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DYNABAZAAR INC
Form 10-K/A
March 31, 2005

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

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
OR

[] 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 AVENUE, NEW YORK, NY
(Address of principal executive offices)

10019
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant
to Section 12(g) of the Act:

COMMON STOCK, \$0.001 PAR VALUE
(Title of each class)

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 if disclosure of delinquent filers pursuant to
Item 405 of Regulation S-K is not contained herein, and will not be contained,
to the best of the registrant's knowledge, in the definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K
or any amendment to this Form 10-K. []

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

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The aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$8,360,063 on March 26, 2005, based on the closing sales price of the registrant's common stock as reported on the Over-the-Counter Bulletin Board as of such date.

The number of shares outstanding of the registrant's common stock as of March 26, 2005 was 26,967,944.

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DYNABAZAAR, INC.
FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2004
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PART I

ITEM 1. BUSINESS.

THIS FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. CERTAIN FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE ARE DISCUSSED IN THE SECTION ENTITLED "FACTORS THAT MAY AFFECT RESULTS OF OPERATIONS AND FINANCIAL CONDITION" ON PAGE 10 OF THIS FORM 10-K. YOU SHOULD NOT PLACE UNDUE RELIANCE ON OUR FORWARD-LOOKING STATEMENTS, AND WE ASSUME NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS.

OVERVIEW AND RECENT EVENTS

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 of 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. 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 pursuing a plan of complete liquidation and dissolution, possibly including the sale of our remaining assets. Alternatively, we may decide to pursue selling our remaining assets outside of a liquidation and dissolution, to make additional distributions of cash to our stockholders and/or to explore other business opportunities unrelated to our historical business, including the possible acquisition of other businesses. At this time, our Board of Directors has not made any decision to pursue any one of these options and has not identified any such opportunities. We cannot assure you that we will be able to identify or successfully capitalize on any appropriate business opportunities.

In January 2004, James Mitarotonda was appointed as our President and Chief Executive Officer and Mel Brunt was appointed as our Chief Financial Officer. In October 2004, Mr. Mitarotonda resigned as the Company's President and Chief Executive Officer but remained a director of the Company. In December 2004, Mr. William Fox became the Company's President and Chief Executive Officer.

In connection with the Company's cessation of its online auction business, the Company relocated its principal executive offices as of January 1, 2004 to 888 Seventh Avenue, 17th Floor, New York, 10019, an office maintained by Barington Capital Group, LP ("Barington"), a limited partnership whose general partner is a corporation of which James Mitarotonda is Chairman, President and Chief Executive Officer. Mr. Mitarotonda is a director of the Company and our former President and Chief Executive Officer. William Fox, the President, Chief Executive Officer and a director of the Company, is the Vice Chairman of Barington. Pursuant to an administrative services agreement we entered into with Barington in December 2003 (which ran through December 31, 2004), we paid Barington a monthly fee of \$8,000 for performing certain administrative services on behalf of the Company. In connection with the agreement, we also granted to

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James Mitarotonda an option to purchase 320,000 shares of our common stock. The option is fully exercisable and was granted with an exercise price per share equal to \$0.33, the fair market value of our common stock on the grant date. The Company entered into an amended administrative services agreement with Barington dated as of December 17, 2004. Under the amended agreement, which runs through December 31, 2006, Barington is to be paid a fee of \$15,000 per month for performing certain administrative, accounting and other services on behalf of the Company. In addition, Barington is to be paid a fee of \$175 an hour for any legal services provided by Barington on behalf of the Company at the Company's request. The Company has also agreed that in the event that Barington identifies for the Company, at its request, a business transaction such as a merger, acquisition or joint venture, and/or provides the Company with financial consulting or merger and acquisition services in connection with such business transaction, the Company will pay Barington a fee to be agreed upon between Barington and the Board of Directors of the Company. In connection with the amended agreement, the Company granted options to certain designees of Barington to purchase, in the aggregate, 320,000 shares of the Company's common stock at an exercise price of \$0.31 per share, the fair market value of the Company's common stock on the grant date.

