PERFECTDATA CORP
Form 10KSB
June 29, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

[ ] TRANSACTION 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 (all from discontinued operations).

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.

PART I

Forward-Looking and Cautionary Statements.

With the exception of historical information, the matters discussed in this Annual Report on Form 10-KSB include certain forward-looking statements that involve risks and uncertainties, including, without limitation, statements regarding the Company's future financial performance and the results or success of discussions with other entities on mergers, acquisitions, or alliance possibilities. As a result, actual results may differ materially from those described in the forward-looking statement. The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement in this Report.

Item 1. Business.

General

PerfectData Corporation (the "Company") was incorporated in the State of California on June 8, 1976. The Company was originally founded by an experienced group of engineers and data processing professionals to design and manufacture a proprietary line of magnetic media maintenance equipment - disk pack cleaners and inspectors. This line of equipment, which has since been discontinued, was originally sold to Original Equipment Manufacturers (OEMs) such as Burroughs Corporation (now Unisys Corporation), DEC (Digital Equipment Corporation), NCR Corporation and 3M Corporation. Sales of these products by such well-known companies contributed to increased user awareness as to the need for routine computer care and maintenance. It also brought credibility to the Company as a key manufacturer in the industry.

With the evolution of the computer work environment from the sterile, climate-controlled surroundings of a clean room to the mainstream office and home environments, simple preventative maintenance has become a key element in maintaining equipment efficiency and personal productivity. The Company's cleaning and maintenance products are designed to address the needs of the end users of computers and office automation equipment and by maintenance organizations as part of preventative maintenance programs to reduce equipment "down time" and service costs and to increase product life.

Proposed Sale of Current 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 has, 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 is 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 an example, the Company expects to save approximately

$11,000 per month in rent and related facility costs.

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 have agreed in principle to the following revisions to the APA: (1) effective June 1, 2004, Spray will assume 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; (3) based on the amounts of the items constituting the purchase price described above and as modified in (2) as if the closing was held on May 31, 2004, the Company will advise Spray of this estimated purchase price and Spray will promptly advance to the Company an amount in excess of what the Company owes Spray for product purchased from Spray; and (4) 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 to Spray.

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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 continues 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, by consents in lieu of holding a meeting, to permit the sale of its operating assets to Spray.

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

The Industry

The Company's products are sold in the computer and office equipment accessories and supplies market. This market targets small, medium and large sized businesses as well as the home environment.

This market is serviced mainly by office product catalogs, office superstores, mass merchants, consumer electronics retailers, warehouse clubs and computer superstores. PerfectData has been organized to service all of these distribution channels.

Products

Prior to November 1, 2003, when management of order fulfillment was assumed by Spray, the Company had designed, assembled and/or packaged all of its cleaning and maintenance products which it marketed and distributed. The Company had sub-contracted for its components from a variety of established suppliers and manufacturers.

The consumable cleaning and preventative maintenance products are for home, office and computer environments. These products are designed to eliminate or minimize contamination in and around computer and office automation equipment. Use of the Company's products on a regular basis reduces equipment downtime and the need for unnecessary service and repairs.

The Company's principal selling product is the PerfectDuster EcoDuster line of compressed gas dusters. This product is offered in a variety of formulations to meet competitive pressures and buyer demand. All of these dusters are 100% CFC free and contain no ozone depleting chemicals that could damage the ozone layer in the earth's upper atmosphere.

Other products that the Company presently sells are CD and tape drive cleaners, CD player cleaners, static control products, laser and inkjet printer cleaners, fax and copy machine cleaners, and a variety of premoistened cleaning wipes for specific equipment.

Marketing

Customers. The Company's products are sold primarily through retail distribution under the Company's "PerfectData" trademark. The retail distribution channel is comprised of office product catalogs, office product distributors and dealers, stationery and computer retail stores and large warehouse/superstore type accounts.

While the Company sold products to more than 120 customers in the United States, Canada and other countries during the fiscal year ended March 31, 2004 ("fiscal 2004"), approximately 94% of the Company's net sales were accounted for by its 10 largest customers. Two customers accounted for 71% and 13%, respectively, of total sales. Sales to these customers were made pursuant to specific purchase orders and neither customer is obligated to purchase the Company's products under any other agreement. The loss of either or both of these customers could have an adverse effect on the Company's business. No other customer accounted for more than 10% of the Company's net sales in fiscal 2004.

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Sales Organization.

Domestic Sales. Sales of products under the Company's registered trademark "PerfectData" are made by independent manufacturers' representative groups, dealers and large distributors. Sales of the Company's products to Original Equipment Manufacturers under private label arrangements were handled by Company sales personnel located in California and, on a selected basis, by certain assigned independent manufacturers' representatives. Agreements between the Company and manufacturers' representatives or distributors may be terminated on short notice by either party.

