PERFECTDATA CORP
Form SC 14D9
September 13, 2004

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN CONSENT SOLICITATION STATEMENT
SCHEDULE 14A INFORMATION

Consent Solicitation Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. 4)

Filed by the registrant X

Filed by a party other than the registrant

Check the appropriate box:

X Preliminary consent solicitation statement.

Definitive consent solicitation statement.

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).

Definitive additional materials.

Soliciting material under Rule14a-12.

PERFECTDATA CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6 (i) (4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction completed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

X Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

September , 2004

Dear PerfectData Shareholder:

The Board of Directors is seeking your consent, in lieu of holding a meeting, to (1) consummating the sale to Spray Products Corporation of our business operations and (2) reincorporating our Company as a Delaware corporation.

Spray, which has been in recent years the major supplier to our Company of compressed gas dusters, which product represented more than 85% of our Company's sales during the fiscal year which ended March 31, 2004, had been acting, since November 1, 2003, as the manager for the fulfillment of orders from the Company's customers and, effective June 1, 2004, assumed full responsibility for these customers. The purchase price will be an amount equal to the sum of the value of the then inventory, the amount of collectible accounts receivable and $80,000, less the amount of trade payables being assumed by Spray. Our reasons for seeking your approval and further details relating to the sale are set forth in the annexed Consent Solicitation Statement.

Although this sale, when closed, will leave us without any operations, we believe that our Company will remain an attractive candidate for an acquisition or merger. Despite our efforts prior to our arrangements with Spray to increase revenues and decrease expenses, these operations had continued to result in a loss, thereby reducing our cash position, which is our principal asset. As a public company, having terminated the operations which only resulted in losses, with a strong cash position (i.e., in excess of $1,500,000) and with improved stock market conditions generally, PerfectData Corporation can still

consummate, in our opinion, a transaction with a private company with on-going operations that will give a "new life" to our Company. We were disappointed that the proposed transaction with SuperCom Ltd., an Israeli company, terminated, but, for the reasons described in the annexed Consent Solicitation Statement, we believe such termination to be in the best interests of our Company and you, our shareholders. We are now actively pursuing the task of obtaining a suitable acquisition or merger partner.

Almost every potential acquisition or merger candidate to whom we have spoken has requested that we reincorporate our Company so that it is governed by the laws of Delaware and not those of California as it currently is. SuperCom even made this a condition precedent to our closing a transaction with it. Our reasons for seeking your approval of the reincorporation and a comparison of California and Delaware law are set forth in the annexed Consent Solicitation Statement.

We are using the consent procedure in lieu of calling a meeting because it is less expensive than calling a meeting and will enable us, once we have secured your approval, to

close with Spray sooner, i.e., the day after we receive consents from the holders of at least 34.95% of our Company's outstanding shares, but not sooner than ten days after we mail this letter to you. We already have received, or are in the process of receiving, consents aggregating 15.05% of our Company's outstanding shares from directors, officers and a trust for which the senior partner of our counsel acts as Trustee to approval of consummating the sale to Spray and the reincorporating our Company as a Delaware corporation.

Please execute the enclosed consent and return it promptly to our Transfer Agent in the enclosed self-addressed prepaid envelope. This will enable us to close with Spray and concentrate our efforts on seeking an acquisition or merger candidate. If you have any questions, please do not hesitate to contact us as provided in the annexed Consent Solicitation Statement.

Sincerely yours,

Harris A. Shapiro
Chairman and Chief Executive Officer
For the Board of Directors

PERFECTDATA CORPORATION
1445 East Los Angeles Avenue
Suite 208
Simi Valley, CA 93065

CONSENT SOLICITATION STATEMENT

This Consent Solicitation Statement is furnished in connection with the solicitation by the Board of Directors of PerfectData Corporation, or the "Company," of consents from the Company's shareholders in lieu of holding a meeting, pursuant to Section 603 of the California General Corporation Law,

approving (1) the sale by the Company of its business operations to Spray Products Corporation, or "Spray," on the terms and conditions hereinafter described in this Consent Solicitation Statement and (2) the reincorporation of the Company as a Delaware corporation. Your attention is directed to the section "Terms of Sale" under the caption "Proposed Sale Transaction" for information relating to the terms and conditions of the proposed sale to Spray and to the caption "Authorize the Reincorporation of the Company as a Delaware Corporation" for information relating to the reincorporation proposal. This Consent Solicitation Statement and the enclosed form of consent are first being mailed on or about September , 2004, to holders of record of the Company's Common Stock, no par value per share, or the "Common Stock," as of the close of business on Friday, September 3, 2004, or the "Record Date," which has been fixed, as described in the second paragraph under the caption "Voting Securities," as the record date for the determination of the shareholders to be solicited for consents to this proposal.

SUMMARY TERM SHEET

For a more complete description of the terms of the proposed transaction with Spray summarized below, your attention is directed to the section "Terms of Sale" under the caption "Proposed Sale Transaction" in this consent solicitation statement. You may also read the asset purchase agreement which is attached as Appendix A, a first amendment which is attached as Appendix B, and a second amendment which is attached as Exhibit C, to this consent solicitation statement. To facilitate your finding such more detailed description, we have indicated in this summary a reference to the page in this consent solicitation statement, as, for example, CSS p. 1, to the page in the original agreement as, for example, APA p. 1 and to the page in the second amendment, as, for example, Second Amendment to APA, p. 1.

o Seller:	PerfectData Corporation
o Buyer:	Spray Products Corporation
o Assets to be sold:	All inventory, certain books and records, goodwill, accounts receivables, equipment and intellectual property of the seller.[CSS p. 4; APA p. A-1 and A-2; Second Amendment to APA, p. 1]
o Purchase price:	The sum of the value of inventories, collectible accounts receivables and $80,000, less the value of the trade payables, all to be determined at the closing.[CSS p. 4; APA p. A-2 and A-3]
o Closing:	The closing will occur on the earlier of (1) the day following the day on which the seller receives consents from shareholders holding a majority of its outstanding shares of its common stock (but not earlier than 10 days after this consent solicitation statement is first sent to shareholders) or (2) the third business day after the seller exercises its put of the assets to the buyer on September 30, 2004.[CSS p. 6; APA p. A-7; Second Amendment to APA,

p. 2]

o Pre-Closing Arrangement	Since November 1, 2003, the buyer had been acting as the manager for the fulfillment of orders of the seller's products. As compensation for its services the seller had been paying the buyer 7.5% of the "net sales" (as such term is defined) of the products sold. The seller had been responsible for all shipping and freight charges. Effective June 1, 2004, the buyer assumed full responsibility for all customers and, accordingly, is entitled to the full economic benefit of any sale to a customer of the seller in lieu of the foregoing fee.[CSS p. 6; APA p. A-10; Second Amendment to APA, p. 2]
o Termination:	In the event either party terminates the agreement because of the other party's violation, or, if the other party is unable to close, the other party shall pay the terminating party $100,000.[CSS p. 6; APA p. A-9 and A-10]

VOTING SECURITIES

On the Record Date, 6,209,530 shares of the Common Stock were issued, outstanding and entitled to consent. There is no other class of capital stock currently issued and outstanding and, accordingly, no other class to be solicited for consents to the sale and reincorporation proposals. Each shareholder of record is entitled to cast, in person or by proxy, one vote for each share of the Common Stock held by such shareholder as of the close of business on the Record Date. This consent solicitation will become effective, and the sale and reincorporation proposals approved, when the Company receives consents from the holders of shares of the Common Stock representing more than a majority of the outstanding shares of the Common Stock (i.e., consents with respect to at least 3,104,766 shares, of which, as indicated in the succeeding paragraph, consents as to 934,716 shares have already been received). California law does not require that the Company specify a date by which consents must be received; however, the Board has directed that solicitation of additional consents cease if the required consents have not been received by Friday, October 29, 2004.

All of the directors and executive officers of the Company have already given, or are in the process of giving, their consents to approval of the sale and reincorporation proposals with respect to an aggregate of 506,843 shares of the Common Stock which they own. Receipt of consents on September 3, 2004 by the Secretary of the Company made that date the Record Date pursuant to Section 701(b)(2) of the California General Corporation Law. The Company has also received a consent from William B. Wachtel, as Trustee of Digital Trust, with respect to 427,873 shares. For information as to this shareholder, your attention is directed to Note (3) to the table under the caption "Security Ownership of Certain Beneficial Owners and Management" elsewhere in this Consent Solicitation Statement. The Company, accordingly, has received, or will receive, consents from an aggregate of 934,716 shares, or 15.05% of the shares of the Common Stock outstanding as of the Record Date.

