

PERFECTDATA CORP
Form 10QSB
February 14, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

ý Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2002

Commission File Number 0-12817

PERFECTDATA CORPORATION

(Exact name of Registrant as specified in its charter)

CALIFORNIA

(State or Other Jurisdiction of
Incorporation or Organization)

95-3087593

(I.R.S. Employer
I.D. Number)

110 West Easy Street

Simi Valley, California 93065-1689
(Address of principal executive offices)
(Zip Code)

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

Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report:
Not Applicable

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

Yes No

As of February 7, 2003, there were 6,159,530 shares of Common Stock outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PERFECTDATA CORPORATION

Balance Sheet

(Unaudited)

(Dollars in thousands)

| | December 31, 2002 |
|---|------------------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 2,256 |
| Accounts receivable, less allowance for doubtful receivables | 242 |
| Inventories | 168 |
| Prepaid expenses and other current assets | 57 |
| Total current assets | 2,723 |
| Property, plant and equipment, at cost, net | 11 |
| | \$ 2,734 |
| Liabilities and Shareholders' Equity | |
| Current liabilities: | |
| Accounts payable | \$ 257 |
| Accrued salaries, wages and vacation | 34 |
| Other accrued expenses | 130 |
| Total current liabilities | 421 |
| Shareholders' equity: | |
| Preferred Stock. Authorized 2,000,000 shares; none issued | |
| Common Stock, no par value. Authorized 10,000,000 shares; issued and outstanding 6,159,530 shares | 11,206 |
| Accumulated deficit | (8,893) |
| Net shareholders' equity | 2,313 |
| | \$ 2,734 |

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See accompanying notes to financial statements.

PERFECTDATA CORPORATION

Statements of Operations and Comprehensive Loss

(Unaudited)

(Amounts in thousands, except per share amounts)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|------------------------------------|----------|-----------------------------------|----------|
| | 2002 | 2001 | 2002 | 2001 |
| Net sales | \$ 500 | \$ 389 | \$ 1,554 | \$ 1,265 |
| Cost of goods sold | 326 | 273 | 1,013 | 945 |
| Gross profit | 174 | 116 | 541 | 320 |
| Selling, general and administrative expenses | 310 | 293 | 1,066 | 939 |
| Loss from operations | (136) | (177) | (525) | (619) |
| Other income: | | | | |
| Other, net | 9 | 18 | 31 | 37 |
| Net loss | (127) | (159) | (494) | (582) |
| Other comprehensive income (loss): | | | | |
| Unrealized gain on marketable securities | | | | 33 |
| Comprehensive loss | \$ (127) | \$ (159) | \$ (494) | \$ (549) |
| Net loss per common share - basic and diluted | \$ (.02) | \$ (.02) | \$ (.08) | \$ (.09) |
| Weighted average shares outstanding - basic and diluted | 6,159 | 6,159 | 6,159 | 6,159 |

See accompanying notes to financial statements.

PERFECTDATA CORPORATION

Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

| | Nine-Month Period Ended December 31, | |
|---|---|----------|
| | 2002 | 2001 |
| Cash Flows from operating activities: | | |
| Net loss | \$ (494) | \$ (582) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 15 | 26 |
| Loss on sale of marketable securities | | 43 |
| (Increase) decrease in accounts receivable | (64) | 124 |
| (Increase) decrease in inventories | (14) | 154 |
| Increase in prepaid expenses and other assets | (2) | (120) |
| Increase (decrease) in accounts payable | 50 | (50) |
| Increase (decrease) in accrued expenses | 7 | (29) |
| Net cash used in operating activities | (502) | (434) |
| Cash flows from investing activities: | | |
| Sale of marketable securities | | 166 |
| Net cash provided by investing activities | | 166 |
| Decrease in cash and cash equivalents | (502) | (268) |
| Cash and cash equivalents at beginning of period | 2,758 | 3,177 |
| Cash and cash equivalents at end of period | \$ 2,256 | \$ 2,909 |

See accompanying notes to financial statements.