International Sales. Sales of the Company's products worldwide had been handled by the Company's sales personnel located in California through international distributors and customers. The Company has no agreements with foreign distributors.

Customer Service and Support. In order to enhance customer service, training, field support and technical support, the Company has a toll free 800 phone number.

All products are sold with a "return to manufacturer" warranty for replacement of damaged or defective goods only. Products are warranted for 90 days from the date of purchase. Dealers and distributors are required to perform this replacement service on behalf of the Company. All products returned for warranty replacement must receive a written return authorization receipt from the Company prior to the return of any goods. Costs incurred annually by the Company for product warranties have been insignificant.

Competition

The Company believes that neither the Company nor any of its competitors has had a dominant position in the cleaning and maintenance market.

There are many competitors in this market and some of these competitors are substantially larger in size and have greater financial resources than the Company.

The Company believes that the effectiveness, quality, service and the price competitiveness of its products, along with its marketing efforts and programs, product selection and responsiveness to accounts' needs, have been the principal basis on which it has competed in this market.

Materials and Supplies

The nature of the raw materials used in the Company's products are various chemicals, metals, plastics and paper goods. The Company assembled and/or packaged its products in the United States from materials and supplies purchased primarily from domestic vendors and sub-contractors. Some of the assembled component parts were manufactured by vendors located in the Far East because it was more cost effective to obtain goods and fabrication expertise at significantly reduced costs when compared with purchasing the same goods domestically.

The Company believes that its established relationships with its vendors and suppliers are in good order. The Company has not experienced any significant production delays or loss of revenue due to the lack of parts or material shortages.

The Company, as a matter of standard business procedures, has regularly reviewed its vendor relationships and has searched for new sources and ways to produce its products both domestically and internationally with the improvement of quality, delivery or lowered cost of goods as its goals.

The Company does not believe that federal, state and local provisions which have been enacted or adopted regulating the discharge of material into the environment, or otherwise relating to the protection of the environment, have had, or will have, any material effect on its capital expenditures, its potential earnings or its competitive position.

Employees

At March 31, 2004, the Company employed 4 persons, of whom 1 was engaged in customer service, and 3 in general management and administration.

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The Company believes that its relations with its employees are good. The Company has never had a work stoppage and none of its employees are represented by a labor union.

Terminated Acquisitions

From October 2001 to February 2002, the Company was engaged in negotiations pursuant to which the shareholders of GraphCo Technologies, Inc. ("GraphCo") would acquire a majority interest in, and control of the Board of, the Company. GraphCo is a technologies, software and systems development company providing advanced security solutions for biometric identification, secure access, surveillance and secure law enforcement incident management. The negotiations were mutually terminated on February 19, 2002.

In August and September 2002, the Company was engaged in negotiations with another privately-held company, with annual revenues approximating $100 million, pursuant to which the stockholders of that company would acquire a majority interest in, and control of the Board of, the Company. Just as the parties were prepared to execute a definitive merger agreement, the other company received an offer from another very large public company and negotiations were terminated during the weekend of September 20, 2002.

On July 2, 2003, the Company entered into an Agreement and Plan of Merger and Reorganization, or 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. Its common stock is currently traded on the Euronext Brussels New Market. On October 24, 2003, the Company filed a Registration Statement on Form S-4, File No. 333-109933 (the "Registration Statement"), in order to make available a joint proxy statement for use by the Company and SuperCom to solicit approvals of the transaction from their respective shareholders and prospectus for the Company to offer shares of the Common Stock to the SuperCom shareholders if the proposed transaction were approved and consummated. If the transaction had been consummated, the SuperCom shareholders would have received approximately 78% of the outstanding shares, subject to adjustment upward depending on the Company's Final Net Available Cash (as defined) at the closing, and three of the five directors would have been designees of SuperCom. When it became obvious to both parties that, in order for the Registration Statement to become effective, SuperCom would at a minimum, be required to include audited financial statements for its fiscal year which ended December 31, 2003, thereby further delaying closing of the transaction as to which negotiations had begun in April 2003 and which the parties initially hoped to close by October 2003, the Merger Agreement was terminated after discussions as to alternatives. From the perspective of the Company's directors, continuation of the transaction would have required the company to incur additional expenses, thereby further reducing its Net Available Cash and resulting in further dilution to its shareholders absent SuperCom agreeing to change the dilution formula, and with no certainty as to when there would be a closing.

Item 2. Properties.

The Company leases office space under a six-month lease that expires October 15, 2004. The Company initially leased the office space for a six-month term effective October 15, 2003, and subsequently for an additional six-month term. The Company had previously leased a 24,500 square foot 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. As a result of the management arrangement with Spray, the Company moved to the smaller facility.

Item 3. Legal Proceedings.