As the Company previously publicly announced, the holders of a majority of the then outstanding shares of the Common Stock had agreed, pursuant to an

agreement dated as of July 15, 2003, or the "Shareholders' Agreement," to authorize the Company to sell its inventory, intellectual property and business operations. This agreement resulted from discussions held in June 2003 with two major shareholders not affiliated with management, which discussions were initiated by them, as to what actions the Company should take, regardless of whether or not the then proposed merger transaction with SuperCom, Ltd., an Israeli company, or "SuperCom," was consummated. The consensus of these discussions was that it was in the best interest of the Company and its shareholders to find a buyer and to sell the Company's current operations. Because over eight months had elapsed since these discussions, which contemplated prompt action being taken to consummate a sale, and because the proposed SuperCom transaction (which had as a condition precedent to closing sale of these operations) had terminated, the Company advised these non-management shareholders that the Company released them from their commitment to consent, when requested, which they had given in the Shareholders Agreement and that, accordingly, these shareholders may now consent or not consent to the sale proposal as to which the Board is seeking consents pursuant to this Consent Solicitation Statement. While the Board believes that these major shareholders may still consent, they are no longer obligated to do so by the Shareholders Agreement. The Shareholders Agreement related only to the sale proposal and not the reincorporation proposal as well.

Consents will be voted as indicated in this Consent Solicitation Statement and the enclosed consent. Shares presented by properly executed consents will be voted in accordance with any specifications made therein. You may revoke a previously given consent by delivering a written notice of revocation to the Company (Attention: Irene J. Marino, Secretary) at its principal executive office at any time prior to the receipt by the Company of consents sufficient to approve either or both of the two proposals as described in the third preceding paragraph. The principal executive office of the Company is located at the address in the heading to this Proxy Statement.

The rules of the New York State Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. do not permit a member firm of any such entity to consent to adoption of either proposal without specific instructions to such effect from the beneficial owner of the shares of the Common Stock whom the member firm represents of record. Accordingly, the Company urges you, if you are a beneficial owner, to instruct the

member firm which holds of record your shares of the Common Stock to consent to both proposals as to which the Board is seeking your consent. The Company also urges you, if you are a beneficial owner whose shares of the Common Stock are held of record on the Record Date by an entity other than a member firm, to urge such other entity to consent with respect to both proposals.

If you desire to consent, please return the enclosed consent to U.S. Stock Transfer Corporation, as the Transfer Agent for the Common Stock, in the enclosed self-addressed prepaid envelope. If you do not have such an envelope, you can mail your consent to U.S. Stock Transfer Corporation at 1745 Gardenia Avenue, Suite 200, Glendale, CA 91204, Attention: Proxy Department.

If you do not consent, you shall have the right to receive payment for your shares as a result of shareholders' approval of either or both of the proposals. Your attention is directed to the caption "Dissenters' Rights" elsewhere in this Consent Solicitation Statement.

Each of the persons who has served as a director or as an executive officer of the Company since April 1, 2003 (i.e., the beginning of the last full fiscal year of the Company) has no substantial interest, direct or indirect, by

security holdings or otherwise, in either of the proposals as to which consent is being solicited.

PROPOSED SALE TRANSACTION

Terms of Sale

On October 3, 2003, the Company entered into an Asset Purchase Agreement, or the "APA," with Spray Products Corporation, or Spray, pursuant to which the Company agreed to sell to Spray (or its designated affiliate) substantially all of the operating assets of the Company for a price equal to the sum of the value of the inventory, the amount of collectible accounts receivable and $100,000, less the amount of trade payables of the Company which are being assumed by Spray. You may find information relating to Spray's business in the section "Spray Data" under this caption "Proposed Sale Transaction." A copy of the APA is attached to this Consent Solicitation Statement as Appendix A, a First Amendment dated as of February 26, 2004 to the APA is attached as Appendix B and a Second Amendment dated as of August 12, 2004 to the APA is attached as Appendix C. We recommend that you read all. The Company is not transferring any of its cash or cash equivalents as part of the transaction so that they will be an available asset in any acquisition or merger discussion with a third party. The operating assets to be transferred to Spray are the Company's inventories of finished goods, raw materials and work in progress; books and records, including customer and supplier lists and other data relating to the operating business; the trade name "PerfectData Corporation" and all other names used in the business; the goodwill relating to the business; accounts receivable as to which the parties agree; all of the Company's machinery and equipment, office furniture, computer equipment and supplies (except what the Company is using in its new office); and all of the Company's intellectual property rights.

Because the Company's largest customer had threatened to seek another supplier because of a supplier's offer of lower prices, and because of the long delay in closing the transaction, thereby causing uncertainty for customers and Spray, the Company and Spray had agreed in principle, and subsequently finalized the agreement in writing by the Second Amendment dated as of August 12, 2004, to the following revisions to the APA: (1) effective June 1, 2004, Spray assumed full responsibility for all of the Company's customers in order to prevent possible losses of customer business, resulting in Spray receiving thereafter the full economic benefits of any sales to customers of the Company; (2) the aforementioned payment of $100,000 was reduced to $80,000; and (3) the Company may put the assets to Spray for the purchase price on the earlier of (a) September 30, 2004 or (b) the Company receiving shareholder consent to the sale to Spray. Section 1001(a) of the California General Corporation Law permits a corporation to obtain shareholders' approval after the sale is consummated.

Had the Company closed with Spray on March 31, 2004, based on the revision described in the preceding paragraph, the Company estimates that it would have received $72,000 as the purchase price based on (1) $270,000 which is the sum of (a) $162,000 (collectible accounts receivable of $192,000 less customer credits of $30,000), $28,000 (inventory) and (c) $80,000 less $198,000 (trade payables). Because the closing, assuming shareholder consent will not occur until the 11th day after this Consent Solicitation Statement is mailed at the earliest, all of the foregoing amounts in calculating the precise price except the $80,000 may fluctuate depending on the customer orders, shipments and payments between March 31, 2004 and the closing date. Accordingly, the Company may receive a purchase price from Spray that is more or less than the estimated $72,000 as of March 31, 2004.

When the PerfectData Board authorized in September 2003 the execution

of the APA, the Board deemed the purchase price from Spray to be fair consideration for the assets because the Company had negotiated over a period of months with several potential purchasers (which were considered the likely candidates to purchase the business). Each of the potential purchaser candidates indicated that the only assets for which it would pay a specified amount were the Company's inventories of finished goods, raw materials and work in progress and outstanding accounts receivable, each to be valued as of the closing date, and that the prospective purchaser would assume the Company's obligation to pay accounts payable relating to operating the business which were outstanding as of the closing date. None of the prospective purchasers was willing to pay any additional specified amount for the other assets to be transferred as described in the second preceding paragraph of this section. Accordingly, the negotiations centered on the amount each candidate would be willing to pay the Company in excess of the sum of the value of the inventory and accounts receivable less the assumed accounts payable. The amounts offered to the Company ranged from a low of $50,000 to a high of $125,000 and the offers came from two major customers of the Company, a competitor which was attempting to lure away one of the major customers of the Company and Spray, its major supplier. The Board, when authorizing the APA, noted that Spray's then offer of $100,000 was dollar-wise consistent with the other offers. In addition, Spray was the major supplier to the Company of compressed gas dusters, which product represented more than 85% of the Company's sales. Accordingly, the Board believed that the sale to Spray would be least disruptive to its customers and the easiest to implement. In addition, Spray assisted in persuading one major customer not to turn to another supplier, thereby continuing revenues for the Company, and also offered to hire the Company's

Director of Business Development (and subsequently did on November 1, 2003 when it assumed management of the fulfillment of customer orders). The Board also considered the threat of two major customers to switch suppliers and the other reasons described below in the section "Reasons for Transaction" under this caption "Proposed Sale Transaction."

Even with the reduction in the determination of the purchase price by $20,000, the Board still believes the purchase price from Spray to be fair consideration for the assets, especially in view of the threat by the Company's largest customer described in the third preceding paragraph in this section "Terms of Sale" under this caption "Proposed Sale Transaction" to cease doing business with the Company.

Unless the Company exercises its put as described above in the fourth preceding paragraph, the closing of the sale of the assets to Spray, assuming the Company receives consents from the holders of at least a majority of the outstanding shares on the Record Date, shall occur on the day following the receipt of the last such consent, but not earlier than ten calendar days after the mailing of this Consent Solicitation Statement to shareholders as required by California law. The APA originally provided for a date not earlier than the 21st day, but the parties have subsequently agreed in the Second Amendment to the APA to the earlier date.

In the event either party terminates the APA because of the other party's violation thereof, or if the other party is unable to close, the other party shall pay a break-up fee of $100,000 to the terminating party.

