PERFECTDATA CORP
Form 10KSB/A
September 13, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2004

Commission File No. 0-12817

PERFECTDATA CORPORATION
(Exact name of Small Business Issuer in Its Charter)

California 95-3087593
(State or Other Jurisdiction of (IRS Employer
Incorporation or Organization) Identification Number)

1445 East Los Angeles Avenue
Suite 208
Simi Valley, California 93065
(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number, Including Area Code:
(805) 581-4000

Securities registered pursuant to Section 12 (b) of the Act:
None

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes[X] No[ ].

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. [ ]

Issuer's revenues for its most recent fiscal year: $2,680,000.

As of May 31, 2004, the aggregate market value of the voting stock held by nonaffiliates of the issuer was $4,382,150.

As of May 31, 2004, the issuer had 6,209,530 shares of Common Stock outstanding.

Transitional Small Business Disclosure Format (check one):

Yes[ ] No[X].

The Annual Report on Form 10-KSB for the fiscal year ended March 31, 2004 (the "Annual Report") of PerfectData Corporation (the "Company") is hereby amended to amend Items 6, 7, 8A and 13, to file a new Exhibit 10.17, to substitute new exhibits 23(a) and 23(b) and to update the Certifications Pursuant to Rule 13a-14 (a) and (b) under the Securities Exchange Act of 1934 filed or furnished as Exhibits 31.1, 31.2 and 32 to the Annual Report. Except as so amended, there is no other change to the Annual Report.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Proposed Sale of Business Operations

As previously reported, on October 3, 2003, the Company entered into an Asset Purchase Agreement (the "APA") with Spray Products Corporation ("Spray"), pursuant to which the Company agreed to sell to Spray (or a Spray affiliate) substantially all of the operating assets of the Company for a price equal to the sum of the value of the inventory, collectible accounts receivable and $100,000, less the amount of trade payables which are being assumed by Spray.

Since November 1, 2003, Spray had, pursuant to the APA, been acting as a manager for the fulfillment of orders from the Company's customers. As compensation for Spray's services, Spray was receiving a fee of 7 1/2% of net sales. As a result of the management arrangement with Spray, the Company has moved to a smaller facility and reduced its staff, thereby reducing its ongoing overhead expenses. As indicated in the next paragraph, as a result of Spray assuming, effective as of June 1, 2004, full responsibility for all customers, Spray is entitled to the full economic benefit of any sale to a customer of the Company in lieu of the foregoing fee.

Because the Company's largest customer had threatened to seek another supplier because of a supplier's offer of lower prices, and because of the long delay in closing the transaction, thereby causing uncertainty for customers and Spray, the Company and Spray had agreed in principle, and subsequently formalized the agreement in writing by a Second Amendment dated as of August 12, 2004, to the following revisions to the APA: (1) effective June 1, 2004, Spray assumed full responsibility for all of the Company's customers in order to prevent possible losses of customer business; (2) the aforementioned payment of $100,000 will be reduced to $80,000; and (3) the Company may put the assets to Spray for the purchase price on the earlier of (a) September 30, 2004 or (b) the Company receiving shareholder consent to the sale of Spray

The Board of Directors, after consultation with certain major shareholders, had elected in June 2003 to sell the operating business assets of the Company because, despite efforts by the Company during the prior fiscal years which had increased sales and reduced expenses, the Company continued to operate at a loss, thereby diluting the Company's cash, which is its major asset. The Board concluded that a sale or liquidation of the operating assets was in the best interests of the Company and its shareholders even if no acquisition or merger (including the then pending transaction with SuperCom) was effected.

The Company will seek shareholders' approval of the sale of its operating assets to Spray by consents in lieu of holding a meeting. A condition

precedent under the APA to closing the transaction was, prior to the Second Amendment to the APA, that the Company obtain the approval of its shareholders. If, on the other hand, as permitted by the Second Amendment to the APA and the California statute, the put by the Company to spray is exercised as of September 30, 2004, a closing is held and shareholders' approval is not thereafter obtained, the parties would be required to rescind the transaction. However, in view of management's discussions with major shareholders in June 2003, as previously reported, management does not believe that recission is likely to be required.

As a result of the transaction, as modified, with Spray, the Company has no operations and will thereafter receive no revenues until an acquisition or merger is effected, as to which and when there can be no assurance.

Efforts to Seek Another Merger or Acquisition Candidates

As previously reported, on July 2, 2003, the Company entered into the Merger Agreement and related agreements with SuperCom, an Israeli corporation, culminating the negotiations which had begun in April 2003.

SuperCom is engaged in the research, development and marketing of advanced technologies and products for government secured ID projects and smart card production technology. On January 20, 2004, the Company reported that the Merger Agreement and related agreements had terminated.

The Board of Directors of the Company does not intend to liquidate the Company, but instead, with the Company having cash or cash equivalents currently in excess of $1,500,000, the Board intends to continue its search for a suitable merger or acquisition candidate. Even though the Company has no operations, the Company believes its status as a publicly-traded company is valuable and therefore makes it a viable merger candidate. During the past four fiscal years, the Company had been seeking acquisitions which have not been related to its current business. The Board was of the opinion that profitability on a continuous basis would not be achieved absent an acquisition of a new business or businesses and/or new products. However, the Board can not determine when any such acquisition will be consummated, if at all. During recent years, three potential acquisitions (including SuperCom) were actively pursued; however, all terminated for different reasons and the Company incurred expenses in connection therewith.