As of March 31, 2004, there were no material pending legal proceedings to which the Company was a party or of which any of its property was the subject.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

Market Information

The Common Stock of the Company is listed on the OTC Bulletin Board under the symbol PERF. Prior to April 17, 2003, the Common Stock was traded on the Nasdaq SmallCap Market. The following table sets forth the range of high and low sales prices per share of the Common Stock for the indicated quarters of fiscal 2004 and the fiscal year ended March 31, 2003 ("fiscal 2003").

	Sales Price High	Sales Price Low
2004		
First Quarter	$ 1.29	$ .25
Second Quarter	$ 1.35	$ .95
Third Quarter	$ 1.24	$ .85
Fourth Quarter	$ 1.10	$ .46
2003		
First Quarter	$ 1.65	$ .69
Second Quarter	$ 1.70	$ .69
Third Quarter	$ 1.00	$ .55
Fourth Quarter	$ .84	$ .50

Holders

The approximate number of shareholders at March 31, 2004 was 1,700 determined by security position listings.

Dividends

Because of its losses from operations, the Company has not paid any cash dividends on the Common Stock and, until profitability is restored, as to which and when there can be no assurance, the Company does not intend to pay any cash dividends.

Unregistered Securities Sales

There were no sales by the Company of shares of the Common Stock during the fourth quarter of fiscal 2004, whether or not the shares were registered for sale by the Company under the Securities Act of 1933, as amended. The sole issuance of any shares during fiscal 2004 was previously reported in the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003.

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

Proposed Sale of Current 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 has, 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 is 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.

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 have agreed in principle to the following revisions to the APA: (1) effective June 1, 2004, Spray will assume 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; (3) based on the amounts of the items constituting the purchase price described above and as modified in (2) as if the closing was held on May 31, 2004, the Company will advise Spray of this estimated purchase price and Spray will promptly advance to the Company an amount in excess of what the Company owes Spray for product purchased from Spray; and (4) 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 continues 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, by consents in lieu of holding a meeting, to permit the sale of its operating assets to Spray.

As a result of the transaction, as modified, with Spray, the Company will have 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 will have 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 (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.

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.

The following discussions of the Results of Operations and Liquidity and Capital Resources are before the restatement of the Company's financial statements for the proposed sale of the current business operations.

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 Compan's existing customers. Spray's management of the fulfillment of orders from the Company's customers, as described under the caption "Proposed Sale of Current Business Operations" in this Item 6, had no effect on the increased sales in fiscal 2004. All the net sales in fiscal 2004 and 2003 related to discontinued operations.

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. All the Costs in fiscal 2004 and 2003 related to discontinued operations.

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. Included in Expenses for fiscal 2004 and 2003 were components related to discontinued operations of $544,000 and $690,000, respectively.

Other Income from continuing operations 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 continuing operating activities of $743,000, partially offset by cash provided by discontinued operating activities of $473,000.

The Company had a current ratio of better than 4 to1 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 to $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 and assuming consummation of the proposed sale of business operations to Spray, the Company's working capital is adequate to fund its operations and its requirements for the fiscal year ending March 31, 2005 ("fiscal 2005"). In the event, which in the opinion of management is deemed unlikely, that the sale to Spray is not consummated, the Board believes that the Company would either continue to operate the business for a short period while seeking another buyer or, more likely would liquidate its operations in an orderly fashion. In either event, the Company believes it has adequate working capital to continue to operate for fiscal 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 8. Changes in and Disagreements on Accounting and Financial Disclosure.

See Item 13(b) of this Report for information as to the Forms 8-K reporting the change in accountants.

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 have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls since the date of their evaluation in the fourth quarter.

PART III

Item 9. Directors and Executive Officers.

Directors and Executive Officers

The following table contains certain information relating to the directors and executive officers of the Company as of May 1, 2004:

Name	Age	Position
Harris A. Shapiro	68	Chief Executive Officer, Director and Chairman of the Board
Bryan Maizlish	42	Director
Timothy D. Morgan	49	Director
Tracie Savage	41	Director
Corey P. Schlossmann	49	Director

Irene J. Marino	59	Vice President Finance, Chief Financial Officer and Corporate Secretary

Business History

Harris A. Shapiro was elected as a director of PerfectData and its Chairman of the Board on March 31, 2000. On September 7, 2000, he was designated Chief Executive Officer of PerfectData. Mr. Shapiro has been the President of Millennium Capital Corporation, a consulting firm specializing in mergers and acquisitions, since 1994. He was Senior Vice President Corporate Finance of Gilford Securities Incorporated, a registered broker-dealer, from January 1, 1999 to March 29, 2000. Prior to Gilford Securities, he was a Managing Director of Whale Securities Co., L.P., a registered broker-dealer, from June 1993 until December 1998.

Bryan Maizlish was elected as a director of PerfectData on March 31, 2000. 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/IT Program Director of the Integerated Systems and Solutions Team NSGI 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.

