DYNABAZAAR INC
Form 10-Q
November 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2005

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

For the Transition Period from to

Commission File Number 000-29423

DYNABAZAAR, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-3351937 (I.R.S. Employer Identification No.)
888 Seventh Ave., 17TH floor, New York, NY (Address of principal executive offices)	10019 (Zip Code)

Registrant's telephone number, including area code:
(212) 974-5730

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No |_|

The number of shares outstanding of the registrant's common stock as of November 9, 2005 was 23,409,956.

DYNABAZAAR, INC.

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ITEM 1. FINANCIAL STATEMENTS

DYNABAZAAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30 2005 (unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 9,132
Prepaid expenses	351
Other current assets	
Total current assets	9,483
Other assets, long-term prepaid expenses	1,078
Total assets	$ 10,561
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accrued expenses and other current liabilities	$ 136

Other current liabilities	
Total current liabilities	136
Stockholders' equity:	
Common stock, $0.001 par value; 90,000,000 shares authorized; 29,526,385 and 29,426,385 shares issued at September 30, 2005 December 31, 2004, respectively	30
Additional paid-in capital	151,636
Treasury stock (at cost); 6,116,429 and 2,458,441 at September 30, 2005 and December 31, 2004, respectively	(4,439)
Accumulated deficit	(137,062)
Accumulated other comprehensive income, net	260
Total stockholders' equity	10,425
Total liabilities and stockholders' equity	$ 10,561

See accompanying notes to condensed consolidated financial statements.

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DYNABAZAAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts; unaudited)

	Three Months Ended September 30,	
	2005	2004
Revenues	$ -	$ -
Operating expenses, general and administrative	236	473
Loss from operations	(236)	(473)
Other income (expense)		
Gain on sale of assets	2,000	
Other	128	114
	2,128	114
Net income (loss)	$ 1,892	$ (359)
Net income (loss) per share:		
Basic	$ 0.08	($ 0.01)

Diluted	$ 0.08	($ 0.01)
Weighted average number of common shares outstanding:		
Basic	23,410	27,029
Diluted	23,554	27,029

See accompanying notes to condensed consolidated financial statements.

DYNABAZAAR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands; unaudited)

	Nine Months Ended September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,425	$(1,514)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Gain on sale of assets	(2,000)	
Depreciation		109
Reserve for uncollectible accounts		144
Changes in operating assets and liabilities		
Accounts receivable		207
Prepaid expenses and other current assets	(20)	791
Long-term prepaid expenses	250	255
Accounts payable		(81)
Accrued expenses	(60)	(914)
Accruals of unutilized office space		(1,200)
Net cash used in operating activities	(405)	(2,203)
Cash flows from investing activities		
Proceeds from sale of assets	2,000	
Decrease in restricted cash		473
Net cash provided by investing activities	2,000	473
Cash flows from financing activities		

Proceeds from issuance of common stock	31	
Purchase of treasury stock	(1,430)	(22)
Net cash used in financing activities	(1,399)	(22)
EFFECTS OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(53)	9
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	143	(2,216)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,989	5,697
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 9,132	$ 3,481

See accompanying notes to condensed consolidated financial statements.

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DYNABAZAAR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

THE COMPANY

Dynabazaar, Inc. ("we," "us", "Dynabazaar" or the "Company") was incorporated in the State of Delaware in February 1997 as "Fairmarket, Inc." Through September 3, 2003, the Company was an online auction and promotions technology service provider that enabled marketers to create results-oriented rewards programs and helped commerce companies automate the process of selling their excess inventory online to wholesale and retail buyers. On September 4, 2003, we sold substantially all our operating assets to eBay, Inc. ("eBay") for consideration of $4.5 million in cash under the terms and conditions of an asset purchase agreement we entered into with eBay on June 20, 2003 (the "Asset Purchase Agreement"). Following the closing of the asset sale, we changed our name from "Fairmarket, Inc." to "Dynabazaar, Inc."

We are currently reviewing alternatives for the use of our remaining assets, which may include other business opportunities unrelated to our historical business, including the possible acquisition of other businesses. Neither our board of directors nor our stockholders have yet approved any such opportunities. We cannot assure you that we will be able to identify or successfully capitalize on any appropriate business opportunities.