A condition precedent under the APA to closing the transaction was, prior to the Second Amendment to the APA, that the Company obtain the approval of its shareholders, which is the purpose of this consent solicitation. If, on the other hand, as permitted by the Second Amendment to the APA and the California statute, the put by the Company to Spray is exercised as of September

30, 2004, a closing is held and shareholders' approval is not thereafter obtained, the parties would be required to rescind the transaction. However, in view of management's discussions with major shareholders in June 2003, as reported under the caption "Voting Securities," management does not believe that recission is likely to be required. Spray has agreed to take the purchased assets "as is" and all warranties, express or implied, are excluded from the sale of assets. The APA contains standard representations and warranties by each party, covenants and an agreement by each party to indemnify the other if the indemnifying party's representations and warranties are untrue or incorrect in any material respect and if the indemnifying party fails to observe or perform covenants or agreements, provided that the claims exceed $25,000.

Management Arrangement

Since November 1, 2003, Spray had, pursuant to the APA, been acting as the manager for the fulfillment of orders from the Company's customers. As compensation for Spray's services, Spray had been receiving a fee of 7 1/2% of the Net Sales (as such term is defined), payable monthly. In the APA "Net Sales" was defined as the gross invoice price of each product sold to a customer of the Company less all commissions payable in connection with such sale and any rebate given to the customer in the ordinary course of the Company's business. The Company

had been responsible for all shipping and freight charges. Spray had, effective April 1, 2004, increased its charges to the Company for its products. As indicated in the second paragraph of the section "Terms of Sale" under this caption "Proposed Sale Transaction," Spray has assumed, effective June 1, 2004, full responsibility for all customers and accordingly, is entitled to the full economic benefit of any sale to a customer of the Company in lieu of the foregoing fee.

Reasons for Transaction

The Company's 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 revenues and reduced its expenses, the Company was continuing to operate at a loss, thereby diluting its cash position, which is its major asset. You may find information as to the Company's results of operations during the fiscal year ended March 31, 2003 in Appendix E to this Consent Solicitation Statement. You may make requests for the financial statements relating to earlier years by mail or telephone to Irene J. Marino, the Company's Vice President, Finance, at the Company's address or phone number listed in the section "Miscellaneous" under the caption "Contact Information."

In making its decision to sell the Company's business operations, the Board noted that the Company had received offers to buy, and then operate, the Company's operations, that there were threats from certain of the Company's major customers that they were considering turning to other suppliers, especially in view of the announcement as to the Company's then proposed merger transaction with SuperCom, and that the Company's lease would (and did) expire on June 30, 2003, thereby raising the question of whether a long-term renewal was feasible under all the circumstances. 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 transaction with SuperCom or another acquisition or merger entity was effected. SuperCom had, in any event, made sale of these operations a precondition to consummation of the Company's transaction with it.

As indicated in the following section "Risk if Transaction Is Consummated" under this caption "Proposed Sale Transaction," the Company does

not intend to dissolve or liquidate the Company following the sale. Accordingly, there will be no dividend or distribution paid to the shareholders as a result of the sale to Spray. Unless and until the Company consummates an acquisition or merger agreement as described in such section, the Company will have no revenues. It will, however, still be paying the costs of remaining a public company and seeking such merger or acquisition candidate, so that its results of operations will still show a loss.

Risk if Transaction Is Consummated

As a result of the new arrangement with Spray effective June 1, 2004, the Company has no operations and, accordingly, will receive no revenues unless and until an acquisition is made as provided in the succeeding paragraph. However, as a result of the initial management arrangement with Spray effective November 1, 2003 described in the section "Management Arrangement" under this caption "Proposed Sale Transaction," the Company has moved to smaller facilities and substantially reduced its on-going overhead expenses. Effective October 15, 2003, the Company has been leasing office space in Simi Valley, California initially for six-month term, and

subsequently for an additional six-month term, at $950 per month. From June 1993 to June 20, 2003, the Company leased a 24,500 square-foot building constructed in Simi Valley, California for the specific needs of the Company and continued to use such space, on a month-to-month basis, until October 31, 2003. The monthly rental, net of sublease income, under the lease for such facility was $8,504. In addition, the Company terminated four employees, so that it currently employs four persons and will, subsequent to consummation of the sale to Spray, employ only three persons. However, despite these reductions in expenses, with the Company continuing to incur expenses to continue as a public company and to seek a suitable merger or acquisition candidate, both as described in the succeeding paragraph, the Company will continue to operate at a loss without revenues to offset these expenses.

The Board does not intend to dissolve or 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. The Company believes that, after the sale of assets, the Company's working capital is adequate to fund its cash requirements for its fiscal year ending March 31, 2005. The directors believe that the Company, with no losing business operations, with its continuing as a public company and with the cash position described in the preceding sentence, remains an attractive merger or acquisition candidate, especially if general stock market conditions improve. During the past four fiscal years, the Company had been seeking acquisitions which have not been related to its current business. The Board was of the opinion that profitability on a continuous basis would not be achieved absent an acquisition of a new business or businesses and/or new products. However, the Board cannot 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. See the following section "Terminated Acquisitions" under this caption "Proposed Sale Transaction."

Terminated Acquisitions

From October 2001 to February 2002, the Company was engaged in negotiations pursuant to which the shareholders of GraphCo Technologies, Inc., or 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. The other company was ultimately sold to another very large public company.

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 a 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. The Company's directors also were concerned about certain developments in SuperCom. SuperCom's subsequently reported results of operations confirmed to the directors that these concerns were valid and, accordingly, the desirability to the Company of the agreement having been terminated.

Spray Data

Spray is a manufacturer of chemical specialties, as, for example, paints, varnishes, lacquers, enamels or allied products, and aerosol products. Spray or its predecessor has provided products and services to automotive, industrial and retail customers since 1922. Spray has two East Coast manufacturing plants and a distribution center located in Fresno, California, and has 25 employees (up to 37 in its peak season). Spray's revenue in the last fiscal year was over $15,000,000.

Regulatory Approvals

Except for compliance with the Securities Exchange Act of 1934, as amended, or the "Exchange Act," with respect to this Consent Solicitation Statement, no federal or state regulatory approvals or other compliances are required or must be obtained in connection with the proposed sale.

Relationships

The proposed transaction with Spray was negotiated at arm's-length and the Board is not aware of any relationships, familial or otherwise, between the Company, its directors, its executive officers or any of its affiliates and Spray.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS CONSENT IN FAVOR OF THE PROPOSAL TO SELL THE OPERATING ASSETS OF THE COMPANY TO SPRAY ON THE TERMS AND CONDITIONS DESCRIBED IN THIS CONSENT SOLICITATION STATEMENT BY EXECUTING THE ENCLOSED FORM OF CONSENT, CHECKING THE "FOR" BOX AND RETURNING THE SAME TO THE COMPANY'S TRANSFER AGENT. UNLESS A CONTRARY CHOICE IS SPECIFIED, A SIGNED CONSENT FORWARDED TO THE COMPANY WITH NO BOX CHECKED WILL BE VOTED FOR THE SALE PROPOSAL. A FAILURE TO RETURN THE CONSENT WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE SALE.

PRO FORMA FINANCIAL STATEMENTS

Balance Sheet

The balance sheet on the succeeding page sets forth the effect of the sale of assets to Spray assuming that the sale had closed on March 31, 2004. As discussed in the first paragraph of the section "Term of Sale" under the caption "Proposed Sale Transaction" elsewhere in this Consent Solicitation Statement, all but one of the items in calculating the purchase price for the sale to Spray may fluctuate depending on the customer orders, shipments and payments between March 31, 2004 and the actual closing date for the Spray transaction. Accordingly, although this pro forma balance sheet has been prepared on the basis of assumptions which the directors of the Company believe are reasonable, the actual effects of the sale may differ significantly from those reflected in the Company's balance sheet following the actual closing. You should read the notes to this pro forma balance sheet where these assumptions are set forth.

Statements of Operations

The Company has also prepared pro forma statements of operations for the fiscal years ended March 31, 2004 and 2003 setting forth the effect of the sale of assets to Spray assuming the sale had closed on March 31, 2002, i.e., prior to the commencement of these fiscal years.

The selling, general and administrative expenses, as adjusted, in each period of the Statements of Operations reflect the reduced rental charges for the small facility which the Company has been able to utilize since Spray assumed management of the fulfillment of customers' orders on November 1, 2003. For additional information as to this reduction, see the first paragraph in the section "Risk If Transaction Is Consummated" under the caption "Proposed Sale Transaction" elsewhere in this Consent Solicitation Statement. These adjusted selling, general and administrative expenses also reflect the reduction in personnel from eight to four, offset in part by the one-time severance expenses for the former employees aggregating $49,000. These adjusted selling, general and administrative expenses also reflect the expenses incurred related to seeking a suitable acquisition or merger partner, as reflected in the notes to the Statements of Operations. The Company cannot anticipate when and for what

length of time these expenses will be incurred in the future as the Company continues its search for a suitable merger or acquisition candidate.