Critical Accounting Policies

Management believes that the following discussion addresses the Company's most critical accounting policy, which is most important to the portrayal of the Company's financial condition and results, and requires the most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Prior to November 1, 2003, the date on which Spray assumed responsibility for fulfillment of customer orders, management also included a discussion of its evaluation of inventory as a critical accounting policy on an on-going basis.

Revenue Recognition:

The Company recognizes when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists, and the sales price is fixed or deteminable.

Allowance for Doubtful Accounts:

The Company evaluates the collectibility of its accounts receivable and provides an allowance for estimated losses that may result from customers' inability to pay. The amount of the reserve is determined by analyzing known uncollectible accounts, aged receivables and customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are written off against the allowance.

Results of Operations

Net sales in fiscal 2004 increased $675,000, or 34%, to $2,680,000 from net sales of $2,005,000 in fiscal 2003. The increased sales in fiscal 2004 were a result of an increase in sales volume with the Company's existing customers. Spray's management of the fulfillment of orders from the Company's customers, as described under the caption "Proposed Sale of Business Operations" in this Item 6, had no effect on the increased sales in fiscal 2004.

Cost of Goods Sold ("Costs") as a percentage of net sales was 66% for fiscal 2004 and 2003, respectively. Even though the Company incurred additional costs in fiscal 2004 related to the interim management fee for Spray, these costs were offset by the reduction in overhead expenses when the Company reduced its staff, as well as the savings in freight expense when orders were shipped directly from Spray to the Company's customers.

Selling, General and Administrative Expenses ("Expenses") for fiscal 2004 and 2003 were $1,477,000 and $1,358,000, respectively. The increase in Expenses in fiscal 2004 directly related to costs associated with the SuperCom transaction, as well as severance pay and related taxes paid to employees whose employment was terminated when the Company transferred its order fulfillment to Spray. These costs were partially offset by a reduction in facility expenses when the Company transferred its order fulfillment to Spray and moved to a smaller facility. An aggregate of $226,000 in Expenses relating to the SuperCom transaction were incurred in fiscal 2004 and an aggregate of $115,000 in Expenses relating to an aborted transaction were incurred in fiscal 2003. See "Terminated Acquisitions" under Item 1, Part I to this Report. In addition, the Company recorded compensation

expense of $51,500 in fiscal 2004 related to the
50,000 shares of the Company's Common Stock issued to the then Chairman of the Audit Committee for his services as such.

Other Income for fiscal 2004 and 2003 was primarily dividend income of $17,000 and $37,000, respectively.

The decreased net loss in fiscal 2004 directly related to the increased sales partially offset by the increase in Expenses, as described above.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased $270,000 in fiscal 2004. The decrease resulted from cash used in operating activities of $270,000. The cash used in operating activities was primarily the result of the net loss of $557,000, partially offset by a decrease in inventories, as well as an increase in accounts payable and accrued expenses.

The Company had a current ratio of better than 4 to 1 at fiscal year end and no long-term debt.

As a result of the continuing negative cash flows from operations, the

Company is dependent on the proceeds from its March 2000 private placement in order to meet its payable requirements. On March 31, 2000, certain investors (including two of the current directors) purchased from the Company an aggregate of 1,333,333 shares of the Common Stock at $2.25 per share or an aggregate purchase price of $2,999,999. The net proceeds approximated $2,895,000. Because all of such funds were not required for operations, the funds deemed excess were invested in a working capital management account with Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"). As reported in Note 3 to the Financial Statements in this Report, as of March 31, 2004, the Company had approximately $1,903,000 of cash equivalents in two financial institutions, which exposes the Company to a concentration of credit risk. The Company had, as of that date, approximately $1,896,000 invested in highly liquid money market instruments with Merrill Lynch, which are not federally insured. The remaining $7,000 was deposited at a bank, which is federally insured up to $100,000.

The Company believes that, as a result of the cash described in the preceding paragraph, the Company's working capital is adequate to fund its operations and its requirements for the fiscal year ending March 31, 2005 while seeking a suitable merger and acquisition candidate.

At March 31, 2004, the Company had net operating loss and general business tax credit carry forwards for income tax purposes of approximately $5,453,000 and $12,000, respectively, available to reduce future potential Federal income taxes.

Item 7. Financial Statements.`

The information required by this Item is incorporated herein by reference to the financial statements listed in Item 13 of Part III of this Report.

Item 8A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has a CEO and a CFO/CAO, constituting all of management, and, during the reporting period, six employees to conduct operations. The CEO and CFO/CAO performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2004. Because of its small size and limited number of personnel, the Company does not currently have elaborate written procedures, nor does management believe that such elaborate written procedures are currently necessary to ensure accurate reporting in the Company's periodic reports. In making their evaluation, the CEO and CFO/CAO consulted with the Company's outside counsel. Based on that evaluation, the two officers concluded that the Company's disclosure controls and procedures were adequate and effective, as of March 31, 2004, to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this Report was being

prepared. Their evaluation was reported to the Audit Committee in connection with its review of this Report prior to its filing.

