) if the Company, on a consolidated basis, has revenues of at least $3,000,000 and a gross profit margin of at least 50% for its fiscal year ending December 31, 2005 or (2) if the

Company’s aggregate revenues for 2005 and 2006 are at least $12,000,000 and the Company’s gross profit margin, combined aggregate revenues and aggregate cost of revenues, for 2005 and 2006 are at least 50%.

The Series A Preferred Stock converted automatically into Common Stock at the time as the Company’s stockholders approved an amendment to the Company’s Certificate of Incorporation that increased the number of authorized shares of Common Stock to an amount that would permit the conversion of the Series A Preferred Stock. At the annual shareholders meeting on November 17, 2005, the Company’s stockholders approved an amendment to the Company’s Certificate of Incorporation increasing the number of authorized shares of Common Stock from 10,000,000 to 90,000,000. In accordance with the terms of the Merger Agreement, the 568,140 shares of the Series A Stock were automatically converted into 27,334,120 shares of Common Stock at that date.

Upon completion of the Merger, the Company’s only business was the historical business of Sona-Washington and the former Sona-Washington shareholders controlled the Company. Accordingly, the Merger was accounted for as a reverse acquisition of a public shell and a recapitalization of Sona-Washington. 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-Washington are treated as the historical financial statements of the combined companies. The historical financial statements of PerfectData prior to the Merger are not presented. Furthermore, because Sona-Washington is deemed the accounting acquirer, its historical stockholders’ equity has been adjusted to reflect the new capital structure. Immediately prior to the Merger, PerfectData was essentially a shell company with net assets (primarily cash) of approximately $1.1 million.

Sona-Washington was organized on November 12, 2003 in the State of Washington for the purpose of acquiring all of the stock of Sona Innovations, Inc., a Canadian corporation (‘‘Innovations’’). The acquisition was completed in December 2003. The Company operates as one business segment.

The Company develops and markets wireless data applications for mobile devices in the rapidly growing wireless data marketplace. The Company is a Vertical Wireless Software and Service Provider specializing in value-added services to data-intensive vertical market segments. The Company's revenues consist of project, licensing and support fees relating to the Sona Wireless Development Platform(TM) ("SWP") and related end-user wireless application software products made available to enterprises and cellular operators.

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

- Financial services and enterprise Software. Our products and services extend enterprise applications to the wireless arena, such as customer relationship management systems, sales force automation systems, information technology (IT) service desk and business continuity protocols, all of which are delivered in compliance with the current regulatory environment. One of the Company’s primary focuses is to develop wireless software applications for the data-intensive investment banking community and client-facing applications for the retail banking industry.
- Media, entertainment and gaming. Sona Mobile delivers content via significant channel partners and content partners, including live streaming television, digital radio, specific theme phones, and gaming applications.

Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist 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. During 2005 and 2004, one customer comprised approximately 18% and 31%, respectively, of the Company's revenue. 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. In 2005, there were two individual customer projects that made up 31% and 20% of annual revenues respectively. In 2004, there were also two individual, but different customer projects that made up 16% and 10%of annual revenues.

We had a balance of $37,479 in our Allowance for Doubtful Accounts provision as of December 31, 2005. This balance consists entirely of provisions made in 2005. There were no bad debt write offs against the provision in 2005.

Note 5. Summary of Significant Accounting Policies

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with GAAP and reflect the following policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Sona Mobile, Inc., the accounts of Sona Mobile’s wholly-owned subsidiary, Sona Innovations Inc., and the accounts of the Company’s wholly owned subsidiary in the United Kingdom, Sona Limited. 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 two major financial institutions.

(c) Foreign currency translation

The functional currency is the U.S. dollar. In accordance with the provisions of SFAS No. 52, ‘‘Foreign 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 Sona Innovations, which uses its local currency (Canada) as its functional currency, the resulting translation adjustments are included in other comprehensive income. 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.

(f) Software rights

Software rights were recorded at the excess of the purchase price for Innovations, purchased in 2003, over the fair value of that company's identifiable net tangible assets. During 2004 and 2005, the software rights were amortized on a straight-line basis assuming a four-year life. As at December 31, 2005, we determined that our technology had moved beyond the levels for which these software rights were originally acquired. Accordingly, the software rights were written off as of December 31, 2005. The related 2005 write off of approximately $347,000 has been included in Depreciation and Amortization expense in the financial statements.

(g) Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, ‘‘Accounting for Income 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

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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.