PERFECTDATA CORPORATION

Notes to Financial Statements

1. All adjustments included in the financial statements in this Report are of a normal recurring nature and are necessary to present fairly the Company's financial position as of December 31, 2002 and the results of its operations and cash flows for the nine months ended December 31, 2002 and 2001. Results of operations for the interim periods are not necessarily indicative of results of operations for a full year due to external factors that are beyond the control of the Company. This Report should be read in conjunction with the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 2002 (Annual Report 2002).

2. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Inventories are summarized as follows (in thousands):

| | December 31, 2002 | |
|-------------------|--------------------------|-----|
| | (unaudited) | |
| Raw materials | \$ | 89 |
| Work in process | | 1 |
| Finished products | | 78 |
| | \$ | 168 |

3. Property and Equipment

Property and equipment consist of (in thousands):

| | December 31, 2002 | |
|-------------------------|--------------------------|-----|
| | (unaudited) | |
| Machinery and equipment | \$ | 309 |
| Furniture and fixtures | | 85 |
| Tooling | | 3 |

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| | |
|--|-------|
| Leasehold improvements | 155 |
| | 552 |
| Less accumulated depreciation and amortization | (541) |
| | |
| | \$ 11 |

4. Income taxes

At December 31, 2002, the Company had net operating loss (NOL) carryforwards of approximately \$5,103,403 for federal income tax purposes expiring in varying amounts through 2020. 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 2003 if not utilized. Additionally, the Company has general business tax credit carryforwards of \$12,000 which will begin to expire in 2006.

SFAS 109 requires that the tax benefit of such NOLs and other deferred tax assets be recorded as an asset using current tax rates to the extent management assesses the utilization of such NOLs and other assets to be more likely than not. Management has determined that future taxable income of the Company will likely not be sufficient to realize the recorded deferred tax asset of \$1,945,601. As such, the Company has recorded a valuation allowance of \$1,945,601.

5. Loss Per Common Share

Basic net loss per share is based on the weighted average number of shares outstanding during each of the respective periods. Diluted net loss per share includes the dilutive impact of all Common Stock equivalents such as options and warrants to purchase the Company's Common Stock. During the respective periods, the impact of the Common Stock equivalents, such as stock options, was antidilutive; therefore, they have been excluded from the calculation of diluted loss per share.

6. Delisting

On November 25, 2002, the Staff of The Nasdaq Stock Market, Inc. (Nasdaq) notified the Company that it did not comply with Nasdaq's minimum maintenance requirement of having at least (a) \$2,500,000 in stockholders' equity or (b) \$35,000,000 of market value of listed securities or (c) \$500,000 in net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. On December 23, 2002, based on the Company's response, the Staff of Nasdaq notified the Company that, if the Company consummated a \$600,000 private placement of equity by no later than January 31, 2003 and filed in this Report a pro forma balance sheet indicating that the Company had a shareholders' equity in excess of \$2,500,000, Nasdaq would deem the Company to comply again with the Stockholders' Equity Rule. Accordingly, the Common Stock could continue to trade on the Nasdaq System.

The Company was not able, by either January 31, 2003 or the date of this Report, to consummate an offering of its securities in an amount sufficient to increase its shareholders' equity as of December 31, 2003 (\$2,313,000) to meet the Nasdaq minimum maintenance requirement of \$2,500,000. Accordingly, the Company expects that the Nasdaq Staff may seek to delist the Common Stock. Should the Nasdaq Staff so act, the Company intends to appeal the Staff's delisting determination to a Listing Qualifications Panel. However, there can be no assurance that any such appeal will be successful. See also Item 5 of Part II of this Report for additional information.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

Management believes that the following discussion addresses the Company's most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and results, and require 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.

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.

Valuation of Inventory:

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. Market value is dependent primarily on consumer demand and competitor product offerings. The Company reviews inventories and records adjustments for any decline in its value below cost. Adjustments are primarily determined by identifying excess and slow-moving products based upon prior sales, estimating values for such items, and providing for any losses in value based upon those estimates.

Results of Operations

Net sales for the third fiscal quarter ended December 31, 2002 (current quarter) increased \$111,000, or 29%, to \$500,000 from net sales of \$389,000 in the year-earlier period. Net sales for the nine months ended December 31, 2002 (current nine-month period) increased \$289,000, or 23%, to \$1,554,000 from \$1,265,000 in the year-earlier period. The increased sales in the current quarter and current nine-month period were a result of an increase in sales volume with the Company's existing customers.