Changes in Internal Controls

There was no significant change during the quarter ended March 31, 2004 in the Company's internal controls over financial reporting identified in connection with the officers' evaluation reported above that that has materially affected, or is reasonably likely to materially affect, the Company's internal

control over financial reporting.

Item 13. Exhibits, Financial Statements and Reports on Form 8-K.

(a) Documents Filed with Report

(1) Financial Statements

The financial statements listed on the accompanying Index to Financial Statements are filed as part of this Report.

(2) Exhibits

Exhibit No.	Description of Exhibit
3.1	Articles of Incorporation as amended to date (1)
3.2	Bylaws as amended to date (2)
10.1	1985 Employee Stock Option Plan (3)
10.2	Form of Incentive Stock Option Agreement (3)
10.3	Form of Non-Qualified Stock Option Agreement (3)
10.4	Form of Representative Agreement between the Company and its Representatives (4)
10.5	Form of Standard Exclusive Distributor Agreement between the Company and its Distributors (4)
10.6	Standard Industrial Lease dated August 26, 1991, between Wayne Mertes, Mamie Mertes, Mike Butler and Sarah Butler, as lessor, and the Company, as lessee (5)
10.7	Stock Purchase Agreement dated January 20, 2000 by and among the Company, Millennium Capital Corporation ("Millennium"), JDK Associates, Inc. ("JDK") and other Buyers (6)
10.8	Letter Agreement dated January 20, 2000 ("Consulting Agreement") by and among the Company, Millennium and JDK (7)
10.9	Stock Option Plan of 2000 of the Company (2)
10.10	Forms of Stock Option Agreements (8)

Exhibit No.	Description of Exhibit
10.11	Employment Agreement dated September 1, 2000 by and between the Company Harris Shapiro
10.12	Stock Option Agreement dated November 27, 2000 by and between the Company and Terry J. Baker (9)
10.13	Agreement and Plan of Merger and Reorganization,

	dated as of July 2, 2003, by and among PerfectData Corporation, SuperCom Ltd. and SuperCom Merger Sub. Ltd. (without disclosure schedules or exhibits) (10)
10.14	Asset Purchase Agreement entered into as of October 3, 2003 by and between PerfectData Corporation and Spray Products Corporation (11)
10.15	First Amendment, dated as of February 26, 2004, to the Asset Purchase Agreement, dated as of October 3, 2003, filed as Exhibit 10.14 (12)
10.16	Addendum to Lease Agreement and Standard Commercial Lease dated September 24, 2003 between Albert and Helen La Monte, as landlords, and the Company, as tenant (12)
10.17	Second Amendment, dated as of August 12, 2004, to the Asset Purchase Agreement, dated as of October 3, 2003, filed as Exhibit 10.14 (13)
23 (a)	Consent of Independent Registered Public Accounting Firm (14)
23 (b)	Consent of Independent Registered Public Accounting Firm (14)
33.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 (14)
33.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 (14)
32	Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (14)

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(1) Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 1990.

(2) Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 2000.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 1985.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 1987.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 1992.

(6) Incorporated by reference to the Company's definitive Proxy Statement dated March 10, 2000 filed on March 14, 2000.

(7) Incorporated by reference to the Company's Form 8-K dated March 31, 2000 filed April 14, 2000.

(8) The four forms of stock option agreements used under the Stock Option

Plan of 2000 are filed as Exhibits 4(d)(1) to 4(d)(4), both inclusive, to the Company's Registration Statement on Form S-8, File No. 333-51774, and are incorporated herein by this reference.

(9) Incorporated by reference to the Company's Annual Report on Form 10-K for its fiscal year ended March 31, 2001.

(10) Incorporated by reference to the Company's Form 8-K filed on July 9, 2003.

(11) Incorporated by reference to the Company's Form 8-K filed on October 8, 2003.

(12) Filed with Annual Report on Form 10-KSB as originally filed.

(13) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004.

(14) Filed or, in the case of Exhibit 99.3, furnished herewith in connection with this Amendment.

(b) Reports on Form 8-K

(1) On January 20, 2004, the Company filed a Form 8-K reporting, under Item 5, that, on January 20, 2004, the Company issued a press release reporting that the Agreement and Plan of Merger and Reorganization dated as of July 2, 2003 by and between PerfectData and SuperCom Ltd. and related agreements were terminated.

(2) On March 10, 2004, the Company filed a Form 8-K reporting, under Item 4, that the firm of KPMG LLP had resigned as independent auditors for the Company.