(h) Revenue recognition

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.’’ Service fees are recorded on a percentage of completion or completed-contract basis depending on whether or not reliable estimates of the costs to complete the work can be obtained. License fees are recognized over the service period when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is probable. The deferred revenues are amounts received prior to completion of service.

(i) Research and development costs

The Company incurs costs on activities that relate to research and the development of new products. Research costs are expensed as they are incurred. Costs are reduced by tax credits where applicable.

Development costs to establish the technological feasibility of software applications developed by the Company are charged to expense as incurred. In accordance with SFAS 86, certain costs incurred subsequent to achieving technological feasibility are capitalized. Accordingly, a portion of the internal labor costs and external consulting costs associated with essential wireless software development and enhancement activities are capitalized. Costs associated with conceptual design and feasibility assessments as well as maintenance and routine changes are expensed as incurred. Capitalized costs are amortized based on current or future revenue for each product with an annual minimum equal to the straight-line basis over the estimated economic lives of the applications, not to exceed 5 years and are periodically evaluated for impairment.

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

(j) Stock based compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB

Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, and Interpretation of APB Opinion No. 25," issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above and has adopted only the disclosure requirements of SFAS No. 123.

SFAS No. 123, as amended by SFAS No. 148, permits companies to recognize, as expense over the vesting period, the fair value of all stock-based awards on the date of grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Because the Company's stock-based compensation plan has characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, management believes that the existing option valuation models do not necessarily provide a reliable single measure of the fair value of awards from the plan. Therefore, as permitted, the Company applies the existing accounting

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rules under APB No. 25 and provides pro forma net income (loss) disclosures for stock-based awards made during the year as if the fair value method defined in SFAS No. 123, as amended, had been applied.

The following table illustrates the effect on net loss as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation. The fair value of these options was estimated at the date of grant using a Black-Scholes option-pricing model, assuming a risk-free interest rate of 4.24% - 4.83%, a three-year term, 65% volatility, and no expected dividend rate. There were no options issued in 2004.

(000's, except per share amounts)

		2005
Net loss, as reported	$	(6,746,485)
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards		502,127
Pro forma net loss	$	(7,248,612)
Basic and diluted net loss per common share:		
As reported	$	(0.22)
Pro forma	$	(0.23)

(k) Reclassifications

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

(l) Derivatives

We follow the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), along with related interpretations of 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. We value these derivative securities under the fair value method at the end of each reporting period (quarter), and their value is marked to market at the end of each reporting period, with the gain or loss recognition recorded against earnings. We continue to revalue these instruments each quarter to reflect their current value in light of the current market price of our Common Stock. We utilize the Black-Scholes option-pricing model to determine fair value. Key assumptions of the Black-Scholes option-pricing model include applicable volatility rates, risk-free interest rates and the instruments expected remaining life. These assumptions require significant management judgment.

Note 6. Schedule of Stockholders' Equity

The schedule of stockholders' equity reflects the Merger, which was treated as a reverse acquisition with Sona-Washington as the accounting acquirer. The beginning equity is that of Sona Washington as of December 31, 2003, and the schedule reflects the issuance of Common Stock pursuant to the merger and the Series B financing described below.

Series B Financing

In June 2005, the Company sold 3,848.7 shares of its Series B Convertible Preferred Stock, $.01 per share (the ''Series B Preferred Stock''), and warrants to purchase 962,175 shares of Common Stock (the ''Warrants''). The gross proceeds from the sale of the Series B Preferred Stock and the Warrants

(the ‘‘Series B Financing’’) were approximately $5.05 million, before related costs of approximately $34,000. The Series B Stock ranked pari passu with the Series A Preferred Stock and was identical in all material respects to the Series A Preferred Stock, except that each share of Series B Preferred Stock converted into 1,000 shares of Common Stock, or 3,848,700 in the aggregate, only upon an increase in the Company’s authorized shares of Common Stock.

At the annual shareholders meeting on November 17, 2005, the Company’s stockholders approved an amendment to the Company’s Certificate of Incorporation increasing the number of authorized shares of Common Stock from 10,000,000 to 90,000,000. In accordance with the terms of the Series B Financing, the 3,848.7 shares of the Series B Preferred Stock were automatically converted into 3,848,700 shares of Common Stock at that date.

Note 7. Earnings per Share

Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings 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 per share did not include 1,925,000 shares of the Company’s Common Stock issuable upon the exercise of options nor did it include the 962,175 shares issuable upon exercise of the common stock warrants, as their inclusion would be anti-dilutive.