Cost of Goods Sold (Costs) as a percentage of net sales for the current quarter and current nine-month period was 65% in each respective period, as compared to 70% and 75%, respectively, in the year-earlier periods. The decrease in Costs related to a reduction in labor expenses as well as the absence of inventory write-downs. Included in the year-earlier period were write-downs of certain inventories, aggregating \$55,000, which were made for products the Company was deeply discounting or discontinuing.

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Selling, General and Administrative Expenses (Expenses) for the current quarter were \$310,000 as compared to \$293,000 in the year-earlier period. Expenses for the current nine-month period were \$1,066,000 as compared to \$939,000 in the year-earlier period. The increase in Expenses in the current quarter primarily relates to costs associated with the Company's Annual Shareholders Meeting for the fiscal year ended March 31, 2002, which was held on December 6, 2002. The increase in Expenses in the current nine-month period

primarily relates to costs associated with the Company's efforts to find a suitable merger candidate. These costs, which included legal fees, amongst others, and which related to a specific transaction with a specific merger candidate, aggregated approximately \$115,000. See the third succeeding paragraph.

Other Income for the current quarter was primarily dividend income of \$9,000, as compared to dividend income of \$18,000 in the year-earlier period. Other Income for the current nine-month period was primarily dividend income of \$33,000, as compared to dividend income of \$80,000 net of a loss on securities of \$43,000 in the year-earlier period.

The decreased net loss for the current quarter and current nine-month period directly related to the increased sales, as described above.

The Board believes that profitability will not be obtained absent the acquisition of a new business or businesses and/or new products. During the second fiscal quarter ended September 30, 2002, the Company had been negotiating a possible transaction with a privately-held corporation. However, the subject company made a decision to enter into an agreement with another very large public company instead. The Board immediately resumed its search for a suitable acquisition candidate. However, there can be no assurance as to when such pursuits will be successful or as to when profitability will be achieved, if at all.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased \$502,000 from \$2,758,000 at March 31, 2002 to \$2,256,000 at December 31, 2002. The decrease in cash during the current nine-month period resulted from cash used in operating activities of \$502,000, which was primarily the result of the net loss of \$494,000 as well as an increase in accounts receivable, partially offset by an increase in accounts payable.

As a result of the continuing negative cash flows from operations, the Company is dependent on the invested proceeds from its March 2000 private placement in order to meet its payable requirements. Long term, the Company must seek a new line of business, whether through acquisition or otherwise.

The Company believes that, as a result of the cash described in the preceding paragraph, its working capital is adequate to fund the Company's operations and its requirements for the fiscal year ending March 31, 2003.

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company also will be obligated to record a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on April 1, 2003. Management has not yet determined the impact on the Company, if any, of the adoption of SFAS No. 143.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement requires that long-lived assets be 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 future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is to be recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are to be reported at the lower of the carrying amount or fair value less costs to sell. The Company adopted SFAS No. 144 on April 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial condition or results of operations.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, which requires that the extinguishment of debt not be considered an extraordinary item under APB Opinion No. 30, *Reporting the Results of Operation - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, unless the debt extinguishment meets the unusual in nature and infrequency of occurrence criteria in APB 30. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002 and, upon adoption, companies must reclassify prior period items which do not meet the extraordinary item classification criteria in APB 30. Management has not yet determined the impact on the Company, if any, of its adoption of SFAS No. 145.

On July 30, 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 nullifies EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. It requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the FASB's conceptual framework. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with earlier adoption encouraged. The Company does not expect that the adoption of SFAS 146 will have a material impact on its financial position or results from operations.

Forward-Looking and Cautionary Statements

With the exception of historical information, the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations include certain forward-looking statements that involve risks and uncertainties. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying information that is forward-looking and, accordingly, involves risks and uncertainties, including, without limitation, statements regarding the Company's future financial performance, the results or success of discussions with other entities on mergers, acquisitions, or alliance possibilities and expansion of the Company's current product offerings. Other risks are discussed in the Annual Report 2002. 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 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has a CEO and a CFO/CAO, constituting all of management, and seven employees to conduct operations. Within the 90 days preceding the filing of this Report, the CEO and CFO/CAO performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. 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. The Audit Committee and management will review this requirement should the Company's operations expand, as to which expansion there can be no assurance. 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 December 31, 2002, 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 Chairman of the Audit Committee in connection with his review, acting on behalf of the Audit Committee as permitted by the Audit Committee Charter, 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.