PERFECTDATA CORPORATION

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

	As Reported	Adjustment
Assets		
Current assets:		
Cash and cash equivalents	$ 1,903	$
Accounts receivable, net	192	(1
Prepaid expenses and other current assets	58	(
Total current assets	2,153	
Property, plant and equipment, at cost, net	-	
	$ 2,153	$
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 325	$ (1
Accrued compensation	35	
Other accrued expenses	133	(

Total current liabilities	493	
Shareholders' equity		
Preferred Stock. Authorized 2,000,000 shares; none issues		
Common Stock, no par value. Authorized 10,000,000 shares; issued and outstanding 6,209,530 shares	11,258	
Accumulated deficit	(9,598)	
Net shareholders' equity	1,660	
	$ 2,153	$

(1) This adjustment assumes that the Company netted $72,000 from the sale to Spray. For information as to how this estimate was made, see the third paragraph in the section "Terms of Sale" under the caption "Proposed Sale Transaction" elsewhere in this Consent Solicitation Statement.
(2) This adjustment assumes that these accounts receivable were sold to Spray. In actuality some may be collected by the company.
(3) This adjustment assumes that Spray purchased inventory in this amount.
(4) This adjustment assumes that Spray assumed the liability for these trade payables.

(5) This adjustment represents credits to be given to customers pursuant to contractual commitments, generally in the form of rebates for a customer meeting designated volumes of purchases from the Company and occasionally as advertising allowances.
(6) This adjustment represents a fixed payment by spray pursuant to the APA.

PERFECTDATA CORPORATION

Statement of Operations
Fiscal Year Ended March 31, 2004
(Amounts in thousands, except per share information)

	As Reported	Adjustment
Net Sales	$ 2,680	$ (2,6
Cost of goods sold	1,777	(1,7
Gross profit	903	(9
Selling, general, and administrative expenses	1,477	(5
Income (loss) from operations	(574)	3
Other Income:		
Other net	17	
Net income (loss)	$ (557)	$
Net loss per common share:		
Basic and diluted	$ (0.09)	$ 0.0
Weighted average shares outstanding:		
Basic and diluted	6,193	6,1

Notes:
(A) Removal of components of discontinued operations

(B) Includes an aggregate of $226,000 in expenses relating to an aborted merger transaction

PERFECTDATA CORPORATION

Statement of Operations
Fiscal Year Ended March 31, 2003
(Amounts in thousands, except per share information)

	As Reported	Adjustment
Net Sales	$ 2,005	$ (2,0
Cost of goods sold	1,326	(1,3
Gross profit	679	(6
Selling, general, and administrative expenses	1,358	(6
Income (loss) from operations	(679)	(
Other Income:		
Other net	37	
Net income (loss)	$ (642)	$ (
Basic and diluted	$ (0.10)	$
Weighted average shares outstanding:		
Basic and diluted	6,159	6,1

Notes:
(A) Removal of components of discontinued operations

(B) Includes an aggregate of $115,000 in expenses relating to an aborted merger transaction

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of the Record Date, certain information with respect to (1) any person known to the Company who beneficially owned more than 5% of the Common Stock, (2) each director of the Company (3) the Chief Executive Officer of the Company and (4) all directors and executive officers as a group. Each beneficial owner who is a natural person has advised the Company that he or she has sole voting and investment power as to the shares of the Common Stock, except that, until an option or a warrant is exercised, there is no voting right and except as noted in Note (2) to the table.

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 Sun Valley, CA 91252	788,997 (2)	12.71
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	317,832 (5)	5.09
Bryan Maizlish (6) 9705 Conestoga Way Potomac, MD 20854	27,588 (7)	less than
Timothy D. Morgan (6) 11734 Gladstone Circle Fountain Valley, CA 92708	28,788 (7)	less than
Tracie Savage (6) 6212 Banner Avenue Los Angeles, CA 90038	37,888 (8)	less than
Corey P. Schlossmann (6) 19654-A Roscoe Blvd. Northridge, CA 91324	228,091 (7)	3.66

All directors and officers as a group (6 in number)	644,753 (9)	10.16

(1) The percentages computed in the table are based upon 6,209,530 shares of the Common Stock which were outstanding on the Record Date. 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 the Record Date.

(2) The shares of the Common Stock reported in the table include (a) 537,997 shares owned by StarBiz Corporation, or "Star Biz," for which Mr. Mazin has voting power as the President, Chairman and Chief Executive Officer of Star Biz; (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, or "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, the 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) 16,666 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); (y) 8,334 shares issuable upon the exercise of the option described in (c); and (z) 25,000 shares issuable upon the exercise of an option expiring June 9, 2014 under the 2000 Option Plan, none of which options was exercisable as to such shares on the Record Date 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) 16,666 shares issuable upon the

exercise of an option expiring September 25, 2012 under the 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); (y) 8,334 shares issuable upon the exercise of the option described in (b); and (z) 25,000 shares issuable upon the exercise of an option expiring June 9, 2014 under the 2000 Option Plan, none of

which options was exercisable as to such shares on the Record Date 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 under the Company's 1985 Stock Option Plan; (b) 6,666 shares issuable upon the exercise of an option expiring June 19, 2012 under the 2000 Option Plan; and (c) 16,666 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); (y) 8,334 shares issuable upon the exercise of the option described in (c); and (z) 25,000 shares issuable upon the exercise of an option expiring June 9, 2014 under the 2000 Option Plan, none of which options was exercisable as to such shares on the Record Date 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 (x) 1,250 shares issuable upon the exercise of the option described in (b) and (y) 10,000 shares issuable to the same executive officer upon the exercise of an option expiring June 9, 2014 under the 2000 Option Plan, neither of which options was exercisable as to such shares on the Record Date or within 60 days thereafter.

AUTHORIZE THE REINCORPORATION OF THE COMPANY AS A DELAWARE CORPORATION.

General

The second proposal as to which the Board of Directors is seeking the consent of the Company's shareholders is for them to approve the reincorporation of the Company, which is currently a California corporation, under the laws of the State of Delaware. This reincorporation, if authorized by consents, will be effected by merging the Company with and into PerfectData (Delaware) Inc., or PerfectData Delaware, a newly-formed Delaware corporation and a wholly-owned subsidiary of the Company. A copy of the reincorporation merger agreement is attached to this Consent Solicitation Statement as Appendix G. You are urged to read the reincorporation merger agreement carefully and in its entirety before making a decision on the reincorporation proposal.

PerfectData Delaware will have the same capitalization as the Company except that its common stock will have a par value of $0.01 per share while the Company's Common Stock has no par value. The Board of Directors does not believe that this change in par value will have any significant effect on the Company's shareholders. A similar change would be made to the par value of the "blank check" preferred stock, as to which no shares are outstanding in the Company.

Reasons for Change

Almost every potential acquisition or merger candidate to which the Company has spoken has expressed its preference that the Company be reincorporated as a Delaware corporation for the reasons herein discussed. SuperCom made this reincorporation a condition precedent to consummation of the proposed transaction with it.

If a merger or acquisition proposal with a third party is consummated, the principal executive offices of the Company in Simi Valley, California will be closed, with the principal executive offices of the third party becoming the principal executive offices of the Company. Accordingly, following such a transaction, the Company's headquarters may no longer be located in the State of California and a reason for the Company continuing to be subject to California law will be eliminated.

Even if no transaction with a merger or acquisition candidate is consummated, the transfer by the Company to Spray of its business operations which had entirely been conducted from its headquarters in California makes it less necessary to continue to have the headquarters located in that State.

After a careful review of the differences between California law to which the Company is currently subject and Delaware law to which PerfectData Delaware is currently subject, the Company's Board of Directors concluded that the Company should be reincorporated in the State of Delaware. Some of the principal differences which could materially affect the rights of a shareholder are reviewed under the caption "Comparison of Rights of Holders of the Company's and PerfectData Delaware's Common Stock" immediately following this caption in this Consent Solicitation Statement. The Company's Board of Directors believes that the General Corporation Law of the State of Delaware, or the DGCL, will furnish the most flexibility to the Company's directors, while at the same time protecting the rights of the Company's shareholders.