Note 8. Lease Commitments

The Company leases office space in Toronto, Ontario, New York, New York, Boulder, Colorado and London, United Kingdom. The Company also leases certain office equipment. These leases have been classified as operating leases. Lease commitments by year are as follows:

Future Lease Commitments by Year
(US$)

	2006	2007	2008	2009	2010
Office Space Leases:					
United States	$ 497,104	$ 500,915	$ 67,938	$ 74,732	$ 62,059
Canada	81,740	27,247			
United Kingdom	5,446				
Total Office Space	584,291	528,162	67,938	74,732	62,059
Office Equipment	7,558	7,558	7,221	5,442	591
Total Lease Commitments	$ 591,849	$ 535,720	$ 75,159	$ 80,174	$ 62,650

Office lease payments for 2005 and 2004 were approximately $139,000 and $29,000 respectively. Office equipment lease expense for 2005 and 2004 were approximately $5,000 and $3,000 respectively.

Note 9. Convertible note payable

In July 2004, the Company issued a note for proceeds of $100,000, its face value. The note was due January 2006 and bears interest at 12% per annum, payable upon maturity. On the note's due date, 355,250 common shares were to be

issued to the note holder. The note was convertible to 1,162,655 shares of our Common Stock, at any time before the due date. In March 2005, the note was converted to 1,162,655 shares of the Company’s common stock.

In accordance with EITF 98-5, the fair value of the conversion option on the date of issuance was nil as the conversion price was equal to the current issue price for the underlying shares. The obligation

to issue the underlying shares has been valued at the market price at the time of issue in the amount of $30,555 and is reflected as part of "Additional paid-in capital" in stockholder's equity and the related note discount, netted against the note payable. Interest and amortization of the discount were charged to income over the term of the note. On March 2, 2005, the holder of the note exercised the conversion option. The other paid-in capital and the carrying value of the note payable, including accrued interest and unamortized discount of $21,580, have been recorded as proceeds for the issue of the 1,162,655 shares.

Note 10. Share Capital

On the Merger Date, the Company issued 568,140 shares of its Series A Stock in connection with the Merger. At the annual shareholders meeting on November 17, 2005, the Company’s stockholders approved an amendment to the Company’s Certificate of Incorporation increasing the number of authorized shares of Common Stock from 10,000,000 to 90,000,000. In accordance with the terms of the Merger Agreement, the 568,140 shares of the Series A Stock were automatically converted into 27,334,119 shares of Common Stock at that date.

In June 2005, the Company sold 3,849 shares of its Series B Preferred Stock and 962,175 Common Stock purchase warrants (the ‘‘Warrants’’). The total gross proceeds from the Series B Financing were $5,049,466. All of the Series B Peferred Stock subscription amounts were received by December 31, 2005. The Warrants were valued at $650,083 using the Black-Scholes option pricing formula based upon a four year term, a volatility factor of 65%, a risk free interest rate of 4.5% and the closing stock price on June 17, 2005, the date prior to the Series B Financing. The Warrants expire four years from their date of issuance and have a per share exercise price of $1.968. All subscription amounts were received by December 31, 2005. At the annual shareholders meeting on November 17, 2005, the Company’s stockholders approved an amendment to the Company’s Certificate of Incorporation increasing the number of authorized shares of Common Stock from 10,000,000 to 90,000,000. In accordance with the terms of the Series B financing, the 3,848.7 shares of the Series B Preferred Stock were automatically converted into 3,848,700 shares of Common Stock at that date.

Between January 1, 2004 and December 31, 2004, the Company issued 4,601,222 shares of its Common Stock for cash. As of December 31, 2004, the Company had 11,413,232 shares of its Common Stock outstanding. An additional 14,758,233 shares were issued for cash between January 1, 2005 and the Merger Date, of which $175,000 was received in December 2004. On March 2, 2005, 1,162,655 shares were issued upon conversion of a note payable (see Note 9). Between the Merger Date and December 31, 2005, the Company issued 27,334,120 of its Common Stock to convert 568,140 shares of its Series A Preferred Stock, 3,848,700 shares of its Common Stock to convert 3,848.7 shares of its Series B Preferred Stock, and 160,000 shares of restricted Common Stock to the four newly elected outside directors for their services, of which 20,000 shares subsequently forfeited to the Company.

Note 11. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable, and notes payable. 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 fair value of all financial instruments approximates book values.

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

Note 12. Income Taxes

Deferred tax benefits arising from net operating loss carry forwards were determined using the applicable statutory rates. At December 31, 2005, the Company had net deferred tax assets of approximately $2,539,000 arising from net operating loss (NOL) carry forwards. 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 2024. 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 net operating loss carry forward balances vary from the applicable percentages of net loss due to expenses, primarily amortization of software rights, recognized under generally accepted accounting principles, but not deductible for tax purposes.