(3) On March 29, 2004, the Company filed a Form 8-K reporting, under Item 4, that the firm of Singer Lewak Greenbaum & Goldstein LLP was retained to audit the financial statements of the Company and to prepare and file the Company's tax returns for such fiscal year.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

PERFECTDATA CORPORATION

By: /s/ Irene J. Marino
Irene J. Marino, Authorized Officer and
Principal Financial and Accounting Officer

Date: September 9, 2004

PERFECTDATA CORPORATION

SEC Form 10-KSB

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PerfectData Corporation
Simi Valley, California

We have audited the accompanying balance sheet as of March 31, 2004, and the related statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PerfectData Corporation as of March 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As dicussed in Note 2, the Company previously reflected the operations related to the sale of certain assets as discontinued operations. Management has

reassessed the facts and circumstances of the transaction and has revised the financial statements to include the operations related to these assets in continuing operations, since the transaction did not meet the criteria under generally accepted accounting principles for classification as discontinued operations. The change in presentation had no effect on revenue or net loss for the years ended March 31, 2004 and 2003.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
May 14, 2004, except for
the third and fifth
paragraphs of Note 2,
as to which the date
is August 12, 2004

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
PerfectData Corporation:

We have audited the accompanying statements of operations, shareholders' equity, and cash flows of PerfectData Corporation (the Company) for the year ended March 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of PerfectData Corporation for the year ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 3 to the financial statements, the Company has restated its statements of operations and cash flows for the year ended March 31, 2003.

/s/ KPMG LLP

Los Angeles, California
May 9, 2003, except for note 3
to the financial statements, which
is as of August 12, 2004

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Balance Sheet
March 31, 2004
(Amounts in thousands, except share amounts)

Assets (Restated)	
Current assets:	
Cash and cash equivalents	$ 1,903
Accounts receivable, net of allowance of $3	192
Prepaid expenses and other current assets	58
Total current assets	2,153
Property and equipment, at cost, net	-
Total assets	$ 2,153
Liabilities (Restated)	
Current liabilities:	
Accounts payable	$ 325
Accrued compensation	35
Other accrued expenses	133
Total current liabilities	493
Commitments and contingencies (note 8)	
Shareholders' equity:	
Preferred stock. Authorized 2,000,000 shares; none issued	-
Common stock, no par value. Authorized 10,000,000 shares; issued and outstanding 6,209,530	11,258
Accumulated deficit	(9,598)
Total shareholders' equity	1,660
Total liabilities and shareholders' equity	$ 2,153

See accompanying notes to financial statements.

PERFECTDATA CORPORATION
Statements of Operations
Years ended March 31, 2004 and 2003
(Amounts in thousands, except per share information)

	2004	2003
	(Restated)	(Restated)
Net sales	$ 2,680	2,005
Cost of goods sold	1,777	1,326
Gross profit	903	679
Selling, general, and administrative expenses	1,477	1,358
Loss from operations	(574)	(679)
Other income:		
Interest, net	-	-
Other, net	17	37
Net loss	$ (557)	(642)
Net loss per common share:		
Basic and diluted	$ (0.09)	(0.10)
Weighted average shares outstanding:		
Basic and diluted	6,193	6,159

See accompanying notes to financial statements.

PERFECTDATA CORPORATION
Statements of Shareholders' Equity
(notes 6 and 7)
Years ended March 31, 2004 and 2003

(Amounts in thousands)

	Common Stock		Accumulated
	Shares	Amount	deficit
Balance at March 31, 2002	6,159	$ 11,206	$ (8,399)
Net loss	-	-	(642)
Balance at March 31, 2003	6,159	11,206	(9,041)
Stock Compensation	50	52	-
Net loss	-	-	(557)
Balance at March 31, 2004	6,209	$ 11,258	$ (9,598)

See accompanying notes to financial statements.

PERFECTDATA CORPORATION
Statements of Cash Flows
Years ended March 31, 2004 and 2003
(Amounts in thousands)

	2004
	(Restated)
Cash flows from operating activities:	
Net loss	$ (557)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	6
Stock issued for services	52
(Increase) decrease in accounts receivable	(34)
(Increase) decrease in inventories	160
(Increase) decrease in prepaid expenses and other assets	32
Increase in accounts payable	42
Increase (decrease) in accrued expenses	29

Net cash used in operating activities	(270)
Net decrease in cash and cash equivalents	(270)
Cash and cash equivalents at beginning of year	2,173
Cash and cash equivalents at end of year	$ 1,903

See accompanying notes to financial statements.

PERFECTDATA CORPORATION

Notes to Financial Statements

March 31, 2004 and 2003

(1) Summary of Significant Accounting Policies

(a) Description of Business

PerfectData Corporation (the Company) sells computer and office equipment care and maintenance products.

(b) Cash and Cash Equivalents

The Company considers all highly liquid money market instruments with an original maturity of three months or less to be cash equivalents. At March 31, 2004, the Company had cash and cash equivalents of $1,903,000.

(c) Inventories

Prior to the APA entered into with Spray, inventories were stated at the lower of cost or market and consisted of finished goods. Cost was determined using the first-in, first-out method.

The Company transferred all inventory on hand to Spray on October 31, 2003 pursuant to the APA.

(d) Financial Instruments

The carrying amounts related to cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to their relatively short maturity.

(e) Plant and Equipment

Plant and equipment are stated at cost.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized straight line over the shorter of the lease term or estimated useful life of the asset. The estimated useful lives are as follows:

Machinery and equipment	3 to 5 years
Furniture and fixtures	3 to 5 years
Leasehold improvements	Life of lease

 (continued)

(f) Revenue Recognition

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists, and the sales price is fixed or determinable.