For many years the State of Delaware has followed a policy of encouraging incorporation in that State and has adopted comprehensive, modern and flexible corporate laws that are periodically updated and revised to meet changing business needs. As a result, many corporations have been initially incorporated in Delaware or have subsequently reincorporated in Delaware in a manner similar to that proposed by the Company. Because of Delaware's prominence as a state of incorporation for many corporations, the Delaware courts have developed considerable expertise in dealing with corporate issues and a substantial body of case law has developed construing the DGCL, and establishing public policies with respect to corporations incorporated in Delaware. As a result, Delaware corporation law is comparatively well known and understood. It is anticipated that, as in the past, Delaware corporate law will continue to be interpreted and explained in a number of significant court decisions. You, our shareholders should be aware, however, that Delaware law has been publicly criticized on the grounds that it does not afford minority stockholders all the same substantive rights and protections that are available under the laws of a number of other states (including California) and that, as a result of the proposed reincorporation, your rights as shareholders will change in a number of important respects, as discussed in the next paragraph and under the caption

"Comparison of Rights of Holders of the Company's and PerfectData Delaware's Common Stock" immediately following this caption in this Consent Solicitation Statement. The Company's Board of Directors believes that the advantages of the reincorporation to the Company and you, our shareholders, outweigh its possible disadvantages.

The Board of Directors believes that the reincorporation will have the following effects, among others, on your rights as a shareholder as you become a stockholder of PerfectData Delaware:

* Your cumulative voting rights as shareholders with respect to the election of directors will be eliminated, thereby limiting the ability of minority shareholders to have representation on the Board of Directors.

* Section 203 of the DGCL may make it more difficult for interested stockholders to acquire PerfectData Delaware in the future, while there is no comparable provision under California law.

* California law furnishes certain protections for you, as a shareholder, on mergers or other forms of reorganization which Delaware laws does not. As an example, California law requires shareholders' approval with respect to a reorganization involving a corporation issuing equity securities (common stock, preferred stock or other securities convertible into, or exercisable for, shares of common stock) in exchange for the capital stock or assets of the acquired company, while Delaware law does not require stockholder approval for such a transaction.

* You, as a stockholder of PerfectData Delaware, will not have dissenters' or appraisal rights with respect to a sale of the Company's assets not in the ordinary course of its business (as, for example, the proposed Spray transaction) or with respect to a reorganization, other than a statutory merger, as, for example, the issuance or exchange of equity securities (common stock, preferred stock or other securities convertible into, or exercisable for, shares of the common stock) for the capital stock or assets of the acquired company.

* You, individually or with a group of other shareholders, with specified percentage ownership of shares, will lose the absolute right to inspect the shareholders' list without showing a purpose reasonably related to your interest as a shareholder.

* Although the tests for paying dividends and repurchasing shares differ between California law on the one hand and Delaware law on the other hand, this issue will not be meaningful to you, as a PerfectData Delaware stockholder, because of the unlikelihood of cash dividends or repurchases of shares in the foreseeable future.

* You, as a shareholder, may currently institute a derivative action against the Company even if you are not a shareholder at the time of the transaction in question.

* You may institute a derivative action against PerfectData Delaware only if, at the time of the transaction in question, you were a shareholder of the Company or a stockholder of PerfectData Delaware, whichever is applicable.

* You and other shareholders will lose the right to dissolve the Company if 50% of the holders of voting stock so demand even if the Board of Directors does not act.

The principal differences between the rights of California shareholders and Delaware stockholders are discussed in "Comparison of Rights of Holders of the Company's and PerfectData Delaware's Common Stock." You are urged to read this

section of this Consent Solicitation Statement carefully and in its entirety before making a decision on the reincorporation proposal.

Summary of Provisions of PerfectData Delaware's Charter Documents

In addition to the changes in shareholders' rights resulting in the change from California law to Delaware law, PerfectData Delaware's Certificate of Incorporation and Bylaws contain some important differences from the Company's Articles of Incorporation and Bylaws. For a description of these differences, please see "Description of the Company and PerfectData Delaware Capital Stock" and "Comparison of Rights of Holders of the Company's and PerfectData Delaware's Common Stock." A copy of PerfectData Delaware's Certificate of Incorporation is attached to this Consent Solicitation Statement as Appendix H, and a copy of PerfectData Delaware's Bylaws is attached to this Consent Solicitation Statement as Appendix I. You are urged to read this Certificate of Incorporation and Bylaws carefully and in their entirety before making a decision on the reincorporation proposal.

Exchange of Stock Certificates

If the reincorporation is approved and implemented, you will not have to exchange your certificates evidencing shares of the Common Stock for certificates evidencing shares of the PerfectData Delaware common stock unless and until you desire to sell or otherwise transfer the shares.

Recommendation

THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS CONSENT IN FAVOR OF THE PROPOSAL TO REINCORPORATE THE COMPANY IN THE STATE OF DELAWARE BY EXECUTING THE ENCLOSED FORM OF CONSENT, CHECKING THE "FOR" BOX AND RETURNING THE SAME TO THE COMPANY'S TRANSFER AGENT. UNLESS A CONTRARY CHOICE IS SPECIFIED, A SIGNED CONSENT FORWARDED TO THE COMPANY WITH NO BOX CHECKED WILL BE VOTED FOR APPROVAL OF

THE REINCORPORATION PROPOSAL. A FAILURE TO RETURN THE CONSENT WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE REINCORPORATION.

COMPARISON OF RIGHTS OF HOLDERS OF THE COMPANY'S AND PERFECTDATA DELAWARE'S COMMON STOCK

Upon the consummation of the reincorporation merger, holders of shares of the Common Stock will become holders of the PerfectData Delaware common stock. As a result, the Company's shareholders, whose current rights as shareholders are governed by California law, will become PerfectData Delaware stockholders, and their rights as stockholders will be governed by Delaware law. Similarly, the holders of options or warrants to acquire shares of the Common Stock will become holders of equivalent options or warrants to acquire shares of the PerfectData Delaware common stock.

The statutes and court decisions with respect to the rights of shareholders under California law and of stockholders under Delaware law contain certain differences. In addition, the Articles of Incorporation and Bylaws of the Company differ in certain respects from the Certificate of Incorporation and Bylaws of PerfectData Delaware, the Delaware corporation that will survive the reincorporation.

The following is an explanation of what the Company, based on the advice of its counsel, Wachtel & Masyr, LLP, deems to be the material differences among the rights of a shareholder under California law and those of a stockholder under Delaware law and as a shareholder under the Articles of

Incorporation and the Bylaws of the Company and as a stockholder under the Certificate of Incorporation and Bylaws of PerfectData Delaware. The following discussion does not purport to constitute a detailed comparison of the provisions of the California General Corporation Law, or the CGCL, and the Delaware General Corporate Law, or the DGCL. The shareholders of the Company should refer to these statutes for a definitive explanation of each statute. In addition, the discussion of the differences in rights governed by each respective corporation's charter documents does not purport to be complete, and the shareholders of the Company should refer to the respective charter documents of each corporation. Copies of the Company's Articles of Incorporation and Bylaws are available for inspection at the principal executive offices of the Company, and copies will be sent to shareholders of the Company upon request. A request may be made to the Company as described in the section "Contact Information" under the caption "Miscellaneous" elsewhere in this Consent Solicitation Statement. A copy of the Certificate of Incorporation and Bylaws of PerfectData Delaware are attached as Appendices H and I, respectively, to this Consent Solicitation Statement.

Authorized Capital Stock

The Company. The authorized capital stock of the Company currently consists of 10,000,000 shares of Common Stock, no par value, and 2,000,000 shares of Preferred Stock, no par value.

PerfectData Delaware. The authorized capital stock of PerfectData Delaware currently consists of 10,000,000 shares of common stock, $.01 par value, and 2,000,000 shares of preferred stock, $.01 par value.

Size of the Board of Directors

The Company. Under the CGCL, although changes to the number of directors must in general be approved by a majority of the outstanding voting shares, the board of directors may fix the exact number of directors within a stated range set forth in the articles of incorporation or bylaws, if that stated range has been approved by the shareholders. The Company's Bylaws provide that the number of directors shall not be less than three or more than five until changed by an amendment of the Articles of Incorporation or by a bylaw adopted by the Company's shareholders.

PerfectData Delaware. The DGCL permits the board of directors alone to change the authorized number of directors or the range of the number of directors by amendment to the corporation's bylaws, unless the directors are not authorized to amend the bylaws or the number of directors is fixed in the certificate of incorporation (in which case a change to the number of directors may be made only by an amendment to the certificate of incorporation approved by the stockholders). The PerfectData Delaware Certificate of Incorporation does not prohibit the directors from amending the bylaws nor does it fix the number of directors. Accordingly, the provision in the PerfectData Delaware Bylaws provides that the range of the number of directors shall be between five and eight and the number within that range shall be fixed from time to time by the board of directors.