	2005	2004	2003	Total
United States loss	2,537,265	216,285	114,823	2,868,373
Canada loss	3,782,636	409,871	—	4,192,507
United Kingdom loss	326,564	—	—	326,564
Amortization of intangibles	(415,935)	(138,647)	—	(554,582)
Net loss for tax purposes	6,230,530	487,509	114,823	6,832,862
Expected statutory rate	37.2%	36.7%	40.0%	37.2%
Expected recovery of taxes	2,314,916	179,048	45,929	2,539,256
Valuation reserve	(2,314,916)	(179,048)	(45,929)	(2,539,256)
Net tax asset	—	—	—	—

Note 13. Commitments

On December 29, 2004, Innovations signed a letter of intent to acquire the assets and employee contracts of Smart Video Canada Inc. for $83,195 ($100,000 Canadian). An initial deposit of $4,160 ($5,000 Canadian) was paid as at December 31, 2004, a second payment of $42,500 ($50,000 Canadian) was paid in the third quarter of 2005 and the final payment of $36,535 ($45,000 Canadian) was paid in the fourth quarter of 2005. The assets included in the purchase had negligible value, so the purchase amount was determined to be 100% goodwill relating to the employment contracts. The goodwill was estimated to have no future value as of December 31, 2005 and was written

off to General and Administrative expenses in the fourth quarter of 2005.

Note 14. Amounts due to Affiliated Parties

Accrued liabilities at December 31, 2005 include an amount of approximately $82,000 due to an officer of the Company and an amount of approximately $22,000 owed to a former employee of the Company. At December 31, 2004, these balances were approximately $164,000 and $46,000 respectively. Both amounts relate to compensation earned but not paid in 2004.

Note 15. Related Party Transactions

During 2005 and 2004, the Company paid consulting and management fees to shareholders and directors of the company in the amount of $499,000 and $102,000, respectively. This included payments for the years ended December 31, 2005 and December 31, 2004 for consulting fees of $140,808 and $0, respectively, to Mr. Kreloff and $207,215 and $36,269, respectively, to Mr. Glinsman. In addition, relocation expense of $32,884 was incurred by us in 2005 for Mr. Glinsman's benefit. We also granted options expiring October 13, 2010 to each of Messrs. Kreloff and Glinsman to purchase up to 250,000 shares of our Common Stock at an exercise price of $1.60. On July 18, 2005, we entered into a two-year consulting agreement with Mr. Frank Fanzilli, a director, under which we pay him $5,000 per month for consulting services. We also issued to each of Messrs. Castellano, Fanzilli and Vittoria in connection with their appointment to our Board of Directors in 2005, 40,000 shares of our Common Stock (an aggregate of 120,000 shares) pursuant to the restricted stock equity compensation plan described under "Executive Compensation—Compensation of Directors" elsewhere in this prospectus. Mr. Paul McAleese, who was also appointed to our Board of Directors in 2005 and who resigned from the Board effective March 6, 2006, was also awarded 40,000 shares of our Common Stock under this equity compensation plan , but, as provided in the plan, forfeited 20,000 shares by reason of his resignation from the Board. We also granted options to purchase up to 5,000 shares of our Common Stock to each of such persons in 2005 in connection with their appointment to our Board of Directors.

F-15

As of December 31, 2005, Accrued Liabilities includes the balance due to shareholders of $103,778, which is non-interest bearing and unsecured with no specific terms of repayment.

In 2004, the Company's subsidiary shared premises with the former majority shareholder of Innovations Baldhead Systems that also owns 570,796 shares of the Company's Common Stock. During 2004, the Company paid rent to the former majority shareholder in the amount of $22,590 on a month-to-month basis with no commitment.

Note 16. Option Grants

Option /SAR Grants in Last Fiscal Year

(1) 2000 Option Plan

In May 2000, the Board of Directors of the Company adopted the Stock Option Plan of 2000 (the ''2000 Option Plan''). In October 2000, the stockholders of the Company approved the 2000 Option Plan and ratified options previously granted. The Company registered under the Securities Act of 1933, as amended (the ''Securities Act''), the shares issuable upon the exercise of options granted or to be granted pursuant to the 2000 Option Plan in a Registration

Statement on Form S-8, File No. 333-51744, filed on December 13, 2000. As a result of this registration under the Securities Act, an optionee under options registered under such registration statement who is not an affiliate of the Company may resell the shares of the Common Stock received upon exercise immediately and an optionee who is an affiliate (i.e., a director or an executive officer) may resell pursuant to the exemption of Rule 144 under the Securities Act without compliance with any holding period under paragraph (d) of Rule 144.