(g) Loss per Common Share

Basic and diluted loss per common share is based on the weighted average number of shares outstanding during each of the respective periods. Diluted earnings per share includes the dilutive impact of stock options, warrants, or other equity instruments. During the years presented herein, because net losses were incurred, the impact from such common stock equivalents was antidilutive; accordingly, the common stock equivalents were excluded from the calculation.

The following were excluded from the calculation:

Options	March 31, 2004	March 31, 2003
1985 Plan	10,000	11,500
2000 Plan	183,500	185,000
1999 Options	-	5,000
Warrants	20,000	20,000

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates

expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The realizability of deferred tax assets is assessed throughout the year and a valuation allowance is established accordingly.

PERFECTDATA CORPORATION

Notes to Financial Statements

March 31, 2004 and 2003

(i) Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, inventory valuation (prior to November 1, 2003), deferred income tax asset valuation allowances, and the estimated future operating cash flows from the Company's long-lived assets. Considerable management judgment is necessary to estimate future operating cash flows as future cash flows are impacted by competitive and other factors that are generally out of management's control. Accordingly, actual results could vary significantly from management's estimates.

(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.

The Company is adopting the disclosure provisions of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Due to the reduction of the exercise price of

fixed stock options through the cancellation of stock option awards and the granting of replacement awards, per FIN No. 44, Accounting for Certain Transactions involving Stock Compensation, the Company has adopted variable accounting for the replacement awards, per FIN No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.

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PERFECTDATA CORPORATION

Notes to Financial Statements

March 31, 2004 and 2003

The Company applies APB Opinion No. 25 in accounting for its employees and director stock option plans. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123 and SFAS No. 148, the Company's net loss would have been increased to the pro forma amounts indicated below. 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 4.57% - 6.26%, a ten-year term, 50% volatility, and $0 expected dividend rate.

(000's, except per share amounts)

	2004
Net income, as reported	$ (557)
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax	(27)
Pro forma net income	$ (584)
Basic and diluted net loss per common share:	
As reported	$ (0.09)
Pro forma	$ (0.09)

(k) Impairment of Long-Lived Assets and Long-Lived Assets To Be Disposed Of

SFAS No. 144 Accounting for the Impairment or Disposal of Long-Live Assets provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not affect the Company's financial statements.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an

impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

(l) Recently Issued Accounting Standards

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

(2) Proposed Sale of Business Operations

On October 3, 2003, the Company entered into an Asset Purchase Agreement (the {"APA") with Spray Products Corporation ("Spray"), pursuant to which the Company agreed to sell to Spray (or a Spray affiliate) substantially all of the operating assets of the Company for a price equal to the sum of the value of the inventory, collectible accounts receivable and $100,000, less the amount of trade payables which are being assumed by Spray.

Since November 1, 2003, Spray had, pursuant to the APA, been acting as a manager for the fulfillment of orders from the Company's customers.

As compensation for Spray's services, Spray was receiving a fee of 7 1/2% of net sales. As indicated in the next paragraph, as a result of Spray assuming, effective as of June 1, 2004, full responsibility for all customers, Spray is entitled to the full economic benefit of any sale to a customer of the Company in lieu of the foregoing fee.

Because the Company's largest customer had threatened to seek another supplier because of a supplier's offer of lower prices, and because of the long delay in closing the transaction, thereby causing uncertainty for customers and Spray, the Company and Spray had agreed in principle,

and subsequently finalized the agreement in writing by the Second Amendment dated as of August 12, 2004, to the following revisions to the APA: (1) effective June 1, 2004, Spray assumed full responsibility for all of the Company's customers in order to prevent possible losses of customer business; (2) the aforementioned payment of $100,000 will be reduced to $80,000; and (3) the Company may put the assets to Spray for the purchase price on the earlier of (a) September 30, 2004 or (b) the Company receiving shareholder consent to the sale of Spray.

The Board of Directors, after consultation with certain major shareholders, had elected in June 2003, to sell the operating business assets of the Company because, despite efforts by the Company during the prior fiscal years which had increased sales and reduced expenses, the Company continued to operate at a loss, thereby diluting the Company's cash, which is its major asset. The Board concluded that a sale or liquidation of the operating assets was in the best interests of the Company and its shareholders even if no acquisition or merger was effected.

The Company will seek shareholders' approval of the sale of its operating assets to Spray by consents in lieu of holding a meeting.

As a result of the transaction, as modified with Spray, the Company has no operations and will thereafter receive no revenues until an acquisition or merger is effected.

The Board of Directors of the Company does not intend to liquidate the Company, but instead, with the Company having cash or cash equivalents currently in excess of $1,500,000, the Board intends to continue its search for a suitable merger or acquisition candidate. Even though the Company has no operations, the Company believes its status as a publicly-traded company is valuable and therefore makes it a viable merger candidate. During the past three fiscal years, the Company had been seeking acquisitions which have not been related to its current business. The Board was of the opinion that profitability on a continuous basis would not be achieved absent an acquisition of a new business or businesses and/or new products. However, the Board can not determine when any such acquisition will be consummated, if at all. During recent years, three potential acquisitions were actively

pursued; however, all terminated for different reasons and the Company incurred expenses in connection therewith.