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On January 20, 2004, the Company executed a settlement agreement with Acquaport Unicorn, Inc., the landlord of the Company's Woburn, Massachusetts headquarters, providing for termination of the Company's lease in consideration of a cash payment of \$1.2 million. In March 2004, the cash payment was made and on April 9, 2004 our last employee was terminated and the premises vacated.

On February 2, 2004, we dismissed PricewaterhouseCoopers LLP as our independent accountants and engaged Rothstein, Kass & Company, P.C. as our independent auditors commencing with the audit of our financial statements for the year ended December 31, 2003.

On June 22, 2004, the Board of Directors of the Company authorized the termination of the Company's Shareholder Rights Agreement based on its assessment that the termination of this agreement would benefit the Company's stockholders and enhance the corporate governance practice of the Company. The Company entered into Amendment No. 1 to the Shareholder Rights Agreement, dated as of July 7, 2004, by and between the Company and EquiServe Trust Company, N.A., as Rights Agent, which provided for the termination of the Company's Shareholder Rights Agreement on July 31, 2004.

On June 15, 2004, we received a letter from the Nasdaq Stock Market notifying us that, because the closing price of our common stock had closed below \$1.00 per share for 30 consecutive trading days and we do not presently conduct an operating business, the Company's common stock would be delisted on June 24, 2004. Our stock now trades over the counter on the Nasdaq OTC Bulletin Board.

On August 20, 2004, the Company announced that the Board of Directors had authorized the repurchase of up to 5 million shares of the Company's common stock. To date, we have purchased 81,800 shares at an average price per share of \$0.2689.

On September 28, 2004, the Company executed a settlement with Regal House Limited, the landlord of the Company's London, UK headquarters, providing for termination of the Company's lease in consideration of a cash payment of approximately \$463,000. The cash payment was drawn from the security deposit of approximately \$569,000 held by the landlord. The remaining balance of \$106,000 was returned to us.

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As of September 30, 2004, we held an available-for-sale security in the form of a United States Government Bond. On October 6, 2004, this position was liquidated and re-invested in cash.

On December 17, 2004, the Board of Directors appointed Raymond L. Steele to serve as a Class I director. On December 27, 2004, Joseph R. Wright, Jr. resigned from the Board of Directors in order to devote additional time to his position as President, Chief Executive Officer and a director of PanAmSat Corporation, a global provider of satellite-based video, broadcasting and network distribution and delivery services. On January 31, 2005, the Board of Directors appointed Karen Schneider to serve as a Class II director.

ITEM 2. PROPERTIES

The Company's headquarters are located in New York City, in an office maintained by Barington Capital Group, L.P., a limited partnership whose general partner is a corporation of which James Mitarotonda is Chairman, President and Chief Executive Officer. Mr. Mitarotonda is a director of the Company and our former President and Chief Executive Officer. William Fox, the President, Chief Executive Officer and a director of the Company, is the Vice Chairman of Barington.

On January 20, 2004, the Company executed a settlement agreement with Acquaport Unicorn, Inc., the landlord of the Company's Woburn, Massachusetts headquarters, providing for termination of the Company's lease in consideration of a cash payment of \$1.2 million. In March 2004, the cash payment was made and on April 9, 2004 our last employee was terminated and the premises vacated.

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On September 28, 2004, the Company executed a settlement agreement with Regal House Limited, the landlord of the Company's London, UK, headquarters, providing for termination of the Company's lease in consideration of a cash payment of approximately \$463,000. The cash payment was drawn from the security deposit of approximately \$569,000 held by the landlord. The remaining balance of \$106,000 was returned to us.