Timothy D. Morgan was elected as a director of PerfectData on March 31, 2000. He has, since October 1997, been a consultant on matters of business strategies, taxation, finance and asset protection techniques, and providing interim Chief Financial Officer and Controller services. None of the foregoing services or any of those hereafter described were provided to PerfectData. From 1980 through October 1997, he was a principal of Abacus Tax and Financial Services, a firm specializing in tax compliance and pension plan administration. Prior to 1982, Mr. Morgan was manager of purchasing and accounting departments for various companies, including Dennison Eastman Corporation, Syntel Cavitron, Incorporated, and Contempo Casuals, Incorporated.

Tracie Savage was elected in July 1995 as a director of PerfectData. Ms. Savage has been the main news anchor for KFWB Radio in Los Angeles since August 2001. From April 2001 to July 2001, Ms. Savage worked for the Los Angeles television subsidiary of the National Broadcasting Company, Inc. ("NBC"). From March 1994 to March 2001, Ms. Savage was the co-anchor of NBC Channel 4's "Today in L.A.: Weekend". From 1991 to 1994,

she was a general assignment reporter for the independent Los Angeles station, KCAL. Ms. Savage has been in broadcast journalism for more than 16 years and has been the recipient of numerous awards and honors in her field.

Corey P. Schlossmann was elected as a director of PerfectData on March 31, 2000. Mr. Schlossmann has been Chief Executive Officer since October 1999, and Chief Financial Officer since January 1999, of Nationwide Auction Systems. Since January 1996, he has also served as a partner of Gordon, Fishburn & Schlossmann, a management consulting and accounting firm. Mr. Schlossmann was a partner of Hankin & Co., a consulting firm, from 1988 until 1995.

Irene J. Marino originally joined PerfectData in March 1982 and rejoined PerfectData in September 1987 after a leave of approximately four months. Ms. Marino was promoted to Manager of Finance and Administration in March 1983 and to Controller and Assistant Secretary in March 1986. Upon rejoining PerfectData in September 1987, Ms. Marino assumed the position of Controller, Chief Financial Officer and Secretary of PerfectData. She was appointed Vice President of Finance in August 1989, and has more than 35 years' experience in finance, accounting and administration.

Other Directorships

Since October 1999, Corey P. Schlossmann has served as a director of Entrade, Inc., a New York Stock Exchange holding company whose online subsidiaries (including Nationwide Auction Systems of which he is an executive officer as indicated in the preceding section "Business History") provide auction and asset disposition services to the utility and manufacturing industries, among others.

No other director of the Company serves as a director of a company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any company registered as an investment company under the Investment Company Act of 1940, as amended.

Compliance with Section 16(a) of the Exchange Act

Based solely on a review of Forms 3 and 4 furnished to the Company under Rule 16a-3(e) promulgated under the Exchange Act, with respect to fiscal 2004, the Company is not aware of any director or executive officer of the Company who failed to file on a timely basis, as disclosed in such forms, reports required by Section 16(a) of the Exchange Act during fiscal 2004, except for Corey P. Schlossmann who failed to report timely on Form 4 one transaction on the last day of fiscal 2004 relating to a gift by him of 75,000 shares of the Common Stock to an unaffiliated trustee for his children.

As of March 31, 2004, i.e., the end of fiscal 2004, there were no beneficial owners of 10% or more of the Common Stock known to the Company other than Joseph Mazin who was, until July 27, 2000, the President and Chief Executive Officer of the Company and, until March 31, 2000, a director of the company. Mr. Mazin has advised the Company that he timely filed all reports required by Section 16(a) of the Exchange Act during fiscal 2004.

Code of Ethics

The Board of Directors of the Company has determined not to adopt a written code of ethics because the Company (1) has only two executive officers, (2) has agreed to sell the Company's current operations to an unaffiliated company which has, since November 1, 2003, been acting as the manager for the fulfillment of orders from the Company's customers and (3) has been actively seeking a suitable acquisition or merger partner for the Company. Instead the Board had counsel to the Company review with the two officers the standards which would have been in a written code of ethics and directed its Audit Committee to monitor closely the conduct of the two officers on at least a quarterly basis.

Item 10. Executive Compensation.

Summary Compensation Table

The following table provides certain summary information concerning the compensation earned for services rendered in all capacities to the Company during each of the last three fiscal years by the Company's Chief Executive Officer as of the end of the last fiscal year. No other executive officer of the Company earned in excess of $100,000:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation Year	Annual Compensation Salary ($)	Long-Term Compensation Securities Underlying Options	Other
Harris A. Shapiro (1)	2004	150,000	-	
Chief Executive Officer and	2003	150,000	35,000	
Chairman of the Board	2002	118,125	-	

(1) The Board designated Mr. Shapiro as the Chief Executive Officer of the Company effective September 2000. The Company and Mr. Shapiro entered into a one-year employment agreement in September 2000 providing for a base annual salary of $150,000. The Board had, from time to time, extended the term of his contract at the same salary. Effective April 1, 2004, the Board amended his contract (a) to a base annual salary of $95,000 and (b) the contract is terminable upon two weeks' prior notice by either party.

