PERFECTDATA CORP
Form 10QSB
August 26, 2005
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

Commission File Number 000-12817

PERFECTDATA CORPORATION

(Exact name of small business issuer as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-3087593 (I.R.S. Employer Identification No.)

825 Third Avenue, New York, New York 10022

(Address of principal executive office)

(866) 274-4040

(Issuer's telephone number, including area code)

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

Yes No

Number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 15, 2005, there were 6,584,530 shares of common stock outstanding.

Transitional Small Business Disclosure Format. Yes No

PERFECTDATA CORPORATION

FORM 10-QSB REPORT

June 30, 2005

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FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report on Form 10-QSB are "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934 regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. The terms "we", "our", "us", or any derivative thereof, as used herein refer to PerfectData Corporation, a Delaware corporation, and its predecessors.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements
PerfectData Corporation and Subsidiary
Consolidated Balance Sheet

		As at June 30, 2005 (unaudited)
Assets		
Current:		
Cash	$	5,105,345
Accounts receivable		308,874
Subscription receivable		299,923
Prepaid expenses		116,328
Total current assets	$	5,830,470
Fixed Assets:		
Computer equipment		47,701
Furniture and equipment		8,665
Less: accumulated depreciation		(25,308)
Total fixed assets		31,058
Total assets	$	5,861,528
Liabilities and Stockholders' Equity		
Current:		
Accounts payable	$	300,941
Accrued liabilities		203,510
Accrued payroll		98,846
Note payable		10,780
Deferred service revenue		52,806
Total current liabilities	$	666,883
Stockholders' equity:		
Preferred stock – 2,000,000 shares authorized, par value $.01 per share:		
Series A Convertible Preferred Stock – 600,000 shares authorized, 568,140 shares issued and outstanding	$	5,681
Series B Convertible Preferred Stock – 10,000 shares authorized, 3,848.7 shares issued and outstanding		38
Common Stock – 10,000,000 shares authorized, par value $.01 per share – 6,584,530 shares issued and outstanding		65,845
Common stock purchase warrants – 962,175 issued and outstanding		498,407
Additional paid-in capital		7,143,320
Accumulated other comprehensive income		37,657
Accumulated deficit		(2,556,303)
Total shareholders' equity		5,194,645

Total liabilities and shareholders' equity	$	5,861,528

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)
PerfectData Corporation and Subsidiary
Consolidated Statements of Operations and Comprehensive Loss

	Three months ended June 30		Six months ended June 30	
	2005 (unaudited)	2004 (unaudited)	2005 (unaudited)	2004 (unaudited)
Revenue				
Application licenses	$ 123,971	119,998	$ 259,006	163,839
Operating expenses				
Advertising and communication	85,904	21,538	114,676	44,688
Amortization and depreciation	229,801	200,086	430,093	386,556
Office and administrative	27,634	5,770	170,407	31,472
Payroll wages and benefits	330,388	66,596	530,009	120,386
Professional and consulting fees	518,978	72,710	837,599	133,527
Software purchases	407	21,704	407	21,704
Total operating expenses	1,193,112	388,404	2,083,191	738,333
Operating loss	$ (1,069,141)	(268,406)	(1,824,185)	(574,494)
Interest income	8,862	882	8,862	882
Research and development tax credits	—	62,447	—	89,312
Net loss	$ (1,060,279)	(205,077)	(1,815,323)	(484,300)
Gain on currency translation	41,325	26,738	63,308	24,437
Comprehensive loss	$ (1,018,954)	(178,339)	$ (1,752,015)	(459,863)
Net loss per share of common stock – basic and diluted	$ 0.17	$ 0.20	$ 0.29	$ 0.50
Weighted average number of shares of common stock outstanding – basic and diluted	6,409,390	1,006,693	6,312,919	970,292

See accompanying notes to consolidated financial statements.