ITEM 3. 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

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amended. As a result, the only claims that remain against the Company are those arising under Section 11 of the Securities 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 & officers liability insurance and that no direct payment will be made by the Company. The proposed settlement is subject to the execution of a definitive settlement agreement, final approval of the settlement by the Company's directors & officers liability insurance carriers and by the plaintiff class, and the approval of the settlement by the Court.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PRICE RANGE OF COMMON STOCK

Our common stock trades on the Nasdaq OTC Bulletin Board under the symbol "FAIM." Our common stock was quoted on the Nasdaq National Market, but was delisted on June 24, 2004. The following table sets forth, for the periods indicated, the high and low sale price per share of our common stock on the OTC BB.

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	HIGH	LOW
	----	---
YEAR ENDED DECEMBER 31, 2004:		
First Quarter.....	\$0.44	\$0.32
Second Quarter.....	\$0.39	\$0.30
Third Quarter.....	\$0.31	\$0.26
Fourth Quarter.....	\$0.35	\$0.27

	HIGH	LOW
	----	---
YEAR ENDED DECEMBER 31, 2003:		
First Quarter.....	\$1.67	\$1.42
Second Quarter.....	\$2.00	\$1.52
Third Quarter.....	\$1.71	\$1.54
Fourth Quarter.....	\$1.79	\$0.31

As of March 26, 2005, there were approximately 177 holders of record of our common stock.

We have not paid or declared any cash dividends on shares of our common stock other than a \$1.30 per share cash distribution that was declared in October 2003 and paid in November 2003 to stockholders of record on October 20, 2003. The total amount of the distribution was approximately \$35 million. Any

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future determinations as to the payment of dividends on our common stock will depend upon our capital requirements, earnings, liquidity and such other factors as our Board of Directors may consider.

USE OF PROCEEDS FROM SALE OF REGISTERED SECURITIES

On March 17, 2000, we completed the sale of 5,750,000 shares of our common stock in an initial public offering pursuant to a Registration Statement on Form S-1 (File No. 333-92677), as amended, that was declared effective by the Securities and Exchange Commission on March 13, 2000. The proceeds to us from the initial public offering were \$89.1 million, net of offering expenses. We estimate that, as of December 31, 2004, approximately \$35.3 million has been used for working capital purposes, including approximately \$5.1 million used for the purchase of equipment, \$4.0 million to repurchase 3.1 million shares of our common stock from our founder, \$35 million for the cash distribution paid in November 2003 and \$3.5 million for the September 2003 Series B repurchase and liquidation preference. At December 31, 2004, substantially all of the remaining net proceeds (approximately \$9 million) were held in investments in interest-bearing accounts.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial data included elsewhere in this Report. The consolidated statement of operations data for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 and the consolidated balance sheet data as of December 31, 2004, 2003, 2002, 2001 and 2000 are derived from our audited consolidated financial statements.

		FOR THE YEARS ENDED D	
	2004	2003	2002
	----	----	----
	(IN THOUSANDS, EXCEPT PER		
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Revenue	\$ --	\$ 6,673	\$ 5,747
Total operating expenses	2,227	12,752	29,075
Loss from operations	(2,227)	(6,079)	(23,328)
Net loss	(1,962)	(4,599)	(21,977)
Basic and diluted net loss per share	\$ (0.07)	\$ (0.18)	\$ (0.79)
Shares used to compute basic and diluted			
net loss per share	27,024	26,796	28,080

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			DECEMBER 3
	2004	2003	2002
	----	----	----
	(IN THOUSAND		
CONSOLIDATED BALANCE SHEET DATA:			
Cash, cash equivalents and marketable securities	\$ 8,989	\$ 10,697	\$ 54,734
Working capital	9,124	5,547	39,572
Total assets	12,468	16,630	59,267

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Obligation under capital lease excluding current portion	--	--	--
Total stockholders' equity	10,452	12,314	52,909

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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. Certain factors that might cause such a difference include the risks and uncertainties discussed under the heading "Factors that May Affect Results of Operations and Financial Condition" on page 10 of this Form 10-K. You should not place undue reliance on our forward-looking statements, and we assume no obligation to update any forward-looking statements.