The 2000 Option Plan provided for the grant of options to purchase shares of the Common Stock to directors, officers, employees and consultants of the Company. Non-qualified stock options may be granted to directors, officers, employees and consultants. Incentive stock options, as such form is defined in Section 422 of the Code, may be granted only to employees. The term of the 2000 Option Plan was for ten years and it provided for the grant of options to purchase up an aggregate of 1,925,000 shares of Common Stock. The 2000 Option Plan initially provided for the grants of options to purchase an aggregate of 2,000,000 shares of Common Stock; however, three options to purchase an aggregate of 75,000 shares have been exercised. The 2000 Option Plan was administered by the Board during the first half of 2005 and in prior fiscal years and in now administered by the Compensation Committee.

On November 12, 2005, the Company's stockholders approved the Amended and Restated Option Plan of 2000 (the ''Amended and Restated Option Plan.''), The Amended and Restated Option Plan amends and restates the 2000 Option Plan and, among other things, increases the number of shares of our Common Stock subject to the 2000 Plan from 2,000,000 shares to 5,000,000 shares and gives the Plan administrator the flexibility to grant various types of equity incentive compensation awards, in addition to stock options, including, for example, restricted stock awards, stock appreciation rights and others., among other things, increases the number of shares of our Common Stock subject to the Plan from 2,000,000 shares to 5,000,000 shares and gives the Plan administrator the flexibility to grant various types of equity incentive compensation awards, in addition to stock options, including, for example, restricted stock awards, stock appreciation rights and others.

The Amended and Restated Option Plan provides that the exercise price of an incentive stock option shall not be less than the fair market value of Common Stock on the date of grant, except that, if the employee owns stock possessing more than 10% of the total combined voting power of all classes of stock, the exercise price of the option must be at least 110% of the fair market value of Common Stock on the date of grant and the incentive stock option cannot be exercised after five years from the date of grant. No stock option granted has, and no option to be granted under the 2000 Option Plan may have, a term in excess of ten years. The exercise price of a non-statutory or nonqualified option may be less than the fair market value on the date of grant.

The number of shares subject to an outstanding option and the exercise price thereof are subject to adjustment in the event of a stock dividend, stock split, reorganization, recapitalization, combination

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of shares, change in corporate structure or similar events. No fractional shares will be issued upon exercise and the Company has no obligation to pay for such fractional share.

Options granted prior to the reverse acquisition on April 19, 2005 were not exercisable during the first year after the date of grant and thereafter became exercisable in annual installments of 25% each. Although the 2000 Option Plan permits some options to be granted to employees to have performance goals as the condition precedent to becoming exercisable, no option granted to date has such provision. Stock options granted subsequent to April 19, 2005 had vesting provisions of 1/3 upon grant with 1/3 vesting annually in each of the two following years, with the exception

of the director stock options, which vest at a rate of 25% at the end of each quarter over a one year period from the date of grant.

Options granted under the 2000 Option Plan are non-transferable and not immediately exercisable. However, as a result of the consummation of the Merger, all outstanding options became immediately exercisable, even if not already exercisable, and their expiration date became April 19, 2008.

The provisions described in this paragraph are applicable to future options: If the optionee's employment will terminate for any reason other than his or her death or disability, he or she may, for a period of up to three months, exercise the option to the extent exercisable upon the date of termination. If the optionee's employment terminates because of his or her total and permanent disability (as defined in the Code), the optionee will have 12 months within which he or she can exercise the stock option to the extent it was exercisable on the date of termination. In the event of other disability causing termination, the optionee may have six months (three months in the event the optionee wants continuous treatment of the stock option as an incentive stock option) to exercise the stock option to the extent exercisable upon the date of termination. If the optionee dies, his estate may exercise the stock option to the extent exercisable upon the date of death of the optionee, whether it occurred during the initial term or during the three, six or 12-month periods described in the three preceding sentences. In no event may a stock option be exercised beyond its original expiration date. Similar provisions are applicable to optionees who are not employees.

For a consultant to be eligible to receive a grant of a stock option under the Amended and Restated Option Plan the optionee must be a natural person and the services rendered for the Company must be of a bona fide nature and not in connection with the offer or sale of securities of the Company in a capital raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities.

At the Merger Date, options covering a total of 249,000 shares of the Common Stock were outstanding under the 2000 Option Plan at a weighted average exercise price of $1.003 per share.