No adjustments have been made to the financial statements as a result of these uncertainties.

(3) Restatement

The Company previously reflected the operations related to the sale of certain assets as discontinued operations. Management has reassessed the facts and circumstances of the transaction and has revised the financial statements to include the operations related to these assets in continuing operations, since the transaction did not meet the criteria under generally accepted accounting principles for classification as discontinued operations. The effect of

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the restatement on net sales, cost of sales, gross profit, net loss, basic and diluted loss per common share, current assets, total assets, current liabilities, total liabilities total liabilities, and shareholders' equity cash flows from operations as of and for the year ended March 31, 2004 is as follows:

	As Originally Reported	Restatement Adjustments	As
Statement of Operations:			
Net Sales	$ -	$ 2,680,000	$ 2,
Cost of Sales	-	1,777,000	1,
Gross Profit	-	903,000	
Loss from Continuing Operations	(916,000)	359,000	(
Income from Discontinued Operations	359,000	(359,000)	
Net Loss	$ (557,000)	$	$ (
Loss Per Common Share (Basic and Diluted):			
Loss from Continuing Operations	$ (0.15)	$ 0.06	$
Income from Discontinued Operations	0.06	(0.06)	
	$ (0.09)	$	$
Balance Sheet:			
Accounts Receivable	$ -	$ 192,000	$
Prepaid Expenses and Other Current Assets	30,000	28,000	
Current Assets of Discontinued Operations	220,000	(220,000)	
Total Assets	2,153,000	-	2
Accounts Payable	126,000	199,000	
Other Accrued Expenses	77,000	56,000	
Current Liabilities of Discontinued Operations	255,000	(255,000)	
Total Current Liabilities	493,000	-	
Total Liabilities and Shareholders' Equity	$ 2,153,000	$ -	$ 2
Statement of Cash Flows:			
Loss from Continuing Operations	$ (916,000)	$ 359,000	$ (

	As Originally Reported	Restatement Adjustments	As Restated
Accounts Receivable	-	(34,000)	
Inventories	-	160,000	
Accounts Payable	54,000	(12,000)	
Cash Used in Continuing Operating Activities	(743,000)	743,000	
Cash Provided by Discontinued Operations	473,000	(473,000)	
Cash Used in Operating Activities	$ (270,000)	$ -	$

The effect of the restatement on net sales, cost of sales, gross profit, net loss, basic and diluted loss per common share and cash flow from operations for the year ended March 31, 2003 is as follows:

As Restatement

	As Originally Reported	Restatement Adjustments	As Rest
Statement of Operations:			
Net Sales	$ -	$ 2,005,000	$ 2,005,
Cost of Sales	-	1,326,000	1,326,
Gross Profit	-	(679,000)	(679,
Loss from Continuing Operations	(631,000)	(11,000)	(642,
Loss from Discontinued Operations	(11,000)	11,000	
Net Loss	$ (642,000)	$ -	$ (642,
Loss Per Common Share(Basic and Diluted):			
Loss from Continuing Operations	$ (0.10)	$ -	$ (0
Income from Discontinued Operations	(0.10)	-	(0
Statement of Cash Flows:			
Loss from Continuing Operations	$ (631,000)	$ (11,000)	$ (642,
Accounts Receivable	-	20,000	20,
Inventories	-	(34,000)	(34,
Accounts Payable	(106,000)	182,000	76,
Cash Used in Continuing Operating Activities	(742,000)	742,000	
Cash Provided by Discontinued Operations	157,000	(157,000)	
Cash Used in Operating Activities	$ (585,000)	$ -	$ (585,

(4) Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk principally consist of cash, cash equivalents, and accounts receivable.

As of March 31, 2004, the Company had approximately $1,903,000 of cash equivalents in two financial institutions, which exposes the Company to concentration of credit risk. The Company had approximately $1,896,000 invested in highly liquid money market instruments, which are not federally insured. The remaining $7,000 was deposited at a bank, which is federally insured up to $100,000.

The Company sells its principal products to a number of customers in the retail industry. During the years ended March 31, 2004 and 2003, two customers accounted for more than 10% of net sales. These customers each accounted for 71% and 47%, and 13% and 23% in 2004 and 2003, respectively. As of March 31, 2004 and 2003, approximately 78% and 38% of recorded accounts receivable were from two wholesale/discount merchants. For the years ended March 31, 2004 and 2003, sales made to these customers amounted to $1,911,000 and $337,000 and $942,000 and $457,000, respectively. To reduce credit risk, the Company performs ongoing

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Notes to Financial Statements

March 31, 2004 and 2003

credit evaluations of its customers' financial conditions but does not generally require collateral. New customers requiring large credit accounts are required to provide letters of credit.

(5) Inventories

Pursuant to the APA, the Company transferred its inventory on hand at October 31, 2003 to Spray. Pursuant to this agreement, Spray will pay the Company for the inventory at the time of the close of the transaction. The Company reclassified its inventory, with a net book value of $28,000, to other current assets.