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Item 1. Financial Statements (Continued)
PerfectData Corporation and Subsidiary
Consolidated Statements of Cash Flows

	Six Months ended June 30, 2005 (unaudited)	2004 (unaudited)
Cash provided by (used in):		
Operating activities		
Net loss	$ (1,815,323)	$ (484,300)
Adjustments for:		
Depreciation and amortization	430,093	386,556
Changes in non-cash working capital assets and liabilities:		
Accounts receivable	(194,245)	(19,241)
Subscriptions receivable	(299,923)	—
Scientific development tax credits receivable	90,433	139,483
Prepaid expenses	(98,476)	6,193
Convertible note payable net	(70,420)	—
Accounts payable	110,742	6,781
Redeemable preferred stock	(280,000)	130,000
Accrued liabilities	143,320	120,136
Deferred revenue	51,374	—
Accrued payroll taxes	98,846	—
Net cash provided by (used in) operating activities	$ (1,833,579)	$ 285,608
Investing activities		
Fixed assets	(41,131)	(17,688)
Net cash provided by (used in) investing activities	$ (41,131)	$ (17,688)
Financing activities		
Other comprehensive income	63,308	(26,738)
Proceeds from the sale of common stock	683,707	130,460
Proceeds from the issuance of Series A Preferred Stock	1,358,399	—
Proceeds from the issuance of Series B Preferred Stock and Warrants	4,516,801	—
Proceeds from the issuance of common stock purchase warrants	498,407	—
Repayment of note payable and other loans	(44,545)	(364,368)
Payments to stockholders	(209,651)	—
Net cash provided by financing activities	$ 6,866,426	$ (260,646)
Change in cash during the period	4,991,716	7,274

Cash, beginning of period		113,629		212
Cash, end of period	$	5,105,345	$	7,486

See accompanying notes to consolidated financial statements.

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PerfectData Corporation and Subsidiary
Notes to Consolidated Financial Statements (unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PerfectData Corporation ("Company"), included herein have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements herein include the accounts of the Company and its wholly owned subsidiary, Sona Mobile, Inc. ("Sona Mobile") and Sona Mobile's wholly owned subsidiary, Sona Innovations, Inc. ("Innovations"), a Canadian company. All material inter-company accounts and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Sona Mobile's audited consolidated financial statements for the year ended December 31, 2004 and the notes thereto included in Form 8-K/A filed with the United States Securities and Exchange Commission on July 5, 2005. (See note 2.) Results of consolidated operations for the interim periods are not necessarily indicative of the operating results to be attained for the entire fiscal year.

Note 2. Company Background and Description of Business

The Company was incorporated in the State of California on June 8, 1976. On November 29, 2004, after obtaining the requisite shareholder approval, the Company reincorporated in the State of Delaware.

Initially the Company's business involved designing and manufacturing a proprietary line of magnetic media maintenance equipment - disk pack cleaners and inspectors. The Company's cleaning and maintenance products were designed to address the needs of the end users of computers and office automation equipment and by maintenance organizations as part of preventative maintenance programs to reduce equipment "down time" and service costs and to increase product life. Beginning in March 2000, the Company began seeking acquisitions that were not related to its historical business. The Company's board of directors (the "Board") determined that profitability on a continuous basis would not be achieved absent an acquisition of a new business or businesses and/or a new product. On November 30, 2004, the Company sold its entire business operations, consisting of 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; certain accounts receivable; machinery and equipment, office furniture, computer equipment and supplies; and intellectual property rights to Spray Products Corporation ("Spray"). Cash and cash equivalents were not included in the sale.

With the completion of the sale to Spray, the Company increased its efforts to find a new business opportunity. On April 19, 2005 (the "Effective Date"), pursuant to an Agreement and Plan of Merger dated as of March 7, 2005 (the

"Merger Agreement"), Sona Mobile, Inc., a state of Washington corporation, was merged with and into PerfectData Acquisition Corporation, a state of Delaware corporation ("Merger Sub") and a wholly-owned subsidiary of the Company (the "Merger"). Merger Sub simultaneously changed its named to Sona Mobile, Inc.