The following discussion of our financial condition and results of operations should be read in conjunction with the description of our business and our financial statements and the notes to those statements included elsewhere in this Report.

CRITICAL ACCOUNTING POLICIES

While our significant accounting policies are more fully described in Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included in this Report, we believe the following accounting policies to be critical:

REVENUE RECOGNITION. In accordance with SEC Staff Accounting Bulletin No. 101, we do not record revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; services have been rendered; our price to our customer is fixed and determinable; and collectibility is reasonably assured. We derive revenue from application fees, transaction fees and professional services fees. Application fees consist of implementation fees and fixed monthly hosting, support and operating fees. We record implementation fees as deferred revenue and recognize these fees as revenue, ratably, over the contract period which approximates the life of our customer relationship. We recognize fixed monthly hosting fees as revenue in the month that the service is provided. We recognize transaction fees as revenue, net of amounts paid to our customers, at the completion of the listing period. We record certain professional services fees related to ongoing service relationships as deferred revenue and recognize these fees as revenue ratably over the remaining contract period. Professional services fees which represent a separate earnings process and are unrelated to ongoing services are recognized as revenue in the period the service is provided.

We follow the guidance of Emerging Issues Task Force issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products ("EITF 01-09"), in determining whether consideration, including equity instruments, given to a customer should be recorded as an operating expense or a reduction of revenue recognized from that same customer. Consideration given to a customer is recorded as a reduction of revenue unless both of the following conditions are met:

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- o We receive an identifiable benefit in exchange for the consideration, and the identified benefit is sufficiently separable from the customer's purchase of the Company's products and services such that the Company could have purchased the products from a third party; and
- o We can reasonably estimate the fair value of the benefit received.

If both of the conditions are met, we record consideration paid to customers as an expense. Consideration, including equity instruments, not meeting the above criteria, is recorded as a reduction of revenue to the extent the Company has recorded cumulative revenue from the customer or reseller. Any consideration in excess of cumulative revenue recognized from the customer or reseller is recorded as an operating expense.

Identifying transactions that are within the scope of EITF 01-09, determining whether those transactions meet the criteria for recognition as an expense and determining the methodology of cost recognition associated with these arrangements requires us to make significant judgments. If we reached different conclusions, reported revenue could be materially different.

ALLOWANCE FOR DOUBTFUL ACCOUNTS AND REVENUE RESERVE When estimating our allowance for doubtful accounts, we analyze our accounts receivable aging, historical bad debts, customer creditworthiness, current economic trends and other factors. If collection of accounts receivable is not reasonably assured, we establish a reserve for any revenue within the current reporting period for that customer and we charge bad debt expense for any revenue recognized in prior reporting periods for that customer.

DEFERRED TAX ASSETS We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we consider future taxable income and tax planning strategies in assessing the need for the valuation allowance, if management were to determine that the Company would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would effect the provision for income taxes in the period such determination was made.

UNUTILIZED OFFICE SPACE In the fourth quarter of 2003 and first quarter of 2002, we recorded charges of \$160,000 and \$4.5 million, respectively, for unutilized office space at our Woburn, Massachusetts headquarters. This charge included rent and other related costs for a significant portion of our leased space which has been vacated for the remaining lease term and the write-down of related leasehold improvements and furniture and fixtures. In the fourth quarter of 2002, we recorded a reversal of \$513,000 related to a sublease of approximately 11,000 square feet of the unutilized office space. During 2003, we charged \$1.0 million against this reserve which represented rent payments related to unutilized office space. During 2002, we charged \$746,000 against this reserve, which represented rent payments related to unutilized office space. In addition, we recorded \$1.2 million for the write-down of leasehold improvements and furniture and fixtures.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (R), "Accounting for Stock-Based Compensation (Revised)." SFAS No. 123 (R) supersedes APB No. 25 and its related implementation guidance. SFAS No. 123