The Company has not yet settled on an operating plan, although the Company feels its existing cash and cash equivalents are sufficient to fund the Company's current operations and satisfy its obligations. The Company believes these obligations will primarily relate to costs associated with its operation as a public company (legal, accounting, insurance, etc.), as well as the satisfaction of any potential legal judgments or settlements and the expenses associated with any new business activities which may be undertaken by the Company. The Company continues to consider future alternatives, including the possible acquisition of other businesses. However, the Company has not consummated any significant transactions to date and the Company's business prospects remain uncertain. To the extent that management of the Company moves forward on any alternative strategy, such strategy may have an impact on the Company's liquidity.

On June 30, 2005, the Company entered into a stock purchase agreement (the "Stock Purchase Agreement") with Lloyd Miller, III, a former director of the Company, on behalf of himself and on behalf of certain affiliated entities, whereby the Company purchased from Mr. Miller and such affiliated entities an aggregate of 3,657,988 shares of common stock, par value $0.001 per share, of the Company at an aggregate purchase price of $ 1,152,266. Pursuant to the Stock Purchase Agreement, Mr. Miller is also entitled to receive 13.6% of the net proceeds distributed to the Company pursuant to the escrow agreement dated as of September 4, 2003 by and among the Company, eBay and Zions First National Bank, as additional consideration for his shares of common stock (the "Escrow Agreement").

On September 6, 2005, the Company received a payment of $2,045,982 from Zions First National Bank pursuant to the Escrow Agreement. The payment represented the $2 million held in escrow under the terms and conditions of the Asset Purchase Agreement we entered into with eBay together with $45,982 of accrued interest. In accordance with the Stock Purchase Agreement entered into with former director Lloyd Miller, III and certain affilitated entities, the Company paid to Mr. Miller and certain affiliated entities a total of $278,253 from the proceeds of the Escrow Agreement, which was recorded as additional consideration for the stock purchase.

DYNABAZAAR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Dynabazaar for the nine months ended September 30, 2005 are unaudited and have been prepared on a basis substantially consistent with our audited condensed consolidated financial statements for the year ended December 31, 2004. The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Consequently, these statements do not include all disclosures normally required by generally accepted accounting principles for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with our audited condensed consolidated financial statements for the year ended December 31, 2004, which are contained in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC"). The condensed consolidated interim financial statements, in the opinion of management, reflect all adjustments (including all normal recurring accruals) necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods ended September 30, 2005 and 2004. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the fiscal year.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of our wholly-owned (inactive) subsidiaries. Significant intercompany transactions and balances have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of cash placed in an overnight investment account, commercial paper and money market accounts. The Company maintains cash balances in certain financial institutions that may exceed the Federal Deposit Insurance Corporation coverage of $100,000.

STOCK-BASED COMPENSATION

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," encourages but does not require companies to record compensation costs for stock-based employee compensation at fair value. The Company has chosen to account for stock-based compensation granted to employees using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation costs for stock options granted to employees is measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the amount that must be paid by the employee to acquire the stock under the terms of the stock option. Subsequent changes to option terms can also give rise to compensation. Stock-based compensation issued to non-employees is measured and recorded using the fair value method prescribed in SFAS No. 123.

The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."

Consistent with the disclosure provisions of SFAS No. 123, the Company's net income (loss) and basic and diluted net income (loss) per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share amounts).

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DYNABAZAAR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended September 30		Ni
	2005	2004	2005
Net income (loss) - as reported	$ 1,892	$ (359)	$ 1,4
Less stock-based compensation expense determined under fair value based method, net of tax effects		(2)	(

Net income (loss) - proforma	$ 1,892	$ (361)	$ 1,4
Basic and diluted net income (loss) per share - as reported	$ 0.08	$ (0.01)	$ 0.
Basic and diluted net income (loss) per share - pro forma	$ 0.08	$ (0.01)	$ 0.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment (Revised)." SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB No. 25 and its related implementation guidance. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchanges for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award during the requisite service period (usually the vesting period). No compensation costs are recognized for equity instruments for which employees do not render the requisite service. The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

The Company has not completed its evaluation of SFAS No. 123(R) but expects the adoption of this new standard, which will take effect for the Company during the first quarter of 2006, will not have a material impact on operating results of the Company.

NOTE 2 - COMPREHENSIVE INCOME (LOSS):

For the three and nine months ended September 30, 2005 and 2004, total comprehensive income (loss) was as follows (in thousands):

	Three Months Ended September 30,	
	2005	2004
Comprehensive income (loss):		
Net income (loss)	$ 1,892	$ (359)
Foreign currency translation adjustments	(4)	(1)
Unrealized gain (loss) on marketable securities		9
Comprehensive income (loss)	$ 1,888	$ (351)

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DYNABAZAAR, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 3 - NET INCOME (LOSS) PER SHARE:

The difference between the number of shares used to compute basic income (loss) per share and diluted income (loss) per share relates to additional shares to be issued upon the assumed exercise of stock options and warrants, net of shares hypothetically repurchased at the average market price with the proceeds of exercise. For the three and nine months ended September 30, 2005, the additional shares amounted to 143,746 and 21,706, respectively. For the three and nine months ended September 30, 2004, basic and diluted net income (loss) per common share is computed based on the weighted average number of common shares outstanding during the period because the effect of potential common equivalent shares would be anti-dilutive.