PART II. OTHER INFORMATION

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

An annual meeting of shareholders for the fiscal year ended March 31, 2002 was held on December 6, 2002.

Harris A. Shapiro, Bryan Maizlish, Timothy D. Morgan, Tracie Savage and Corey P. Schlossmann were re-elected at the meeting to serve as directors until the next annual meeting of shareholders and until their successors are elected and qualify. Nominees received the following votes:

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| Nominee | Affirmative Votes | Votes Withheld | Broker Non-Votes |
|----------------------|-------------------|----------------|------------------|
| Harris A. Shapiro | 5,693,441 | 71,474 | 70,168 |
| Bryan Maizlish | 5,578,991 | 185,924 | 70,168 |
| Timothy D. Morgan | 5,198,991 | 565,924 | 70,168 |
| Tracie Savage | 5,757,465 | 7,450 | 70,168 |
| Corey P. Schlossmann | 5,693,441 | 71,474 | 70,168 |

The appointment of KPMG LLP as independent accountants of the Company for the fiscal year ending March 31, 2003 was ratified with 5,200,391 affirmative votes, 563,324

negative votes, 1,200 votes abstaining and 70,168 broker non-votes.

Item 5. Other Information

The Common Stock is currently traded on the Nasdaq SmallCap Market (the "Nasdaq System") under the symbol PERF. On November 25, 2002, the Staff of The Nasdaq Stock Market, Inc. ("Nasdaq") notified the Company that it did not comply with Nasdaq's minimum maintenance requirement of having at least (a) \$2,500,000 in stockholders' equity or (b) \$35,000,000 of market value of listed securities or (c) \$500,000 in net income from continuing operations for the most recently completed fiscal year or two of the three most recently completed fiscal years. This requirement is set forth in Marketplace Rule 4310(c)(2)(3) (the "Stockholders' Equity Rule"). As a result of the Company's continuing operational losses and the decline in the market price for the Common Stock, the Company had been complying with the Stockholders' Equity Rule as a result of its shareholders' equity and not the two other alternative criteria. However, the Company's balance sheet as of September 30, 2002, as reported in its Quarterly Report on Form 10-QSB for the quarter ended as of that date, showed a shareholders' equity of \$2,440,000. Based on the Company's response, on December 23, 2002 the Staff of Nasdaq notified the Company that, if the Company consummated a \$600,000 private placement of equity by no later than January 31, 2003 and filed in this Report a pro forma balance sheet indicating that the Company had a shareholders' equity in excess of \$2,500,000, Nasdaq would deem the Company to comply again with the Stockholders' Equity Rule. Accordingly, the Common Stock could continue to trade on the Nasdaq System.

The Company had not sought at an earlier date to seek equity through a private placement to meet this maintenance requirement for three reasons. First, the increase in the Stockholders' Equity Rule of minimum stockholders' equity from \$2,000,000 to \$2,500,000 did not become effective until November 1, 2002. Second, as previously reported, the Company had expected to consummate an acquisition as a turn around strategy at an earlier date. The Company executed in October 2001 a letter of intent with one acquisition candidate, but, after further due diligence, the transaction was mutually terminated in February 2002. In the fall of 2002 negotiations began with another acquisition candidate; however, one day before the definitive agreement was to be executed, the acquisition candidate received an offer to be purchased for twice the valuation that had been agreed to. Not only had the Company not consummated either acquisition, both of which would have increased the Company's shareholders' equity, but also the Company incurred approximately \$90,000 and \$115,000, respectively, in legal and due diligence expenses, which further reduced the Company's shareholders' equity. Finally, the Company was hoping for a rise in the market price for the Common Stock which would enable the Company to sell shares on more favorable terms.