Removal of Directors

The Company. Under the CGCL, any director or the entire board of directors may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote; however, no individual director may be removed (unless the entire board is removed) if the number of votes cast against such removal would be sufficient to elect the director under cumulative voting. The Company's Articles of Incorporation and Bylaws do not contain a

provision governing the removal of directors, so the aforementioned provision of the CGCL governs the removal of directors.

PerfectData Delaware. Under the DGCL, a director of a corporation that does not have a classified board of directors or cumulative voting may be removed with or without cause with the approval of a majority of the outstanding shares entitled to vote. In the case of a Delaware corporation having cumulative voting, if less than the entire board is to be removed, a director may not be removed without cause unless the shares voted against such removal would not be sufficient to elect the director under such cumulative voting procedures. A director of a corporation with a classified board of directors may be removed only for cause, unless the certificate of incorporation provides otherwise. The PerfectData Delaware Certificate of Incorporation does not provide for cumulative voting or for a classified board of directors. Consequently, any director of PerfectData Delaware may be removed from office at any time

with or without cause upon the affirmative vote of the holders of a majority of the then outstanding shares of voting stock.

Filling Vacancies on the Board of Directors

The Company. Under the CGCL, any vacancy on the board of directors, other than one created by removal of a director, may be filled by the board of directors. If the number of directors is less than a quorum, a vacancy may be filled by the unanimous written consent of the remaining directors in office, or the affirmative vote of a majority of the remaining directors at a meeting or by a sole remaining director. A vacancy created by removal of a director may be filled by the board of directors only if so authorized by a corporation's articles of incorporation or by a bylaw approved by the corporation's shareholders. The Company's Bylaws, which were approved by its shareholders, permit directors to fill vacancies created by the removal of a director.

PerfectData Delaware. Under the DGCL, vacancies and newly created directorships may be filled by a majority of the directors then in office (even though less than a quorum) unless otherwise provided in a corporation's certificate of incorporation or bylaws. The PerfectData Delaware Certificate of Incorporation does not so provide and its Bylaws provide that any vacancy resulting from the removal or resignation of a director may be filled by a majority of the directors then in office (even though less than a quorum) even if such vacancy was created by removal of a director by the stockholders. The stockholders may also fill such vacancy.

Cumulative Voting

The Company. Under the CGCL, if any shareholder gives notice at the meeting of his or her intention to cumulate votes for the election of directors, any other shareholder of the corporation is also entitled to cumulate his or her votes at such election unless the corporation is a "listed corporation" (as hereinafter defined) and has a provision in its articles of incorporation or bylaws that eliminates cumulative voting. A "listed corporation" is a corporation whose shares are either (i) listed on the New York or American Stock Exchanges or (ii) designated for trading on the Nasdaq National Market System. The Company's Bylaws permit cumulative voting and the Company is currently eligible under the CGCL to eliminate such voting because it is not a "listed corporation," but doing so would require shareholder approval to change the provision in the Company's Bylaws.

PerfectData Delaware. Under the DGCL, cumulative voting in the election

of directors is not mandatory. The PerfectData Delaware Certificate of Incorporation and Bylaws do not provide for cumulative voting. By approving the reincorporation, the Company's shareholders will be eliminating the cumulative voting rights which they currently have under the CGCL. This elimination of cumulative voting will limit the ability of minority shareholders to obtain representation on the PerfectData Delaware board of directors.

Classified Board of Directors

The Company. The CGCL prohibits a classified board of directors unless the corporation is a "listed corporation" (as defined in the preceding section "Cumulative Voting"). Because the Company is currently not a listed corporation, it cannot currently have a classified board of directors.

PerfectData Delaware. The DGCL permits, but does not require, a classified board of directors, with staggered terms under which one-half or one-third of the directors are elected for terms of two or three years, respectively. This method of electing directors makes changes in the composition of the board of directors, and thus a change in control of a corporation, a lengthier and more difficult process. The PerfectData Delaware Certificate of Incorporation and Bylaws do not provide for a classified board.

Voting Power

The Company. The CGCL permits a corporation to create series of shares that are entitled to cast more or less than one vote per share. The Company's Articles of Incorporation states that each share of Company capital stock has the right to one vote at all meetings of shareholders.

PerfectData Delaware. The DGCL, unless otherwise provided in a corporation's certificate of incorporation or bylaws, allows for one vote per share of capital stock at all meetings of stockholders. The PerfectData Delaware Certificate of Incorporation states that each share of PerfectData Delaware common stock has the right to one vote at all meetings of stockholders.

Power to Call Special Meeting of Shareholders

The Company. Under the CGCL, a special meeting of shareholders may be called by the board of directors, the chairman of the board, the president, the holders of shares entitled to cast not less than 10% of the votes at such meeting, or such additional persons as are authorized by a corporation's articles of incorporation or bylaws. The Company's Bylaws provide that the board of directors, the Chairman of the Board, the President, or the holders of shares entitled to cast not less than 10% of votes at such meeting may call a special meeting.

PerfectData Delaware. Under the DGCL, a special meeting of stockholders may be called by the board of directors or by any other person authorized to do so in the corporation's certificate of incorporation or bylaws. The provision governing special meeting of stockholders in the PerfectData Delaware Bylaws is similar to the current provision in the Company's Bylaws.

Action of Shareholders Without a Meeting

The Company. Under the CGCL, unless otherwise provided in the articles of incorporation, any action required to be taken or which may be taken at an annual or special meeting may be taken without a meeting and without prior notice if a written consent is signed by the holders of outstanding stock having at least the minimum number of votes required to

authorize the action. If consent is sought from less than all of the shareholders entitled to vote, the corporation must give notice to the non-consenting shareholders. The Company's Articles of Incorporation are silent on this subject, so the provisions of the CGCL as set forth herein govern. The Company Bylaws are consistent with the statutory provision.

PerfectData Delaware. Under the DGCL, unless otherwise provided in a corporation's certificate of incorporation, any action required to be taken at an annual or special meeting of a corporation's stockholders may be taken without a meeting if a resolution in writing has been signed or consented to by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting and notice is thereafter given to the shareholders who did not consent. The PerfectData Delaware Certificate of Incorporation does not prohibit stockholder actions without a meeting.

Amendment to Articles of Incorporation and Certificate of Incorporation

The Company. The CGCL provides that, unless otherwise stated in a corporation's articles of incorporation, an amendment to the articles of incorporation requires the approval of the corporation's board of directors and the affirmative vote of a majority of the outstanding shares entitled to vote on those shares. Amendments to allow for stock splits, unless the corporation has more than one class of shares outstanding, (including a proportionate increase in the authorized number of shares) do not require shareholder approval. Unless otherwise provided in the articles of incorporation, any provision in the articles of incorporation which requires a greater vote than required by law cannot be amended or repealed except by the greater vote. The Company's Articles of Incorporation are silent on this subject, so the provisions of the CGCL as set forth herein govern.

PerfectData Delaware. Under the DGCL, the certificate of incorporation of a corporation may be amended by resolution of the board of directors and the affirmative vote of the holders of a majority of the outstanding shares of voting stock then entitled to vote. The DGCL also permits a corporation to make provision in its certificate of incorporation requiring a greater proportion of the voting power to approve a specified amendment. PerfectData Delaware's Certificate of Incorporation does not contain a provision requiring a greater proportion of voting power to amend its Certificate of Incorporation.

Amendment to Bylaws

The Company. The CGCL provides that, unless a corporation's board of directors is prohibited by the articles of incorporation, the bylaws, or Section 212 of the CGCL (relating to the number of directors), a corporation's board of directors or a majority of the outstanding shares entitled to vote may amend a corporation's bylaws. The Company's Bylaws permit either the shareholders or the Board to amend the Bylaws, except those provisions specifying or changing a fixed number of directors or the maximum or minimum number or changing from a fixed to a variable Board or vice versa. These provisions may only be amended by the shareholders.

PerfectData Delaware. The DGCL provides that the power to adopt, amend or repeal a corporation's bylaws shall be held by the stockholders entitled to vote. A corporation may, in its certificate of incorporation, confer such powers on the board of directors. Under the PerfectData Delaware Certificate of Incorporation, the PerfectData Delaware Board of Directors is expressly authorized to adopt, amend, alter or repeal the PerfectData Delaware Bylaws.

Statutory Anti-Takeover Protections

The Company. The CGCL contains certain limitations on "cash out mergers" and requires a fairness opinion in situations in which an interested party is involved in a business combination as, for example, a tender offer, a merger or other form of reorganization as defined in the CGCL. For more information as to these limitations, see the following section "Required Shareholder Votes in Connection with a Business Combination."