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(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 exchange 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 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

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modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of modified award over the fair value of the original award immediately before the modifications. The Company has not completed its evaluation of SFAS No. 123 (R) but expects the adoption of this new standard will have an impact on operating results due to the Company's use of options as employee incentives.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

For the years ended December 31, 2004, 2003 and 2002, our net loss was \$2.0 million, \$4.6 million and \$22.0 million, respectively. The reduction in net loss of \$2.7 million when comparing 2004 to 2003 was primarily due to the cessation of its online auction business. The reduction in net loss of \$17.4 million when comparing 2003 to 2002 was primarily due to a decrease in equity related charges in the amount of \$9.8 million, a decrease in total operating expenses exclusive of equity related charges of \$6.5 million, an increase in total revenue of \$926,000 and a decrease of interest income of \$1.1 million.

REVENUE

Total revenue was zero for 2004 compared to \$6.7 million in 2003, this decrease was due to the cessation of the Company's online auction business. The increase of \$1.0 in revenue for 2003 compared to 2002 was due primarily to service fees incurred under the TSA with eBay offset by the loss of revenue from customers transferred to eBay as part of the Asset Purchase Agreement. Total revenue was \$5.7 million for 2002.

International revenue was zero in 2004 compared to \$1.5 million in 2003 and \$1.6 million in 2002. The decrease in 2004 compared with 2003 is due to the cessation of the Company's online auction business.

OPERATING EXPENSES

COST OF REVENUE

Cost of revenue was zero in 2004, \$2.1 million in 2003 and \$3.6 million in 2002. Cost of revenue consists of costs for direct customer support and support to end-users of our customers' sites, depreciation of network equipment, fees paid to network providers for bandwidth and monthly fees paid to third-party network providers. The decrease in 2004 was primarily due to the

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cessation of the Company's online auction business. The decreases of \$1.5 million in 2003 and \$1.3 million in 2002 were primarily due to a reduction in salaries and related expenses resulting from headcount reductions and a reduction in the fees paid to network providers for bandwidth. In addition, we realized cost reductions by relocating our UK Data Center to our US Data Center.

Gross profit was 0.0%, 68.8% and 38.1% of total revenue for 2004, 2003 and 2002, respectively. This decrease in gross profit from 2004 and 2003 was attributable to the decrease in revenue discussed above. The increase in gross profit from 2003 to 2002 was primarily attributable to the increase in revenues from the TSA, while no costs were associated with those revenues.

SALES AND MARKETING

Sales and marketing expenses were zero for 2004, \$2.0 million for 2003 and \$2.3 million for 2002. The decrease in 2004 is attributable to the cessation of the Company's online auction business. The decrease in 2003 is attributable to a reduction in salaries and related expenses.

DEVELOPMENT AND ENGINEERING

Development and engineering expenses were zero for 2004, \$1.1 million for 2003 and \$2.2 million for 2002. The decrease for 2004 is attributable to the cessation of the Company's online auction business. The decreases for 2003 and 2002 were primarily due to a reduction in salaries and related expenses resulting from lower headcount.

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GENERAL AND ADMINISTRATIVE

General and Administrative expenses were \$2.2 million in 2004 compared to \$7.3 million in 2003, a reduction of 72%. Expenses in 2004 were primarily related to the payment of liability insurance premiums for the prior Board of \$336,000 and the current Board of \$90,000 and costs associated with the settlement of leases in the United States and the United Kingdom. General and Administrative expenses in 2003 were \$7.3 million compared to \$6.6 million in 2002 an increase of 10%. Contributing to the increase in 2003 was the payment, in December of that year, of \$830,000 termination pay to all our remaining employees, together with a patent litigation settlement of \$210,000 and an increase in the premium for directors and officers liability insurance.