(2) Mr. Shapiro was paid cash compensation for his services as a director.

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 shareholders of the Company approved the 2000 Option Plan and ratified options previously granted. The Company registered under 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 filed on December 13, 2000. As a result of such filing, optionees who are not affiliates of the Company may resell the shares of the Common Stock received upon exercise immediately, while affiliates will require a "re-offer prospectus" to resell or wait one year after exercise to resell pursuant to the exemption of Rule 144 under the Securities Act. The Company has not as yet filed such re-offer prospectus. The 2000 Option Plan provides 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 Internal Revenue Code of 1986, as amended (the "Code"), may be granted only to employees. The term of the 2000 Option Plan is for ten years and it provides for the grants of an aggregate of 2,000,000 shares of the Common Stock. The 2000 Option Plan is currently administered by the Board.

The 2000 Option Plan, consistent with the provisions of the Code, provides that the exercise price of an incentive stock option shall not be less than the fair market value of the 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 the 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 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 to date are not exercisable during the first year after the date of grant and thereafter become exercisable in annual installments of 25% each. It is expected that future options, if any, will be granted on a similar basis. Some options to be granted to employees may have performance goals as the condition precedent to becoming exercisable.

Options granted under the 2000 Option Plan are non-transferable and not immediately exercisable. Future options, if any, are expected to be granted on the same basis.

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 will terminate because of his or her total and permanent disability (as defined in the Code), the optionee will have 12 months to exercise the stock option to the extent exercisable upon 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 will be applicable to optionees who are not employees.

For a consultant to be eligible to receive a grant of a stock option under the 2000 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 March 31, 2004, options covering a total of 183,500 shares of the Common Stock were outstanding under the 2000 Option Plan at a weighted average exercise price of $1.28 per share.

(2) Activity in Fiscal 2004

No stock options were granted to the Company's Chief Executive Officer who is the sole executive officer named in the Summary Compensation Table during fiscal 2004.

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

Option Exercises and Values

The following table provides certain summary information concerning the exercise of options during fiscal 2004 and unexercisable options held as of the end of fiscal 2004 by the Chief Executive Officer who is the sole executive officer named in the Summary Compensation Table:

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES

Name	Shares Acquired On Exercise (#)	Value Realized ($)	Number of Unexercised Options Held at Fiscal Year End (#)	Value of Unexercis Money Opt at FY-End ($)
Harris A. Shapiro	-	-	35,000 (1)	- (

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(1) As of March 31, 2004, options were exercisable to purchase 11,666 shares.

(2) Such value is based upon the market value of the Common Stock as of March 31, 2004, less the exercise price payable per share under such options. As of March 31, 2004, the market value was less than the exercise price.

Directors' Compensation

Each director is paid $250.00 for telephonic participation and $500.00 for attendance in person at a meeting of the Board.

Directors may be granted stock options as compensation for their services. During fiscal 2004, no new options were granted to directors of the Company.

There are no other relationships with respect to other entities that would require disclosure here under Item 404 of Regulation S-K.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Security Ownership

The following table sets forth, as of May 31, 2004, certain information with respect to all shareholders known by the Company to be beneficial owners of more than 5% of its outstanding shares of the Common Stock, the Chief Executive Officer of the Company (being the sole executive officer named in the Summary Compensation Table in Item 10 to this Report), all directors and all officers and directors of the Company as a group. The ownership information was furnished to the Company by the person or entity.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owne
Joseph Mazin c/o Flamemaster Corporation 11120 Sherman Way	788,997 (2)	12.71

Sun Valley, CA 91252		
StarBiz Corporation 11120 Sherman Way Sun Valley, CA 91252	537,997 (2)	8.66
William B. Wachtel, Trustee of Digital Trust (3) c/o Wachtel & Masyr, LLP 110 East 59th Street New York, NY 10022	427,873	6.89
Harris A. Shapiro (4) c/o PerfectData Corporation 1445 East Los Angeles Avenue Simi Valley, CA 93065	309,499 (5)	4.96
Bryan Maizlish (6) 9705 Conestoga Way Potomac, MD 20854	19,255 (7)	less than 1

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Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owne
Timothy D. Morgan (6) 11734 Gladstone Circle Fountain Valley, CA 92708	20,455 (7)	less than 1
Tracie Savage (6) 6212 Banner Avenue Los Angeles, CA 90038	29,555 (8)	less than 1
Corey P. Schlossmann (6) 19654-A Roscoe Blvd. Northridge, CA 91324	44,758 (7)	7.14
All directors and officers as a group (6 in number)	828,088 (9)	13.13

(1) The percentages computed in the table are based upon 6,209,530 shares of the Common Stock which were outstanding on May 31, 2004. Effect is given, pursuant to Rule 13-d(1)(i) under the Exchange Act, to shares issuable upon the exercise of options or warrants currently exercisable or exercisable within 60 days of May 31, 2004.