PerfectData Delaware. The DGCL prohibits a Delaware corporation from engaging in a "business combination" with an "interested stockholder" for three years following the time that such person becomes an interested stockholder. With certain exceptions an interested stockholder is a person who, or a group which, owns 15% or more of the corporation's outstanding voting stock (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or is an affiliate or associate of the corporation and was the owner of 15% or more of such voting stock at any time within the previous three years.

For purposes of the DGCL, the term "business combination" is defined broadly to include mergers with or caused by the interested stockholder, sales or other dispositions to the interested stockholder (except proportionately with the corporation's other stockholders) of assets of the corporation or a subsidiary equal to 10% or more of the aggregate market value of the corporation's consolidated assets or its outstanding stock; the issuance or transfer by the corporation or a subsidiary of stock of the corporation or such subsidiary to the interested stockholder (except for transfers in a conversion or exchange or a pro rata distribution or certain other transactions, none of which increase the interested stockholder's proportionate ownership of any class or series of the corporation's or such subsidiary's stock); or any receipt by the interested stockholder (except proportionately as a stockholder), directly or indirectly, of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or a subsidiary.

The three-year moratorium imposed on business combinations under the DGCL does not apply if: (i) prior to the time at which such stockholder becomes an interested stockholder the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested stockholder; (ii) the interested stockholder owns at least 85% of the corporation's voting stock upon consummation of the transaction which made him, her or it an interested stockholder (excluding from the 85% calculation shares owned by directors who are also officers of the target corporation and shares held by employee stock plans which do not permit employees to decide confidentially whether to accept a tender or exchange offer); or (iii)

on or after the time such person becomes an interested stockholder, the board approves the business combination and it is also approved at a stockholder meeting by 66 2/3% of the voting stock not owned by the interested stockholder.

A Delaware corporation may elect not to be governed by this section of the DGCL by a provision in its certificate of incorporation or Bylaws. PerfectData Delaware does not intend to make such election; therefore, this section of the DGCL will apply to PerfectData Delaware.

Required Shareholder Votes in Connection with a Business Combination

The Company. The CGCL requires that the holders of a majority of the voting power of the outstanding shares of stock of both acquiring and target corporations entitled to vote approve statutory mergers or other forms of reorganization, which term includes the issuance of equity securities for the

stock or assets of the acquired corporation. The CGCL contains a exception to its voting requirements for reorganizations where shareholders or the corporation itself, or both, immediately prior to the reorganization will own immediately after the reorganization equity securities constituting more than five-sixths of the voting power of the surviving or acquiring corporation or its parent entity. The CGCL also requires that a sale of all or substantially all of the assets of a corporation be approved by a majority of the outstanding voting shares of the corporation transferring such assets. With certain exceptions, the CGCL also requires that mergers, reorganizations, certain sales of assets and similar transactions be approved by a majority vote of each class of shares outstanding. The CGCL also requires that holders of nonredeemable common stock receive nonredeemable common stock in a merger of the corporation with the holder of more than 50% but less than 90% of such common stock or its affiliate unless all of the holders of such common stock consent to the transaction. This provision of the CGCL may have the effect of making a "cash-out" merger by a majority shareholder more difficult to accomplish.

The CGCL also provides that, except in certain circumstances, when a tender offer or a proposal for a reorganization or for a sale of assets is made by an interested party (generally, a controlling or managing party of the target corporation), an affirmative opinion in writing as to the fairness of the consideration to be paid to the shareholders must be delivered to shareholders. This fairness opinion requirement does not apply to a corporation which does not have shares held of record by at least 100 persons, or to a transaction which has been qualified under California state securities laws. Furthermore, if a tender of shares or vote is sought pursuant to an interested party's proposal and a later proposal is made by another party at least ten days prior to the date of acceptance of the interested party proposal, the shareholders must be informed of the later offer and be afforded a reasonable opportunity to withdraw any vote, consent or proxy, or to withdraw any tendered shares.

The CGCL also requires that the holders of all shares of the same class be treated equally in a merger transaction unless
all holders of that class of shares consent to the disparate treatment.

The Company's Articles of Incorporation do not contain any provision regarding the shareholder vote in connection with a business combination, so the provisions of the CGCL described above would govern.

PerfectData Delaware. The DGCL requires that the holders of a majority of the voting power of the outstanding shares of stock of both acquiring and target corporations entitled to vote approve statutory mergers. The DGCL does not require stockholder approval for the exchange of equity securities for the stock or assets of the acquired company. The DGCL contains a exception to its voting requirements for reorganizations where shareholders or the corporation itself, or both, immediately prior to the reorganization will own immediately after the reorganization equity securities constituting more than 90% of the voting power of the surviving or acquiring corporation or its parent entity.

The DGCL requires that a sale of all or substantially all of the assets of a corporation be approved by a majority of the outstanding voting shares of the corporation transferring such assets.

The DGCL does not require a stockholder vote of the surviving corporation in a merger (unless the corporation provides otherwise in its certificate of incorporation) if (i) the agreement and plan of merger does not amend the existing certificate of incorporation of such surviving corporation, (ii) each share of the surviving corporation outstanding before the merger is an identical outstanding or treasury share after the merger, and (iii) the number

of shares to be issued by the surviving corporation in the merger does not exceed 20% of the shares outstanding immediately prior to the merger.

The PerfectData Delaware of Incorporation will not contain any provision regarding the stockholder vote in connection with a business combination, so the provisions of the DGCL described above shall govern.

Although the laws of California and Delaware may be similar as to whether the holders of voting stock of the surviving corporation have to vote on a merger, the CGCL gives certain protections to shareholders on mergers and certain other transactions. To that extent, a shareholder of the Company may lose certain rights as the result of the reincorporation, including the right to vote on an acquisition where equity securities (common stock, preferred stock or other securities convertible into, or exercisable for, shares of common stock) of PerfectData Delaware are issued for the capital stock or assets of the acquired company.

Related-Party Transactions

The Company. Under the CGCL, certain contracts or transactions in which one or more of a corporation's directors has or have an interest are not void or voidable solely because of such interest provided that certain conditions, such as obtaining the required approval and fulfilling the requirements of good faith and full disclosure, are met. Under the CGCL (i) either the shareholders or the board of directors must approve any such contract or transaction after full disclosure of the material facts and, in the case of board approval, the contract or transaction must also be "just and reasonable" to the corporation, or (ii) the contract or transaction must have been just and reasonable or fair, as applicable, to the corporation at the time it was approved. In the latter case, the CGCL explicitly places the burden of proof on the interested director. Under the CGCL, if shareholder approval is sought, the interested director is not entitled to vote his shares at a shareholder meeting with respect to any action regarding such

contract or transaction. If board approval is sought, the contract or transaction must be approved by a majority vote of a quorum of the directors, without counting the vote of any interested directors (except that interested directors may be counted for purposes of establishing a quorum).

PerfectData Delaware. Under the DGCL, certain contracts or transactions in which one or more of a corporation's directors has an interest are not void or voidable solely because of such interest provided that certain conditions, such as obtaining the required approval and fulfilling the requirements of good faith and full disclosure, are met. Under the DGCL, (i) either the shareholders or the board of directors must approve any such contract or transaction after full disclosure of the material facts and, in the case of board approval, the contract or transaction must also be "fair" to the corporation, or (ii) the contract or transaction must have been just and reasonable or fair, as applicable, to the corporation at the time it was approved. Under the DGCL, if board approval is sought, the contract or transaction must be approved by a majority of the disinterested directors (even though less than a majority of a quorum).

Therefore, certain transactions that the Company's board of directors might not be able to approve because of the number of interested directors, or the exclusion of interested director shares, could be approved by a majority of the disinterested directors of PerfectData Delaware, although less than a majority of a quorum, or by a majority of all voting shares, which might not include a majority of the disinterested shares. The Company's board of directors is not aware of any plans to propose any transaction involving directors of the

Company which could not be so approved under the CGCL, but could be so approved under the DGCL.

Indemnification and Limitation of Liability

The Company. The CGCL permits indemnification of expenses incurred in derivative or third-party actions, except that with respect to derivative actions (i) no indemnification may be made without court approval when a person is adjudged liable to the corporation in the performance of that person's duty to the corporation and its shareholders, unless a court determines that such person is entitled to indemnity for expenses, and then such indemnification may be made only to the extent that the court so determines, and (ii) no indemnification may be made without court approval in respect of amounts paid or expenses incurred in settling or otherwise disposing of a threatened or pending action or in respect of amounts incurred in defending a pending action which is settled or otherwise disposed of without court approval.

Indemnification is permitted by the CGCL only for acts taken in good faith and believed to be in the best interests of the corporation and its shareholders, as determined by a majority vote of a disinterested quorum of the directors, independent legal counsel (if a quorum of independent directors is not obtainable), a majority vote of a quorum of the shareholders (excluding shares owned by the indemnified party), or the court handling the action. The CGCL requires indemnification when the individual has successfully defended the action on the merits.