UNUTILIZED OFFICE SPACE CHARGE

In the fourth quarter of 2003 and the first quarter of 2002, we recorded charges of \$160,000 and \$4.5 million, respectively, for unutilized office space at our Woburn, Massachusetts headquarters. This charge included rent and other related costs for a significant portion of our leased space which has been vacated for the remaining lease term and the write-down of related leasehold improvements and furniture and fixtures. In the fourth quarter of 2002, we recorded a reversal of \$513,000 related to a sublease of approximately 11,000 square feet of the unutilized office space. During 2003, we charged \$1.0 million against this reserve which represented rent payments related to unutilized office space. During 2002, we charged \$746,000 against this reserve, which represented rent payments related to unutilized office space. In addition, we recorded \$1.2 million for the write-down of leasehold improvements and furniture and fixtures. In 2004, we terminated our lease for this property.

EQUITY-RELATED CHARGES

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Equity-related charges consist of the amortization of (1) deferred stock compensation resulting from the grant of stock options to employees at exercise prices subsequently deemed to be less than the fair value of the common stock on the grant date and (2) the fair value of warrants issued to strategic customers and shares of Series B preferred stock issued to strategic customers at prices below their fair value.

Deferred stock compensation is being amortized ratably over the vesting periods of the applicable stock options, typically four years, with 25% vesting on the first anniversary of the grant date and the balance vesting 6.25% quarterly thereafter.

At December 31, 2004 and 2003, the Company had no deferred compensation on the consolidated balance sheets. The Company had recorded \$0, \$107,000 and \$9.8 million in equity related charges for the years ending December 31, 2004, 2003 and 2002, respectively.

GAIN ON SALE OF ASSETS

On June 20, 2003, the Company entered into an Asset Purchase Agreement (the "Agreement") with eBay, Inc. ("eBay") to sell substantially all of the Company's technology and business assets to eBay for \$4.5 million in cash. On September 4, 2003 the Company closed on the sale of assets to eBay.

In connection with the transaction the parties entered into a separate escrow agreement dated September 2003, which provided that \$2 million of the consideration be held in escrow for a two-year period in order to secure the Company's indemnification obligations. The Company estimated its potential liability under the indemnification to be \$2 million in accordance with FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45") and recorded such liability as a reduction in the gain on the sale of assets.

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The Company recorded a gain on the sale of assets of \$1,162,000 based on the proceeds less direct costs of \$1,338,000 and the indemnification liability noted above, which is recorded in the results of operations for the year ended December 31, 2003.

INTEREST INCOME, NET

Interest income was \$265,000, \$297,000 and \$1.4 million in 2004, 2003 and 2002, respectively. The decrease in interest income for 2004 and 2003 was due principally to lower average cash, cash equivalents and marketable securities balances during these periods as a result of cash used in operating activities and to a lesser extent a decrease in interest rates.

LIQUIDITY AND CAPITAL RESOURCES

Prior to our initial public offering in March 2000, we financed our operations primarily through private sales of capital stock, the net proceeds of which totaled \$27.1 million as of December 31, 1999. In March 2000, we sold 5,750,000 shares of common stock in our initial public offering. The proceeds to us from the initial public offering were \$89.1 million, net of offering expenses. At December 31, 2004, cash and cash equivalents totaled \$9.0 million.

Net cash used in operating activities was \$2.3 million for 2004, \$7.1 million for 2003 and \$6.3 million for 2002.

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Net cash flows from operating activities in 2004 reflect a net loss of \$2.0 million reduced by an increase in other assets of \$900,000. Net cash flows from operating activities reflects increases from unutilized lease costs of \$1.2 million, \$800,000 from accrued expenses and other miscellaneous increases.

Net cash flows from operating activities in 2003 reflect a net loss of \$4.6 million reduced by depreciation expense of \$1.2 million, and a reduction of accounts receivable of \$1.0 million. Net cash flows from operating activities for 2003 reflects an increase in gain on sale of assets of \$1.2 million, long-term prepayment of \$1.6 million, unutilized lease costs of approximately \$880,000 and additional increases of accounts payable, accrued expenses, deferred revenue and other non-current liabilities.