(2) The shares of the Common Stock reported in the table include (a) 537,997 shares owned by StarBiz Corporation, or "StarBiz", for which Mr. Mazin has voting power as the President, Chairman and Chief Executive Officer of StarBiz; (b) 36,000 shares owned by the Flamemaster Corporation Employees' Profit Sharing Plan for which Mr. Mazin is the fiduciary; and (c) 23,000 shares owned by Altius Investment Corporation ("Altius") for which Mr. Mazin has shared voting

power as Chairman of the Board of Altius. Certain of the shares reported in the table are owned by Donna Mazin, his wife, or as to which shares she shares dispositive and voting powers with Mr. Mazin.

(3) William B. Wachtel as the Trustee of the Digital Trust has, under the trust agreement, sole voting and investment power with respect to the shares reported in the table. Harris A. Shapiro, currently the Chairman of the Board, Chief Executive Officer and a director of the Company, was the settler of the Digital Trust and made an irrevocable grant to it of the assets which the Digital Trust used to effect the purchase of the shares. The beneficiaries of the Digital Trust are Mr. Shapiro's children and grandchildren who survive him, although the Trustee, in his absolute discretion, may pay or apply yearly income or the principal of the Trust to any beneficiary. Because he made an irrevocable grant and has no voting or investment power with respect to the shares, Mr. Shapiro is not the beneficial owner of the shares reported in the table as being owned of record by the Digital Trust and beneficially by the Trustee.

(4) Mr. Shapiro is the Chairman of the Board, the Chief Executive Officer and a director of the Company.

(5) The shares of the Common Stock reported in the table reflect (a) 284,500 shares owned by Millennium Capital Corporation, or "Millennium," for which Mr. Shapiro has voting power as its President; (b) 6,666 shares issuable upon the exercise of an option expiring June 19, 2012 under the Company's 2000 Stock Option Plan (the "2000 Option Plan"); (c) 8,333 shares issuable upon the exercise of an option expiring September 25, 2012 under the 2000 Option Plan; and (d) 10,000 shares issuable upon the exercise by Millennium of a warrant expiring March 30, 2005. The shares of the Common Stock reported in the table do not include (x) 3,334 shares issuable upon the exercise of the option described in (b) or (y) 16,667 shares issuable upon the exercise of the option described in (c), neither of which was exercisable as to such shares at May 31, 2004 or within 60 days thereafter.

(6) A director of the Company.

(7) The shares of the Common Stock reported in the table include (a) 6,666 shares issuable upon the exercise of an option expiring June 19, 2012 under the 2000

Option Plan and (b) 8,333 shares issuable upon the exercise of an option expiring September 25, 2012 under the 2000 Option Plan. The shares of the Common Stock reported in the table do not include (x) 3,334 shares issuable upon the exercise of the option described in (a) or (y) 16,667 shares issuable upon the exercise of the option described in (b), neither of which was exercisable as to such shares at May 31, 2004 or within 60 days thereafter.

(8) The shares of the Common Stock reported in the table include (a) 10,000 shares issuable upon the exercise of an option expiring July 20, 2005; (b) 6,666 shares issuable upon the exercise of an option expiring June 19, 2012 under the 2000 Option Plan; and (c) 8,333 shares issuable upon the exercise of an option expiring September 25, 2012 under the 2000 Option Plan. The shares of the Common Stock reported in the table do not include (x) 3,334 shares issuable upon the exercise of the option described in (b) or (y) 16,667 shares issuable upon the exercise of the option described in (c), neither of which was exercisable as to such shares at May 31, 2004 or within 60 days thereafter.

(9) The shares of the Common Stock reported in the table include (a) those shares indicated in the text to Notes 5, 7 and 8 and (b) 1,250 shares issuable to an executive officer upon the exercise of an option expiring October 30, 2011 under the 2000 Option Plan. The shares of the Common Stock reported in the table do not include 1,250 shares issuable upon the exercise of the option described in (b), none of which was exercisable as to such shares at May 31, 2004 or within 60 days thereafter.

Equity Compensation Plans

The following table sets forth, as of March 31, 2004, certain summary information with respect to compensation plans under which shares of the Company's Common Stock are authorized for issuance:

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average price of outstanding options, warrants and rights
	(a)	(b)
Equity compensation plans approved by security holders	193,500	$ 1.41
Equity compensation plans not approved by security holders (1)	-	-
Total	193,500	$ 1.41

(1) The only plan not approved by the Company's shareholders as to which shares may be issued as of March 31, 2004 is: In April 1999, the Board of Directors authorized a reserve of 100,000 shares of the Common Stock for granting of warrants and options. Said warrants and options will be sold for a price of five cents per share and will have an exercise price of $1.56 per share. The term will be three years from date of issuance.