NOTE 4 - CONTINGENCIES AND LEGAL PROCEEDINGS:

We are a defendant in certain purported class action lawsuits filed by individual shareholders in the U.S. District Court for the Southern District of New York against Dynabazaar, Scott Randall (former President, Chief Executive Officer and Chairman of the Board of Dynabazaar), John Belchers (former Chief Financial Officer of Dynabazaar), U.S. Bancorp Piper Jaffray Inc., Deutsche Bank Securities Inc. and FleetBoston Robertson Stephens, Inc. The lawsuits have been filed by individual shareholders who purport to seek class action status on behalf of all other similarly situated persons who purchased the common stock of Dynabazaar between March 14, 2000 and December 6, 2000. The lawsuits allege that certain underwriters of Dynabazaar's initial public offering solicited and received excessive and undisclosed fees and commissions in connection with that offering. The lawsuits further allege that the defendants violated the federal securities laws by issuing a registration statement and prospectus in connection with Dynabazaar's initial public offering which failed to accurately disclose the amount and nature of the commissions and fees paid to the underwriter defendants. On or about October 8, 2002, the Court entered an Order dismissing the claims asserted against certain individual defendants in the consolidated actions, including the claims against Mr. Randall and Mr. Belchers, without any payment from these individuals or the Company. On or about February 19, 2003, the Court entered an Order dismissing with prejudice the claims asserted against the Company under Section 10(b) of the Securities Exchange Act of 1934, as amended. As a result, the only claims that remain against the Company are those arising under Section 11 of the Securities Act of 1933, as amended. The Company has entered into an agreement-in-principle to settle the remaining claims in the litigation. The proposed settlement will result in a dismissal with prejudice of all claims and will include a release of all claims that were brought or could have been brought against the Company and its present and former directors and officers. It is anticipated that any payment to the plaintiff class and their counsel will be funded by the Company's directors' and officers' liability insurance and that no direct payment will be made by the Company. The parties have negotiated and executed a definitive settlement agreement. The Court has granted preliminary approval of the settlement. A notice to all class members seeking approval of the settlement is expected to be sent to them by November 30, 2005. The settlement remains contingent on a number of significant conditions and contingencies, including final approval of the settlement by the plaintiff class and the Court.

NOTE 5 - INCOME TAXES:

In connection with ownership changes, it was determined that certain of the

Company's net operating loss carryforwards ("NOL") have been limited. The Company recently completed an Internal Revenue Code Section 382 evaluation that quantified the limitation of the NOL. As of December 31, 2004, the Company has approximately $15.0 million of NOL's that can be utilized in the current tax year. These NOL's begin to expire in 2022. A valuation allowance has been established for the full amount of the deferred tax asset since it is more likely than not that the deferred tax asset will not be realized.

Ownership changes resulting from the Company's issuance of capital stock may further limit the amount of net operating loss carryforwards that can be utilized annually to offset future taxable income. The amount of the annual limitation is determined based upon the Company's value immediately prior to the ownership change. Subsequent significant changes in ownership could further affect the limitation in future years.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Dynabazaar, Inc. ("we," "us", "Dynabazaar" or the "Company") was incorporated in the State of Delaware in February 1997 as "Fairmarket, Inc." Through September 3, 2003, the Company was an online auction and promotions technology service provider that enabled marketers to create results-oriented rewards programs and helped commerce companies automate the process of selling their excess inventory online to wholesale and retail buyers. On September 4, 2003, we sold substantially all our operating assets to eBay, Inc. ("eBay") for consideration of $4.5 million in cash under the terms and conditions of an asset purchase agreement we entered into with eBay on June 20, 2003 (the "Asset Purchase Agreement"). Following the closing of the asset sale, we changed our name from "Fairmarket, Inc." to "Dynabazaar, Inc."

We are currently reviewing alternatives for the use of our remaining assets, which may include other business opportunities unrelated to our historical business, including the possible acquisition of other businesses. Neither our board of directors nor our stockholders have yet approved any such opportunities. We cannot assure you that we will be able to identify or successfully capitalize on any appropriate business opportunities.