(6) Property and Equipment

Property and equipment at March 31, 2004 consist of:

Machinery and equipment	$	296
Furniture and fixtures		7
		303
Less accumulated depreciation and amortization		(303)
	$	-

(7) Income Taxes

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

	March 31	
	2004	2003
Federal statutory rate	34%	34%
Increase (reductions) in taxes due to:		
State income taxes (net of federal benefit)	3	6
Change in valuation allowance	(18)	46
Dividends-received deduction	1	(3)

California net operating loss limitation	-	(3)
Expiration of federal net operating loss	(16)	(74)
Expiration of state net operating loss	(4)	-
Expiration of general business credit	-	(3)
Other	-	(3)
	-%	-%

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Notes to Financial Statements

March 31, 2004 and 2003

The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets at March 31, 2004 are summarized as follows (in thousands):

Deferred tax assets (liabilities):	
Net operating losses	$ 1,978
Inventories	13
Accrued expenses	43
Business tax credit carryforwards	12
Other	16
	2,062
Less valuation allowance	2,062
	$ -

At March 31, 2004, the Company had net operating loss (NOL) carryforwards of approximately $5,453,000 and $2,205,000 for federal income tax purposes and California income tax purposes, respectively, expiring in varying amounts through 2023. The NOL carryforwards, which are available to offset future profits of the Company and are subject to limitations should a "change in ownership" as defined in the Internal Revenue Code occur, will begin to expire in 2009 if not utilized. Additionally, the Company has general business tax credit carryforwards of approximately $12,000 which will begin to expire in 2006.

Realization of the future tax benefits of the NOL carryforwards and other deferred tax assets is dependent on the Company's ability to generate future taxable income within the periods in which they benefit. In assessing the likelihood of utilization of existing deferred tax assets, management considered the historical results of continuing operations over the last three years and the current economic environment in which the Company operates. Management has determined that future taxable income of the Company will more likely than not be insufficient to realize the recorded net deferred tax assets of $2,062,000 and has recorded a valuation allowance of $2,062,000. During the year ended March 31, 2004, the Company increased the valuation allowance in deferred tax assets by $118,000.

(8) Shareholders' Equity

On January 20, 2000, the Company entered into certain agreements with Millennium Capital Corporation (MCC) and JDK Associates Inc. (JDK). Pursuant to the agreements, the Company sold 1,333,333 shares of its

common stock to MCC, JDK and certain other buyers and issued a warrant to purchase 1,800,000 shares of the Company's common stock at $2.75 per share, for aggregate consideration of $3,000,000. In addition, under the agreements, MCC and JDK will provide financial advisory assistance to the Company in searching for and closing future acquisitions and financings for which they will receive an advisory fee of 5% of the estimated purchase price for a future acquisition which they introduced to the Company or for additional

capital raised in support of future acquisitions. The term of this consulting agreement is five years.

Because of the significance of these agreements, the Company was required to obtain, and they did obtain on March 31, 2000, shareholder approval. Immediately thereafter, the warrant holders exercised warrants to purchase 1,780,000 shares of common stock, resulting in the issuance on March 31, 2000 of 1,515,406 shares of common stock. Accordingly, on March 31, 2000, 2,848,739 shares were issued for an aggregate consideration of $3,000,000.

For financial reporting purposes, the Company has accounted for these transactions as an increase in common stock for $3,000,000, recorded net of the applicable costs. The future 5% consulting fees will be accounted for if and when occurred.

The remaining warrants to purchase 20,000 shares of common stock at $2.75 per share are outstanding at March 31, 2004.

On July 31, 2003, the Company issued 50,000 shares of the Company's common stock to the Chairman of the Audit Committee as compensation for his services over the past three years. The Company has recorded compensation expense of $51,500 for the shares.

The articles of incorporation authorize a class of preferred stock issuable in classes and series with such designations, voting rights, redemption provisions, dividend rates, liquidation and conversion rights, and other preferences and limitations as may be determined by the board of directors. No preferred stock was outstanding at March 31, 2004.

(9) Stock Option and Bonus Plans

1985 Stock Option Plan

During November 1985, the Company adopted the 1985 Stock Option Plan (the "1985 Plan") to grant incentive and nonqualified stock options to officers, directors and key employees of the Company for the purchase of up to 500,000 shares of the Company's common stock. Under the 1985 Plan, options were granted at prices equal to or greater than fair market value at date of grant. The shares, subject to various limitations, are exercisable over terms not to exceed ten years. No options were granted during the three years ended March 31, 2004. Options to purchase a total of 377,750 shares were exercised through

March 31, 2004, with an option to purchase 10,000 shares left outstanding. The 1985 Plan has expired; therefore, no additional options can be issued under its terms.

On March 31, 2003, an employee of the Company was terminated who was previously granted an option to purchase 1,500 shares of common stock at $2.0625 per share. As the terminated

employee had 90 days to exercise, the option was outstanding as of March 31, 2003. The option subsequently expired unexercised.

Activity under the 1985 Plan is summarized as follows:

	Number of shares	Weighted average exercise price
Options outstanding at March 31, 2002	11,500	$ 1.3017
Options canceled	-	-
Options outstanding at March 31, 2003	11,500	1.3017
Options canceled	(1,500)	2.0625
Option outstanding at March 31, 2004	10,000	$ 1.1877

The weighted average remaining contractual life of the outstanding options was approximately 1.3 years at March 31, 2004.