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

In the Merger, the Sona Mobile shareholders received an aggregate of 539,733 shares of the Company's Series A Convertible Preferred Stock (the "Series A Stock"). The conversion ratio for the

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Note 2. Company Background and Description of Business (Continued)

Series A Stock is 48.11159 to one – meaning each share of Series A Stock converts into 48.11159 shares of the Company's common stock, par value $.01 per share (the "Common Stock"), or a total of 25,967,413 shares of Common Stock. Sona Mobile's financial advisor in connection with the Merger (the "Advisor") received 28,407 shares of the Series A Stock, convertible into 1,366,706 shares of Common Stock. The holders of the Series A Stock vote together with the holders of our Common Stock on all matters submitted for vote to the Company's shareholders on an as converted basis. As a result, the holders of the Series A Stock had 80% voting control of the Company on the Effective Date. The interests of the holders of the Series A Stock will increase to 85% voting control (based on the Company's capitalization on the Effective Date) if either of the following two conditions are satisfied: (1) if the Company, on a consolidated basis, has revenues of at least $3,000,000 and a gross profit margin of at least 50% for its fiscal year ending December 31, 2005 or (2) if the Company's aggregate revenues for 2005 and 2006 are at least $12,000,000 and our gross profit margin, combined aggregate revenues and aggregate cost of revenues, for 2005 and 2006 are at least 50%.

The Series A Preferred Stock converts automatically into Common Stock at such time as our stockholders approve an amendment to our Certificate of Incorporation that increases the number of authorized shares of Common Stock to an amount that would permit the conversion of the Series A Preferred Stock. The Series A Preferred Stock votes with the Common Stock on all matters presented to stockholders for vote on an as converted basis.

Upon completion of the Merger, the Company's only business was the historical business of Sona Mobile. The Merger was accounted for as a reverse acquisition into a public shell. No goodwill was recorded in connection with the Merger and the costs were accounted for as a reduction of additional paid-in-capital. The pre-Merger financial statements of Sona Mobile are treated as the historical financial statements of the combined companies. The historical financial statements of the Company prior to the Merger are not presented. Furthermore, because Sona Mobile is deemed the accounting acquiror, the Company's historical stockholders' equity is not carried forward to the merged entity as of June 30, 2005. Immediately prior to the Merger the Company had a net asset value of $1,145,962 consisting of cash and prepaid expenses of $1,232,612 and liabilities of $86,650.

Sona Mobile was organized in November 2003 in the State of Washington for the purpose of acquiring all of the stock of Sona Innovations, Inc., a Canadian company ("Innovations"). The acquisition was completed in December 2003. Sona Mobile operates as one business segment.

Sona Mobile develops and markets wireless data applications for mobile devices in the rapidly growing wireless data marketplace. Sona Mobile is a Vertical Wireless Software and Service Provider specializing in value-added services to data-intensive vertical market segments. Sona Mobile's revenues consist primarily of licensing and support fees relating to the Sona Wireless Development Platform and related end-user wireless applications to enterprises and cellular operators.

Sona Mobile markets its products and services principally to two large vertical markets and one broad horizontal market.

- Financial services. One of Sona Mobile's primary focuses is to develop solutions for the data-intensive investment banking community and client-facing applications for the retail banking industry.
- Media and entertainment. Sona Mobile delivers content via significant channel partners and content partners, including live streaming television, digital radio, specific theme phones, and gaming applications.
- Enterprise solutions. Sona Mobile's products and services extend enterprise applications to the wireless arena, such as CRM, SFA, IT service desk, Business Continuity Protocol, all of which are delivered in compliance with the current regulatory environment.

PerfectData Corporation and Subsidiary
Notes to Consolidated Financial Statements (unaudited)

Note 3. Summary of Significant Accounting Policies

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with U.S. generally accepted accounting principles and reflect the following policies:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sona Mobile and the accounts of Sona Mobile's wholly-owned subsidiary, Innovations. All intercompany accounts and transactions have been eliminated in consolidation.