The Company has not yet settled on an operating plan, although the Company feels its existing cash and cash equivalents are sufficient to fund the Company's current operations and satisfy its obligations. The Company believes these obligations will primarily relate to costs associated with its operation as a public company (legal, accounting, insurance, etc.), as well as the satisfaction of any potential legal judgments or settlements and the expenses associated with any new business activities which may be undertaken by the Company. The Company continues to consider future alternatives, including the possible acquisition of other businesses. However, the Company has not consummated any significant transactions to date and the Company's business prospects remain uncertain. To the extent that management of the Company moves forward on any alternative strategy, such strategy may have an impact on the Company's liquidity.

On June 30, 2005, the Company entered into a stock purchase agreement (the "Stock Purchase Agreement") with Lloyd Miller, III, a former director of the Company, on behalf of himself and on behalf of certain affiliated entities, whereby the Company purchased from Mr. Miller and such affiliated entities an aggregate of 3,657,988 shares of common stock, par value $0.001 per share, of the Company at an aggregate purchase price of $ 1,152,266. Pursuant to the Stock Purchase Agreement, Mr. Miller is also entitled to receive 13.6% of the net proceeds distributed to the Company pursuant to the escrow agreement dated as of September 4, 2003 by and among the Company, eBay. and Zions First National Bank, as additional consideration for his shares of common stock (the "Escrow Agreement").

On September 6, 2005, the Company received a payment of $2,045,982 from Zions First National Bank pursuant to the Escrow Agreement. The payment represented the $2 million held in escrow under the terms and conditions of an Asset Purchase Agreement we entered into with eBay together with $45,982 of accrued interest. In accordance with the Stock Purchase Agreement entered into with former director Lloyd Miller, III and certain affilitated entities, the Company paid to Mr. Miller a total of $278,253 from the proceeds of the escrow agreement, and was recorded as additional consideration for the stock purchase.

CRITICAL ACCOUNTING POLICIES

In December 2001, the Securities and Exchange Commission (the "SEC") requested that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our significant accounting policies are more fully described in Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. These critical accounting policies relate to revenue recognition, allowance for doubtful accounts and deferred tax assets. No changes to these critical polices have taken place during the quarter ended September 30, 2005.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (IN THOUSANDS)

For the three months ended September 30, 2005 and September 30, 2004, our net income (loss) was $1,892 and $(359), respectively.

Revenue

For the three months ended September 30, 2005 and September 30, 2004, total revenue was $0 due to the cessation of business activity.

Operating Expenses

For the three months ended September 30, 2005, general and administrative expenses were $236 compared to $473 for the three months ended September 30, 2004, a decrease of 50%. The decrease was due primarily to the reduction in facilities expense, employee compensation expense, employee benefits expense and depreciation expense.

Other Income (Expense)

For the three months ended September 30, 2005 and September 30, 2004, other income (expense) was $2,128 and $114, respectively, an increase of 1,767%. The increase is due primarily to the receipt of approximately $2,000 in proceeds pursuant to the Escrow Agreement.

NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (IN THOUSANDS)

For the nine months ended September 30, 2005 and September 30, 2004, our net income (loss) was $1,425 and $(1,514) respectively.

Revenue

For the nine months ended September 30, 2005 and September 30, 2004, total revenue was $0 due to the cessation of business activity.

Operating Expenses

For the nine months ended September 30, 2005, general and administrative expenses were $840 compared to $1,728 for the nine months ended September 30, 2004, a decrease of 51%. The decrease was due primarily to the reduction in facilities expense, employee compensation expense, employee benefits expense and depreciation expense.

Other Income (Expense)

For the nine months ended September 30, 2005 and September 30, 2004, other income (expense) was $2,265 and $214 respectively, an increase of over 958%. The increase is due primarily to the receipt of approximately $2,000 in proceeds pursuant to the Escrow Agreement.

LIQUIDITY AND CAPITAL RESOURCES (IN THOUSANDS)

At September 30, 2005, cash and cash equivalents totaled $9,132.

Cash used in operating activities was $405 for the nine months ended September 30, 2005, compared to cash used of $2,203 for the nine months ended September 30, 2004. Cash used in operating activities for the period ended September 30, 2005 primarily reflects the Company's net income of $1,425, the recognition of a $2,000 gain on the sale of assets in connection with the Escrow Agreement, a decrease in prepaid expenses and other current assets of $230 offset by a decrease in accrued expenses of $60. Net cash used in operating activities for the period ended September 30, 2004, primarily reflects the Company's net loss of $1,514 and the payment for the termination of the lease on the Company's Woburn, Massachusetts headquarters.