1999 Options

On April 28, 1999, the board of directors authorized the granting of options or warrants to purchase up to an aggregate of 100,000 shares of common stock to directors, employees, or consultants. The options or warrants were to be sold to the grantee at $0.05 per share, to have an exercise price of $1.56 per share, and to have a three-year term from the respective date of grant. Options to purchase a total of 24,000 shares were exercised through March 31, 2004. Activity for these options and warrants is summarized as follows:

	Number of Shares	Weighted average exercise price
Options outstanding at March 31, 2002	13,000	$ 1.56
Canceled	(8,000)	1.56
Options outstanding at March 31, 2003	5,000	1.56
Canceled	(5,000)	1.56
Options outstanding at March 31, 2004	-	$ -

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Notes to Financial Statements

March 31, 2004 and 2003

2000 Stock Option Plan

On May 22, 2000, the Company's board of directors adopted the Stock Option Plan of 2000 of PerfectData Corporation (the "2000 Plan") which provides for the granting of options to directors, officers, employees, and consultants of the Company. The Company's board of directors reserved 1,000,000 shares of common stock under the 2000 Plan. On September 7, 2000, the Company's board of directors amended the 2000 Plan to reserve an additional 1,000,000 shares of common stock. On October 19, 2000, the shareholders of the Company approved the 2000 Plan and ratified options previously granted.

Options granted under the 2000 Plan shall be at a price no less than the fair market value of the common stock on the date of grant or in the case of nonqualified stock options at a price equal to or greater than 85% of the fair market value on the date of grant. Options granted under the 2000 Plan are exercisable at various times as determined by the board of directors or its designee.

On October 31, 2001, the Company granted options to purchase an aggregate of 10,000 shares of common stock at $3.43 per share to various employees. The option price was equal to the fair market value at the time of grant. All of the options described were to become exercisable in four substantially equal installments, commencing with the first anniversary of the respective date of grant.

On June 15, 2002, the Company granted an option to purchase 10,000 shares of common stock at $1.60 per share to each of the five directors. The option price was equal to 120% of the fair market value at the time of grant. All of the options described were to become exercisable in three substantially equal installments, commencing with the first anniversary of the respective date of grant.

On September 17, 2002, the board of directors canceled the options granted on March 31, 2000 to each director pursuant to the 2000 Plan to purchase 25,000 shares of common stock at $18.50 per share and those granted on September 7, 2000 to purchase 25,000 shares of the common stock at $4.63 per share. None of the options to purchase an aggregate of 250,000 shares were exercised.

On September 26, 2002, the Company granted an option to purchase 25,000 shares of common stock at $1.00 per share to each of the five directors. The fair market value of the stock on the date shareholder approval was obtained was below the exercise price. All of the options described were to become exercisable in three substantially equal installments, commencing with the first anniversary of the respective date of grant. In accordance with FIN 44, the Company has adopted variable accounting for these replacement awards. No compensation expense has been recognized in the financial results as the fair market

value has not exceeded the exercise price.

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Notes to Financial Statements

March 31, 2004 and 2003

On March 31, 2003, an employee of the Company was terminated who was previously granted an option to purchase 1,500 shares of common stock at $3.43 per share. As the terminated employee had 60 days to exercise, the option was outstanding as of March 31, 2003. The option subsequently expired unexercised.

Activity under the 2000 Plan is summarized as follows:

	Number of shares	Weighted average exerc price
Options outstanding at March 31, 2002	260,000	$ 11.25
Options granted	175,000	1.17
Options canceled	(250,000)	10.97
Options outstanding at March 31, 2003	185,000	1.29
Options canceled	(1,500)	3.43
Options outstanding at March 31, 2004	183,500	$ 1.28

As of March 31, 2004, options to purchase 62,584 shares of common stock are exercisable at a weighted average exercise price of $1.325. As of March 31, 2004, 1,816,500 shares were available for future grants.

The following table summarizes in more detail information regarding the Company's stock options outstanding under the 2000 Plan at March 31, 2004:

Exercise Price	Outstanding Options	Weighted Average Remaining Contractual Life	Exercisable Options	Weighted Average Remaining Contractual Life
$1.00	125,000	7.6	41,667	7.6
$1.60	50,000	8.3	16,667	8.3
$3.43	8,500	8.5	4,250	8.5
Total	183,500	8.4	62,584	8.4

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Notes to Financial Statements

March 31, 2004 and 2003

(10) Commitments

The Company leases office space under a six-month lease that expires October 15, 2004. The Company had previously leased a facility under an operating lease which expired June 20, 2003. The Company continued to occupy the facility, along with a subtenant to whom the Company sublet warehouse space, on a month-to-month basis until October 31, 2003.

Rental expense, net of sublease income, was $50,000 and $100,000 for the years ended March 31, 2004 and 2003, respectively.

PerfectData Corporation
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on Form 10-KSB

Exhibit No.	Description of Exhibit	Page
23(a)	Consent of Independent Registered Public Accounting Firm	E-2
23(b)	Consent of Independent Registered Public Accounting Firm	E-3
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)under the Securities Exchange Act of 1934	E-4
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934	E-6

34	Certification Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of United States Code	E-8

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