(b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and term deposits with original maturity dates of less than 90 days. Cash and cash equivalents are stated at cost which approximates market value, and are concentrated in two major financial institutions.

(c) Foreign currency translation

In accordance with the provisions of SFAS No. 52 "Foreign Currency Translation," assets and liabilities denominated in a foreign currency have been translated at the period end rate of exchange. Revenue and expense items have been translated at the transaction date rate. For Sona Mobile, which utilizes its local currency as its functional currency, the resulting translation gains and losses are included in other comprehensive income. Gains or losses resulting from foreign exchange transactions are reflected in earnings.

(d) Fixed assets

Fixed assets are stated at cost. Depreciation is provided on a straight line basis over the estimated useful lives of three to five years.

(e) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

(f) Software rights

Software rights were recorded at the excess of the purchase price for Innovations, purchased in 2003, over the fair value of that company's identifiable net tangible assets. As at June 30, 2005 the software rights have been written off.

The Company tests for recoverability of software rights when events or changes in circumstance indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to significant decreases in the market price of the assets; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or

Note 3. Summary of Significant Accounting Policies (Continued)

disposed of significantly before the end of its estimated useful life. Recoverability is assessed based on the carrying amount of the asset and its fair value which is generally determined based on the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset, as well as specific appraisal in certain instances. An impairment loss is recognized when the carrying amount is not recoverable and exceeds fair value.

(g) Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109 "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed periodically for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

(h) Revenue recognition

The Company derives revenue from license and service fees related to customization and implementation of the software being licensed. License fees are recognized in accordance with Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9, and in certain instances in accordance with SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." Service fees are recorded on a percentage of completion or completed-contract basis depending on whether or not reliable estimates of the costs to complete the work can be obtained. License fees are recognized over the service period when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is probable. The deferred revenues are amounts received prior to completion of service.

(i) Research and development

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

Note 4. Note Payable

	As at June 30, 2005 (unaudited)
Amounts owed to the former shareholder of Sona Innovations Inc. – non interest bearing with no specific terms of repayment	$ 10,780

Note 5. Schedule of Stockholders' Equity

The schedule of stockholders' equity reflects the Merger, which was treated as a reverse acquisition with Sona Mobile as the accounting acquiror. The beginning equity is that of Sona Mobile as of December 31, 2004 and the schedule reflects the exchange of Sona Mobile's capital stock for shares of the Company's Series A Stock. The schedule also reflects the Series B Financing described below.

Note 3. Summary of Significant Accounting Policies (Continued)

Series B Financing

In June 2005, the Company sold or received subscriptions for 3,848.7 shares of our Series B Convertible Preferred Stock, $.01 per share (the "Series B Preferred Stock") and warrants to purchase 962,175 shares of Common Stock (the "Warrants"). The gross proceeds from the sale of the Series B Preferred Stock and the Warrants were approximately $5.05 million. The Series B Stock ranks pari passu with the Series A Preferred Stock and is identical in all material respects to the Series A Preferred Stock except that each share of Series B Preferred Stock converts into 1,000 shares of Common Stock, or 3,848,700 in the aggregate.

PerfectData Corporation and Subsidiary
Notes to Consolidated Financial Statements (unaudited)

Note 5. Schedule of Stockholders' Equity (Continued)

	Common Stock		Sona Series A redeemable preferred stock		Warrants on Common Stock		Series A & Series B Convertible Preferred Stock		Additional paid-in	Accumulated Comprehensive Income	Accu
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Amount	De
	1,558,177	$ 450,459							$ 205,555	$ (25,651)	$ (74
	2,014,849	683,707									
	158,730	70,420							(70,420)		
	6,584,530	65,845	2,372,779	$ 280,000					1,080,117		
	(3,715,256)	(1,204,586)	(2,327,779)	$ (280,000)					1,478,905		
							568,140	$5,681			
ion	(16,500)										
									(67,563)		
							3,849	38	4,551,021		

962,175	498,407