California corporations may include in their articles of incorporation a provision which extends the scope of indemnification through agreements, bylaws or other corporate action beyond that which is specifically authorized by statute.

The Company's Articles of Incorporation include such a provision. As a result, the Company has followed the practice of executing indemnification agreements with its directors and officers.

The CGCL also permits a corporation to adopt a provision in its articles of incorporation eliminating the liability of a director to the corporation or its shareholders for monetary damages for breach of the director's fiduciary duty of care. The Company's Articles of Incorporation eliminate the liability of directors to the Company to the fullest extent permissible under the CGCL, as such law exists currently or as it may be amended in the future. The CGCL does not permit the elimination of monetary liability where such liability is based on: (i) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (ii) acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders, or that involve the absence of good faith on the part of the director; (iii) receipt of an improper personal benefit; (iv) acts or omissions that show reckless disregard for the director's duty to the corporation or its shareholders, where the director in the ordinary course of performing a director's duties should be aware of a risk of serious injury to the corporation or its shareholders; (v) acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the corporation and its shareholders; (vi) interested party transactions between the corporation and a director in which a director has a material financial interest; or (vii) liability for improper distributions, loans or guarantees.

PerfectData Delaware. The DGCL generally permits indemnification of expenses (including attorneys' fees) incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by a

majority vote of the disinterested directors (even though less than a quorum), by independent legal counsel or by stockholders that the person seeking indemnification acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation. Without court approval, however, no indemnification may be made in respect of any derivative action in which such person is adjudged liable for negligence or misconduct in the performance of his or her duty to the corporation. The DGCL also requires indemnification of expenses when the individual being indemnified has successfully defended the action on the merits or otherwise.

A provision of the DGCL states that the indemnification provided by statute shall not be deemed exclusive of any other rights under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise. As a result, the DGCL permits the indemnification agreements such as those presently in effect between the Company and its officers and directors, and which such agreements will be assumed by PerfectData Delaware upon completion of the reincorporation.

The PerfectData Delaware Certificate of Incorporation eliminates the liability of directors to the fullest extent permissible under the DGCL, as such law exists currently or as it may be amended in the future. Under the DGCL, such a provision may not eliminate or limit director monetary liability for: (i) breaches of the director's duty of loyalty to the corporation or its stockholders; (ii) acts or omissions not in good faith or involving intentional misconduct or knowing violations of law; (iii) the payment of unlawful dividends or unlawful stock repurchases or redemptions; or (iv) transactions in which the director received an improper personal benefit. Such a limitation of liability provision also may not limit a director's liability for violation of, or

otherwise relieve PerfectData Delaware or its directors from the necessity of complying with, federal or state securities laws or affect the availability of non-monetary remedies such as injunctive relief or rescission.

Although there are the differences noted above among California and Delaware statutory provisions with respect to indemnification, the Company's Board of Directors, based on the advice of the Company's counsel, Wachtel & Masyr, LLP, does not believe that they are so material as to dissuade a shareholder of the Company from consenting to the reincorporation. PerfectData Delaware will assume the obligations of the Company to the directors and officers under their existing indemnification agreements.

Dividends and Repurchases of Shares

The Company. Under the CGCL, a corporation may not make any distribution (including dividends, whether in cash or other property, and repurchases of its shares), unless either the corporation's retained earnings immediately prior to the proposed distribution equal or exceed the amount of the proposed distribution or, immediately after giving effect to such distribution, the corporation's assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to 1 1/4 times its liabilities (not including deferred taxes, deferred income and other deferred credits), and the corporation's current assets would be at least equal to its current liabilities (or 11/4 times its current liabilities if the average earnings before taxes on income and before interest expense for the preceding two fiscal years were less than the average interest expense for such years). Under the CGCL, there are exceptions to the foregoing rules for repurchases of shares in connection with certain rescission actions or pursuant to certain employee stock plans. The Company's Articles of Incorporation do not have any provision relating to the payment of dividends or the repurchase of shares, so

the provision of the CGCL shall govern.

PerfectData Delaware. The DGCL permits a corporation to declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year as long as the amount of capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. In addition, the DGCL generally provides that a corporation may redeem or repurchase its shares only if such redemption or repurchase would not impair the capital of the corporation. PerfectData Delaware's Certificate of Incorporation will not have any provision relating to the payment of dividends or the repurchase of shares, so the provision of the DGCL shall govern.

Although the CGCL provisions relating to payment of dividends and repurchase of shares may differ from those of Delaware, the Company's Board of Directors does not believe that PerfectData Delaware will likely be paying dividends or repurchasing shares under the DGCL that it would be forbidden to pay or repurchase under the CGCL.

Shareholder Derivative Suits

The Company. The CGCL provides that a shareholder bringing a derivative action on behalf of a corporation need not have been a shareholder at the time of the transaction in question, provided that certain tests are met. The CGCL also provides that the corporation or the defendant in a derivative action suit may make a motion to the court for an order requiring the plaintiff shareholder to furnish a security bond. The Company's Articles of Incorporation do not have any provision relating to derivative actions, so the provisions of the CGCL shall govern.

PerfectData Delaware. A derivative action may be brought in Delaware by a stockholder of a corporation. The DGCL provides that the person must allege that he was a stockholder at the time when the transaction took place. A stockholder may not sue derivatively without first demanding that the corporation bring suit, which demand has been refused, unless it is shown that such demand would have been futile. The PerfectData Delaware of Incorporation will not contain any provision relating to derivative actions, so the provisions of the DGCL shall govern.

A shareholder of the Company, accordingly, will lose the right to institute a derivative action against PerfectData Delaware with respect to a transaction which occurred prior to his, her or it becoming a stockholder of the PerfectData Delaware or its predecessor, i.e., the Company.

Dissenters' or Appraisal Rights

The Company. Under the CGCL, a shareholder of a corporation participating in certain major corporation transactions may, under varying circumstances, be entitled to dissenters' rights pursuant to which such shareholder may receive cash in the amount of the fair market value of his, her or its shares in lieu of the consideration he, she or it would otherwise receive in the transaction.

Shareholders of a California corporation whose shares are listed on a national securities exchange or on the Nasdaq National Market System generally do not have such dissenters' rights unless the holders of at least 5% of the class of outstanding shares claim the right or unless the corporation or any law restricts the transfer of such shares. Dissenters' rights are unavailable,

however, if the shareholders of a corporation or the corporation itself, or both, immediately prior to the reorganization will own immediately after the reorganization equity securities constituting more than five-sixths of the voting power of the surviving or acquiring corporation or its parent entity. In general, the CGCL affords dissenters' rights in sale of assets reorganizations. The Company's shareholders have dissenters' rights as provided in the CGCL.

PerfectData Delaware. Under the DGCL, a shareholder of a corporation participating in certain major corporation transactions may, under varying circumstances, be entitled to appraisal rights pursuant to which such shareholder may receive cash in the amount of the fair market value of his, her or its shares in lieu of the consideration he, she or it would otherwise receive in the transaction. Under the DGCL, unless the certificate of incorporation otherwise provides, such appraisal rights are not available (i) with respect to the sale, lease or exchange of all or substantially all of the assets of a corporation, (ii) with respect to a merger or consolidation by a corporation the shares of which are either listed on a national securities exchange or are held of

record by more than 2,000 holders if such stockholders receive only shares of the surviving corporation or shares of any other corporation which are either listed on a national securities exchange or held of record by more than 2,000 holders, plus cash in lieu of fractional shares or any combination thereof, or (iii) to stockholders of a corporation surviving a merger if no vote of the stockholders of the surviving corporation is required to approve the merger because the agreement and plan of merger does not amend the existing certificate of incorporation, each share of the surviving corporation outstanding prior to the merger is an identical outstanding or treasury share after the merger, and the number of shares to be issued in the merger does not exceed 20% of the shares of the surviving corporation outstanding immediately prior to the merger and if certain other conditions are met. The PerfectData Delaware Certificate of Incorporation is silent with respect to appraisal rights, so that the provisions of the DGCL govern.

With respect to a statutory merger, the reincorporation would not materially affect the dissenters' rights of the Company's shareholders. However, in the case of a reorganization other than a statutory merger which the stockholders will not have to approve in PerfectData Delaware (see the section "Required Shareholder Votes in Connection with a Business Combination" under this caption "Comparison of Rights of Holders of the Company's and PerfectData Delaware's Common Stock"), or in the case of a sale of assets not in the ordinary course of business, a shareholder of the Company will lose his, her or its right to dissent that the shareholder would have had in the Company under the CGCL. Thus, were the Company currently a Delaware corporation, its shareh