During fiscal 2005, each of the five external directors was granted a stock option under the 2000 Option Plan for 5,000 shares of Common Stock on the respective dates of their appointment or re-election to the board. These grants vest over a one year period with 25% vesting at the end of each quarter after the grant date.

On October 13, 2005, 1,697,665 options were granted to officers, employees and independent contractors with an exercise price of $1.60, which was the closing market price on that date.

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

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

F-17

Option, Grants, Exercises and Values

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

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

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

Note 17. Segmented Information

The Company operates in Canada and the United States. All revenues are currently from the Canadian subsidiary. The Company has commenced sales and marketing efforts in the United States and the United Kingdom.

Property and equipment by geographic region are as follows:

	December 31, 2005	December 31, 2004
Property and Equipment		
United States	$ 105,699	$ 0
Canada	57,355	11,294
Total	$ 163,054	$ 11,294

Property and equipment includes only assets held for use, and is reported by geography based on the physical location of the assets at the end of the fiscal year. As of December 31, 2005, property and equipment were held only in the United States and Canada.

Note 18. Stock Based Compensation

In accordance with the compensation plan for directors adopted by the Board on July 19, 2005, the four new non-employee directors, immediately upon his election to the Board, received 40,000 shares of Common Stock, of which 20,000 shares vested immediately and 20,000 will vest on the first anniversary of his election to the Board. If a director leaves the Board for any reason, voluntarily or involuntarily, before the first anniversary of his election to the Board, he will forfeit any unvested shares. These 160,000 shares of common stock were valued at the fair market value on the date of grant and charged as compensation over the vesting period.

Note 19. Deferred Revenues

Deferred revenue occurs where the Company invoices customers for project work that has not been completed at the balance sheet date. The Company's deferred revenue balances for 2005 and 2004 are $130,287 and $1,432, respectively.

Note 20. Subsequent Event

In January 2006, we sold 2,307,693 shares of our Common Stock to Shuffle Master for $3.0 million and issued an 18-month warrant to purchase 1,200,000 shares of our Common Stock to Shuffle Master. This warrant has an exercise price of $2.025 per share and expires on July 12, 2007. The sale of these shares and the issuance of this warrant were

in connection with a strategic alliance distribution and licensing agreement between us and Shuffle Master. 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 December 2005, we filed a resale registration statement with the United States Securities and Exchange Commission (the ‘‘SEC’’) on behalf of various stockholders. In January 2006, while the registration statement was pending review by the SEC, we entered into a strategic alliance licensing and distribution agreement with Shuffle Master under which we agreed to develop certain wireless gaming technology for Shuffle Master. In connection with that agreement, we sold 2,307,693 shares of our common stock and warrants to purchase up to an additional 1,200,000 shares of our common stock to Shuffle Master, Inc. for $3.0 million. The proceeds from the sale of those securities were intended to provide us with the working capital we would need to fulfill our obligations under the agreement. Since we agreed to register the purchased shares and the shares underlying the warrants, we included them in the pending registration statement. We were subsequently informed by the staff of the SEC that, because we included those securities in a pending registration statement, they were questioning the availability of the exemption from registration that we were claiming. The availability of the exemption requires that the transaction have a conclusion. Including the Shuffle Master securities in the pending registration statement raises the question as to whether the transaction with Shuffle Master ever concluded. The SEC suggested that we remove the Shuffle Master securities from the pending resale registration statement, which we have done. Notwithstanding that removal, if a court of competent jurisdiction were to ultimately determine that an exemption was not available, we may have to offer Shuffle Master rescission rights. In addition, we, and possibly some of our officers, may also be subject to penalties. However, we believe the sale of securities to Shuffle Master was exempt from the registration requirements of the Securities Act as a valid private placement transaction under Sections 4(2) and 4(6) of the Securities Act for a variety of reasons and we will vigorously contest any claim to the contrary.

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

Management has determined that the prior accounting for the Warrants issued in conjunction with the Series B Preferred Stock in June 2005 was in error. The company initially classified the Warrants as an equity instrument, however the warrant agreement includes a registration rights agreement with an uneconomic penalty which precludes this classification. The Warrants have been reclassified as a liability in accordance with the provisions of SFAS 133, SFAS 150 and EITF 00-19.

As a result of the error, stockholders' equity at June 30, 2005 and September 30, 2005 were understated by $650,083. Liabilities for the same period were overstated by $650,083 and $749,730, respectively. Further the standards require the Company to re-measure the value at the end of each reporting period with the resulting increase or decrease to the liability reported as a component of the Consolidated Statements of Operation and Comprehensive Loss. As a result of the increase in the value of the warrants since issuance to December 31, 2005, a revaluation expense of $100,020 has been included in Other Income and Expense. Of this revaluation amount, $99,287 related to the quarter ended September 30, 2005 and $733 related to quarter ended December 30, 2005.