Item 12. Certain Relationships and Related Transactions.

None.

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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)
10.11	Employment Agreement dated September 1, 2000 by and between the Company and Harris Shapiro (9)
10.12	Stock Option Agreement dated November 27, 2000 by and between the Company and Terry J. Baker (9)

Exhibit No.	Description of Exhibit

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)
23 (a)	Consent of Independent Registered Public Accounting Firm (12)
23 (b)	Consent of Independent Registered Public Accounting Firm (12)
99.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 (12)
99.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 (12)
99.3	Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (12)

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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.

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(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 or, in the case of Exhibit 99.3, furnished herewith.

(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 the Independent Registered Public Accounting Firm 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.

Item 14. Principal Accountant Fees and Services.

Audit Fees

KPMG LLP ("KPMG"), the Company's then Independent Registered Public Accounting Firm, billed $50,975 for professional services rendered in connection with its audit of the Company's annual financial statements for fiscal 2003 and its review of the Company's financial statements included in the Company's Forms 10-QSB filed for fiscal 2003.

KPMG billed the Company $10,750 for professional services rendered in connection with its review of the Company's financial statements included in the Company's Forms 10-QSB filed for fiscal 2004.

The Company's Audit Committee has authorized a fee estimated to be

$23,500 to $30,000 for the professional services being rendered by Singer Lewak Greenbaum & Goldstein, LLP (the "Singer Firm"), the Company's current auditors, in connection with its audit of the Company's annual financial statements for fiscal 2004, of which $15,000 has already been paid.

The Audit Committee has authorized that the Singer Firm be paid a fee of $6,500 to $8,500 for its professional services to be rendered in connection with its review of each of the Company's financial statements included in the Company's Forms 10-QSB to be filed for the fiscal year ending March 31, 2005.

Audit-Related Fees

KPMG billed the Company (1) $30,000 for its professional services in fiscal 2004 in connection with the Company's Registration Statement on Form S-3, File No. 333-109933, filed in connection with the then proposed merger transaction with SuperCom, which Registration Statement was withdrawn when the proposed transaction terminated, and (2) $15,000 for its professional services in connection with the Company's pending preliminary consent solicitation statement relating to shareholder approval of the proposed sale to Spray and reincorporation of the Company in the State of Delaware.

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There were no audit-related fees for fiscal 2003.

Tax Fees

KPMG billed the Company $10,500 for its professional services in connection with preparing the Company's federal and state tax returns for fiscal 2003.

The Audit Committee has authorized that the Singer Firm be paid a fee of up to $3,500 for its professional services in connection with preparing and filing the Company's federal and state tax returns for fiscal 2004.

All Other Fees

During fiscal 2004 KPMG billed the Company $25,000 for its professional services in connection with a limited due diligence review of SuperCom's financial statements.

During fiscal 2003 there were no other fees billed by KPMG to the Company for products and services in the preceding three sections of this Item 14.

Audit Committee Approval

Pursuant to the Audit Committee Charter, only the Audit Committee may select annually the Independent Registered Public Accounting Firm for the Company, subject to shareholder ratification. Only the Audit Committee may replace the Independent Registered Public Accounting Firm. The Charter also requires the Audit Committee to approve the retention of the independent auditors for any non-audit service and the fee for such service. The Audit Committee also approves the scope of the annual audit and the intended fee for such service and the fees for the quarterly reviews of the financial statements in the Forms 10-QSB. The Charter does not permit any delegation of the Audit Committee's authority to management and sets forth procedures for annual reviews by the Audit Committee of the Independent Registered Public Accounting Firm to determine their qualifications and independence.

With respect to all of the services described under the captions

"Audit-Related Fees," "Tax Fees" and "All Other Fees," the Audit Committee reviewed in advance the scope of the services to be rendered and determined that the services were compatible with maintaining the independence of KPMG or the Singer Firm, whichever was applicable. The Audit Committee also approved in advance all of the fees for such services and for the fees described under the caption "Audit Fees."

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused 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: June 28, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on June 28, 2004.

Signature	Title
/s/ Harris A. Shapiro Harris A. Shapiro	Chief Executive Officer, Chairman of the Board and Director (Principal Executive Officer)
/s/ Irene J. Marino Irene J. Marino	V.P. Finance, Chief Financial Officer and Corporate Secretary (Principal Financial and Accounting Officer)
/s/ Bryan Maizlish Bryan Maizlish	Director
/s/ Timothy D. Morgan Timothy D. Morgan	Director
/s/ Tracie Savage Tracie Savage	Director
/s/ Corey P. Schlossmann Corey P. Schlossmann	Director

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PERFECTDATA CORPORATION

SEC Form 10-KSB

Index to Financial Statements

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.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California

May 14, 2004

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 audits.