The Company was not able, by either January 31, 2003 or the date of this Report, to consummate an offering of its securities in an amount sufficient to increase its shareholders' equity as of December 31, 2003 (\$2,313,000) to meet the Nasdaq minimum maintenance requirement of \$2,500,000. Accordingly, the Company expects that the Nasdaq Staff may seek to delist the Common Stock. Should the Nasdaq Staff so act, the Company intends to appeal the Staff's delisting determination to a Listing Qualifications Panel. However, there can be no assurance that any such appeal will be successful.

On November 5, 2002, the Staff of Nasdaq notified the Company that the bid price of the Common Stock had closed, during a period of 30 consecutive business days, below the minimum \$1.00 per share requirement of Marketplace Rule 4310(c)(4) for continued inclusion of the Common Stock on the Nasdaq System. As a result, pursuant to Marketplace Rule 4310(c)(8)(D),

the Staff of Nasdaq gave the Company 180 days, or until May 5, 2003, to demonstrate that the bid price of the Common Stock had closed at \$1.00 or more for a minimum of ten consecutive trading days. If the Common Stock did so trade, the Staff would notify the Company that it was back in compliance with this maintenance requirement. If the bid price was not at such level for such period by the May 5th deadline, the Staff of Nasdaq would determine if the Company met one of the three alternative tests for initial inclusion of the Common Stock on the Nasdaq System (i.e., a stockholders' equity of \$5,000,000, a market value of the Common Stock of \$50,000,000 or net income of \$750,000 in the most recent fiscal year or in two of the last three most recently completed fiscal years). If the Company met one of such tests, the Staff would grant the Company 180 additional days to demonstrate compliance with the per share bid requirement. The Company does not believe that it is likely, absent consummation of an acquisition or a private placement to increase its shareholders' equity, that it can demonstrate compliance with any of the three alternative tests by May 5, 2003 so as to obtain an additional 180 days. If the Company is correct in this belief, then the Staff will provide written notice to the Company that the shares of the Common Stock will be delisted. Although the Company may appeal the Staff's delisting determination to a Listing Qualification Panel, there can be no assurance that any such appeal will be successful.

The Board of Directors of the Company believes that the Company will meet the deadline for compliance with the bid price requirement. The directors are actively seeking an acquisition, which they believe can be consummated by the Company during the next six to nine months. They are also of the opinion that, if an agreement can be reached with a suitable acquisition candidate and such arrangement is then publicly announced, the bid price is likely to rise to a level that will meet the minimum bid price requirement before the May 5th deadline. In addition, the Board recognizes that there are other possibilities which the Company may pursue such as (1) a private placement which, if consummated in a large enough amount, could lead to the Company having a shareholders' equity in excess of \$5,000,000 and, thus, being eligible under the Nasdaq rule for an additional 180 days to obtain compliance with the minimum bid price requirement or (2) a reverse stock split to increase the bid price directly. However, because the Board appreciates that there are negative aspects to these alternatives, even assuming they can be effectuated on a timely basis, the Board will concentrate its attention on obtaining a suitable acquisition. There can be no assurance that the Board's efforts will be successful in implementing any of the possible actions described in this paragraph on a timely basis, if at all.

SIGNATURE

Pursuant to the requirements 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: February 12, 2003

CERTIFICATIONS

I, Harris A. Shapiro, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Perfect Data Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

/s/ Harris A. Shapiro
Harris A. Shapiro
Chairman of the Board and
Chief Executive Officer

CERTIFICATIONS

I, Irene J. Marino, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Perfect Data Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

/s/ Irene J. Marino
Irene J. Marino
Vice President, Finance,
Chief Financial Officer and
Chief Accounting Officer

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We, Harris A. Shapiro and Irene J. Marino, do hereby certify that:

1. This quarterly report of PerfectData Corporation containing the financial statements for the quarters ended December 31, 2002 and 2001 fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m) and

2. The information contained in this quarterly report fairly presents, in all material respects, the financial condition and results of operations of PerfectData Corporation.

Date: February 12, 2003

/s/ Harris A. Shapiro
Harris A. Shapiro
Chairman of the Board and
Chief Executive Officer

/s/ Irene J. Marino
Irene J. Marino
Vice President, Finance,
Chief Financial Officer and
Chief Accounting Officer