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

Table of Contents

	Page
Forward Looking Statements	2
Prospectus Summary	3
Risk Factors	6
Use of Proceeds	14
Dividend Policy	14
Capitalization	14
Market for Common Equity and Related Stockholder Matters	15
Recent Developments	16
Selected Consolidated Financial Data	18
Management's Discussion and Analysis and Plan of Operation	19
Business	29
Management	39
Executive Compensation	42
Certain Relationships and Related Transactions	44
Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45
Description of Securities	48
Selling Stockholders	50
Plan of Distribution	54
Legal Matters	55
Experts	55
Commission Position on Indemnification for Securities Act Liabilities	55
Where You Can Find More Information	55
Index to Financial Statements	F-1

6,473,713 SHARES
OF

COMMON STOCK

SONA MOBILE HOLDINGS CORP.

PROSPECTUS

, 2006

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.

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	$	1,328.50
Printing expenses		6,000.00*
Accounting fees and expenses		8,000.00*
Legal fees and expenses		60,000.00*
Miscellaneous		4,671.50*
Total	$	80,000.00*

*Estimated

II-1

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

In February and March 2005 prior to the Merger, our predecessor Sona-Washington sold a total of 223,679 shares of its common stock to eight accredited investors for $475,000. In issuing these shares, Sona-Washington 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 no general solicitation or general advertising involved in the offer or sale.

In connection with the Merger, we issued a total of 568,140 shares of our Series A Convertible Preferred Stock, par value $.01 per share (the ‘‘Series A Stock’’); 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 (the ‘‘Advisor’’). These shares are convertible into 27,334,120 shares of our Common Stock. In issuing the shares of the Series A 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.

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 of 1933, as amended (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 Preferred Stock and the Warrants to 10 accredited investors (each an ‘‘Investor’’). 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 $1.968 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

registration afforded by the provisions of Section 4(2) and Rule 506 of Regulation D as promulgated by the Commission under the Securities Act.

On November 17, 2005, all of the issued and outstanding shares of the Series A Preferred Stock and Series B Preferred Stock automatically converted into 31,182,820 shares of our Common Stock. The issuance of such shares of Common Stock were pursuant to an exemption from registration afforded by the provisions of Section 3(a)(9) of the Securities Act as a transaction involving an exchange of our securities with our existing security holders exclusively where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange.

On January 25, 2006, Shuffle Master, Inc. purchased 2,307,693 shares of our Common Stock for a per share purchase price of $1.30, or $3.0 million. In addition, on January 13, 2006, we issued to Shuffle Master, Inc. an 18-month warrant to purchase up to 1,200,000 shares of our Common Stock at an exercise price of $2.025 per share. The issuance of the shares and the warrant were in connection with a strategic alliance distribution and licensing arrangement between Shuffle Master and us. The issuance of the shares and the warrant were made pursuant to an exemptions from registration afforded by the provisions of Section 4(2) and 4(6) of the Securities Act. However, see "Management's Discussion and Analysis or Plan of Operation" in the prospectus included in this registration statement, as amended, for information as to a comment received from the Commission as to the availability of these exemptions.

ITEM 27. EXHIBITS.

Exhibit Number	Description
3.1	Agreement and Plan of Merger dated as of March 7, 2005 among Issuer, Perfect Data Acquisition Corporation and Sona Mobile, Inc.[1]

Exhibit Number	Description
3.2	Certificate of Incorporation, as amended[2]
3.3	By-laws of the Company[3]
4.1	Form of Common Stock Certificate.[4]
4.2	Form of Subscription Agreement dated June 21, 2005[5]
4.3	Form of Common Stock Purchase Warrant dated June 21, 2005[6]
4.4	Option Agreement dated December 29, 2005 between the Issuer and Shuffle Master, Inc.[7]
4.5	Option Exercise Letter dated January 24, 2005 from Shuffle Master, Inc. to Issuer.[8]
4.6	Form of Common Stock Purchase Warrant dated January 13, 2006 issued to Shuffle Master, Inc.[9]
5.1	Opinion of Morse, Zelnick, Rose & Lander, LLP*
10.1	Amended and Restated Stock Option Plan of 2000[10]
10.2	License and Distribution Agreement between the Issuer and Shuffle Master, Inc. dated as of January 13, 2006*
14.1	Code of Ethics[11]
21.1	Subsidiaries of the Issuer[12]

23.1	Consent of Independent Registered Public Accounting Firm[13]
23.2	Consent of Morse, Zelnick, Rose & Lander, LLP (included in Exhibit 5.1)*

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*Filed herewith.