Cash provided by investing activities for the nine months ended September 30, 2005 was $2,000 compared to cash provided for investing activities for the nine months ended September 30, 2004 of $473. Cash provided by investing activities for the period ended September 30, 2005 was from the receipt of $2,000 in connection with the eBay escrow agreement. Cash provided by investing activities for the period ended September 30, 2004 was primarily from the release of restricted cash held as a security deposit relating to the lease on the Company's headquarters in Woburn, Massachusetts.

Cash used in financing activities for the nine months ended September 30, 2005 and September 30, 2004 was $1,399 and $22, respectively. Cash used in financing activities for the period ending September 30, 2005 was primarily due to the purchase of treasury stock from a former director of the Company for $1,430.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures in the near future.

FACTORS THAT MAY AFFECT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, of 1934 as amended (the "Exchange Act"). You can identify forward-looking statements by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume" and other similar expressions which predict or indicate future events and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. Our actual results could differ materially from those set forth in the forward-looking statements.

Some of the factors that might cause these differences include those set forth in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004 which is incorporated herein by reference. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. Forward-looking statements herein are based on information, plans and estimates at the date of this Form 10-Q, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

RISKS RELATED TO OUR BUSINESS

The information contained in Item 7 of the Company's Form 10-K for the year ended December 31, 2004 is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INVESTMENT PORTFOLIO

We do not use derivative financial instruments for investment purposes and only invest in financial instruments that meet high credit quality standards. Due to the conservative nature of our investments, we do not believe that we have a material exposure to interest rate risk.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) under the Exchange Act, as of the end of the period covered by this Quarterly Report, our management conducted an evaluation with the participation of our Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures (as defined in Rule 13d-15(e) or Rule 15d-15(e) of the Exchange Act). In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. The effectiveness of our disclosure controls and procedures is necessarily limited by the staff and other resources available to us. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective in that they provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. There was no change in our internal control over financial reporting (as defined in Rule 13d-15(f) or Rule 15d-15(f) of the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In connection with these rules, we will continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our system evolve with our business.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a defendant in certain purported class action lawsuits field by individual shareholders in the U.S. District Court for the Southern District of New York against Dynabazaar, Scott Randall (former President, Chief Executive Officer and Chairman of the Board of Dynabazaar), John Belchers (former Chief Financial Officer of Dynabazaar), U.S. Bancorp Piper Jaffray Inc., Deutsche Bank Securities Inc. and FleetBoston Robertson Stephens, Inc. The lawsuits have been filed by individual shareholders who purport to seek class action status on behalf of all other similarly situated persons who purchased the common stock of Dynabazaar between March 14, 2000 and December 6, 2000. The lawsuits allege that certain underwriters of Dynabazaar's initial public offering solicited and received excessive and undisclosed fees and commissions in connection with that offering. The lawsuits further allege that the defendants violated the federal securities laws by issuing a registration statement and prospectus in connection with Dynabazaar's initial public offering, which failed to accurately disclose the amount and nature of the commissions and fees paid to the underwriter defendants. On or about October 8, 2002, the Court entered an Order dismissing the claims asserted against certain individual defendants in the consolidated actions, including the claims against Mr. Randall and Mr. Belchers, without any payment from these individuals or the Company. On or about February 19, 2003, the Court entered an Order dismissing with prejudice the claims asserted against the Company under Section 10(b) of the Exchange Act. As a result, the only claims that remain against the Company are those arising under Section 11 of the Securities Act. The Company has entered into an agreement-in-principle to settle the remaining claims in the litigation. The proposed settlement will result in a dismissal with prejudice of all claimsand will include a release of all claims that were brought or could have been brought against the Company and its present and former directors and officers. It is anticipated that any payment to the plaintiff class and their counsel will be funded by the Company's directors' and officers' liability insurance and that no direct payment will be made by the Company. The parties have negotiated and executed a definitive settlement agreement. The Court has granted preliminary approval of the settlement. A notice to all class members seeking approval of the settlement is expected to be sent to them by November 30, 2005. The settlement remains contingent on a number of significant conditions and contingencies, including final approval of the settlement by the plaintiff class and the Court.

ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DYNABAZAAR, INC.

Date: November 14, 2005

By: /s/ William J. Fox

William J. Fox
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2005

By: /s/ Melvyn Brunt

Melvyn Brunt
Chief Financial Officer
(Principal Financial and
Accounting Officer)