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.

/s/ KPMG LLP

Los Angeles, California
May 9, 2003, except for the
restatement for discontinued
operations as described in note 2
to the 2003 financial statements,
which is as of June 25, 2004.

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

Assets

Current assets:		
Cash and cash equivalents	$	1,903
Prepaid expenses and other current assets		30
Current assets of discontinued operations, net of allowance of $3		220

Total current assets	2,153
Property and equipment, at cost, net	-
Total assets	$ 2,153

Liabilities

Current liabilities:	
Accounts Payable	$ 126
Accrued compensation	35
Other accrued expenses	77
Current liabilities of discontinued operations	255
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.

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

	2004	
Selling, general, and administrative expenses	$ 933	$
Loss from operations	(933)	

Other income:	
Interest, net	-
Other, net	17
Loss from continuing operations	(916)
Income (loss) from discontinued operations	359
Net income (loss)	$ (557)
Net loss per common share:	
Basic and diluted:	
Loss from continuing operations	$ (0.15)
Income from discontinued operations	0.06
	$ (0.09)
Weighted average shares outstanding:	
Basic and diluted	6,193

See accompanying notes to financial statements.

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

(Amounts in thousands)

	Common Stock		Accumulate
	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
Cash flows from continuing operating activities:	
Net loss	$ (916)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	6
Stock issued for services	52
(Increase) decrease in prepaid expenses and other assets	32
Increase in accounts payable	54
Increase (decrease) in accrued expenses	29
Net cash used in continuing operating activities	(743)
Net cash provided by discontinued operating activities	473
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) assembles and 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)

PERFECTDATA CORPORATION

Notes to Financial Statements

March 31, 2004 and 2003

(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.

(continued)

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, 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.

(continued)

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		2003
Net income, as reported	$	(557)	$	(642)
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax		(27)		(4)
Pro forma net income	$	(584)	$	(646)
Basic and diluted net loss per common share:				
As reported	$	(0.09)	$	(0.10)
Pro forma	$	(0.09)	$	(0.10)

(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

(continued)

PERFECTDATA CORPORATION
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(notes 6 and 7)

Years ended March 31, 2004 and 2003

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) Discontinued 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 has, 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 is receiving a fee of 7 1/2% of net sales.

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 have agreed in principle to the following revisions to the APA: (1) effective June 1, 2004, Spray will assume 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; (3)

(continued)

PERFECTDATA CORPORATION
Statements of Shareholders' Equity

(notes 6 and 7)
Years ended March 31, 2004 and 2003

based on the amounts of the items constituting the purchase price described above and as modified in (2) as if the closing was held on May 31, 2004, the Company will advise Spray of this estimated purchase price and Spray will promptly advance to the Company an amount in excess of what the Company owes Spray for product purchased from Spray; and (4) 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 continues 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, by consents in lieu of holding a meeting, to permit the sale of its operating assets to Spray. At such time as the Company has obtained formal approval of its shareholders to permit the sale to Spray, the Company will have 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 will have 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.

The Company accounted for the sale as a disposal group under Statement of Financial Accounting Standards ("SFAS") No. 144. Accordingly, amounts in the financial statements and related notes for all periods presented have been reclassified to reflect SFAS No. 144 treatment.

(continued)

March 31, 2004 and 2003

The carrying amount of the assets and liabilities of the discontinued operations at March 31, 2004 were as follows:

(amounts in thousands except per share information)

	March 31, 2004
Assets:	
Accounts receivable net of an allowance for doubtful accounts of $ 3	$ 192
Inventory	28
Property and equipment, net	-
Total Assets	220
Liabilities:	
Accounts Payable	$ 255

Operating results of the discontinued operations are as follows:

(amounts in thousands except per share information)

	March 31, 2004	Mar 2
Net revenue	$2,680	$2
Income (loss) from discontinued operations	359	
Income (loss) per share from discontinued operations	$ 0.06	$

(3) 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.

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PERFECTDATA CORPORATION

Notes to Financial Statements

March 31, 2004 and 2003

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 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.

(4) 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 assets of discontinued operations.

(5) 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)
	$	-

(6) 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:

(continued)

PERFECTDATA CORPORATION

Notes to Financial Statements

March 31, 2004 and 2003

	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)

	-%	-%

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	2,002
	$ -

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.

(continued)

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 $2,062.00 During the year ended March 31, 2004, the Company increased the valuation allowance in deferred tax assets by $118,000.

(7) Shareholder's 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.

(continued)

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.

(8) 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 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. A total of 377,750 options were exercised through March 31, 2004, with 10,000 options 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

(continued)

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. A total of 24,000 options were exercised through March 31, 2004. Activity for these options and warrants is summarized as follows:

	Shares	Weighted average exercise price
Options outstanding at March 31		