[1]Previously filed as Exhibit 10.1 to the Issuer's Current Report on Form 8-K filed with the Commission on March 11, 2005 and incorporated herein by reference.

[2]The following documents comprising the Issuer's certificate of incorporation, as amended, are in incorporated herein by reference to the following filings with the Commission: (i) the Registrant's Consent Solicitation dated October 26, 2004 as filed with the Commission on November 1, 2004; (ii) Certificate of designations for Series A Preferred Stock filed as Exhibit 4.2 to the Registrant's Annual Report in Form 10-KSB for its fiscal year ended March 31, 2005; (3) Certificate of designations for Series B Preferred Stock filed as Exhibit 3.1 to the Registrants Current Report on Form 8-K filed with the Commission June 22, 2005; and (4) Appendix IV to the Registrant's definitive Proxy Statement dated October 27, 2005 and filed with the Commission on the same date.

[3]Previously filed with the Issuer's definitive Consent Solicitation Statement dated October 26, 2004 as filed with the Commission on November 1, 2004 and incorporated herein by reference.

[4]Previously filed as Exhibit 4.1 to Amendment No.1 to the Issuer’s Registration Statement on Form SB-2 (file no. 333-130461) filed with the Commission on February 2, 2006.

[5]Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with Commission on June 22, 2005 and incorporated herein by reference.

[6]Previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Commission on June 22, 2005 and incorporated herein by reference.

[7]Previously filed as Exhibit 4.4 to the Issuer's Annual Report on Form 10-KSB for its fiscal year ended December 31, 2006 filed with the Commission on March 31, 2006.

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[8]Previously filed as Exhibit 4.5 to the Issuer's Annual Report on Form 10-KSB for its fiscal year ended December 31, 2006 filed with the Commission on March 31, 2006

[9]Previously filed as Exhibit 4.6 to the Issuer's Annual Report form 10-KSB for its fiscal year ended December 31, 2006 filed with the Commission on March 31, 2006

[10]Previously filed as Appendix III to the Registrant's definitive Proxy Statement dated October 27, 2005 and filed with the Commission on the same date and incorporated herein by reference.

[11]Previously filed as Exhibit 14.1 to the Issuer's Annual Report on Form 10-KSB for its fiscal year ended December 31, 2005 filed with the Commission on March 31, 2006.

[12]Previously filed as Exhibit 21.1 to the Issuer’s Registration Statement on Form SB-2 (file no. 333-130461) filed with the Commission on December 19, 2005.

[13]Previously filed as Exhibit 23.1 to the Issuer's Registration Statement on Form SB-2 (file no. 333-130461) filed with the Commission on April 7, 2006.

ITEM 28. UNDERTAKINGS.

A. The undersigned Registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

A. Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

B. Reflect in our prospectus any facts or events arising after the effective date of this registration statement, or most recent post-effective amendment, 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 the securities offered (if the total dollar value of securities offered would not exceed that which was registered) 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 Commission pursuant to Rule 424(b) 230.424(b) of this chapter 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.

C. Include any additional or changed material information on the plan of distribution.

2. That, for the purpose of determining any liability under the Securities Act, each such post-effectvie amendment shall be deemed to be a new registration statement relating to the securities offered herein, 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 hereby which remain unsold at the termination of the offering.

4. Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on rule 430(B) or other than prospectuses filed in reliance on Rule 430A. 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 referenced 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.

B. 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. 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.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this Amendment No. 3 to the Registration Statement to be signed on its behalf by the undersigned, in New York, New York on April 20, 2006.

SONA MOBILE HOLDINGS CORP.
By: /s/ John Bush
John Bush, President and Chief Executive Officer

In accordance with the requirements of the Securities Act of 1933, as amended, the following persons have signed this Amendment No. 3 to the Registration Statement in the capacities indicated on the date set forth above.

Signature	Title
/s/ John Bush John Bush	President and Chief Executive Officer, and Director (principal executive officer)
/s/ John C. Rudy John C. Rudy	Chief Financial and Accounting Officer (principal financial officer)
* Shawn Kreloff	Chairman of the Board of Directors
Bryan Maizlish	Director
* Frank Fanzilli	Director
* Michael Castellano	Director
* Joseph Vittoria	Director
Paul C. Meyer	Director

* By: /s/ John Bush
John Bush
Attorney-in-fact

II-6