Net cash flows from operating activities in 2002 reflect a net loss of \$22.0 million reduced by depreciation expense of \$2.9 million, non-cash charges for loss on disposal of property and equipment of \$1.4 million, short and long-term unutilized office space of \$2.8 million and amortization of deferred compensation and equity-related charges of \$9.9 million. To a lesser extent, net cash flows from operating activities for 2002 reflect an increase in accounts receivable, accrued expenses and deferred revenue, partially offset by a decrease in prepaid expenses, other current assets and accounts payable.

In 2004, cash provided by investing activities decreased to \$5.5 million from \$18.1 million in 2003. This decrease was primarily due to the sale of marketable securities compared to the 2003 activity. During 2003, cash provided by investing activities was primarily due from the sale of marketable securities. In 2002, cash provided by investing activities was \$20.9 million primarily from the sale of marketable securities.

In 2004, cash used in financing activities was \$22,000, primarily from the purchase of treasury stock. Cash used in financing activities was \$38.3 million in 2003 primarily from a cash distribution paid to shareholders of record on October 20, 2003. In 2002, cash used in financing activities was \$2.2 million primarily from the purchase of 3,181,000 shares of our Common Stock from the founder of the Company for \$4.0 million offset by the issuance of 952,380 shares of our Series B redeemable convertible preferred stock to eBay in May 2002 for net proceeds of \$1.8 million as described in Note 11 to the Consolidated Financial Statements.

We expect to fund our operating expenses for 2005 from available cash. In addition, we may utilize our cash resources to fund acquisitions or investments in complementary businesses or technologies, though currently we have no commitments for capital expenditures or strategic investments. We believe that our current cash, cash equivalents and marketable securities will be sufficient to meet our working capital and operating expenditure requirements

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for the near future. Further, we do not have an operating business and consequently, we are currently exploring various options for the use of our remaining assets, including pursuit of a business strategy unrelated to our historical business. Acquisition and/or operation of any future business strategy may require us to obtain additional financing. In the interim, we believe our cash needs will primarily relate to costs associated with operating as a public company, such as legal and accounting costs. If additional financing is required, we may not be able to raise it on acceptable terms or at all.

FACTORS THAT MAY AFFECT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THIS FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING

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OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. 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 BELOW. YOU SHOULD CAREFULLY REVIEW ALL OF THESE FACTORS, AND YOU SHOULD BE AWARE THAT THERE MAY BE OTHER FACTORS THAT COULD CAUSE THESE DIFFERENCES. THESE FORWARD-LOOKING STATEMENTS WERE BASED ON INFORMATION, PLANS AND ESTIMATES AT THE DATE OF THIS FORM 10-K, 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.

WE CURRENTLY DO NOT HAVE AN OPERATING BUSINESS, BUT ALSO DO NOT INTEND TO PURSUE A COURSE OF COMPLETE LIQUIDATION AND DISSOLUTION, AND ACCORDINGLY, THE VALUE OF YOUR SHARES MAY DECREASE

We currently do not have any operating business; we are considering various options for the use of our remaining assets, but have yet to approve any definitive plans. In the meantime, we will continue to incur operating expenses while we consider alternative operating plans. These plans may include business combinations with or investments in other operating companies, or entering into a completely new line of business. We have not yet identified any such opportunities, and thus, you will not be able to evaluate the impact of such a business strategy on the value of your stock. In addition, we cannot assure you that we will be able to identify any appropriate business opportunities. Even if we are able to identify business opportunities that our Board deems appropriate, we cannot assure you that such a strategy will provide you with a positive return on your investment, and it may in fact result in a substantial decrease in the value of your stock. These factors will substantially increase the uncertainty, and thus the risk, of investing in our shares. Furthermore, we currently do not intend to pursue a course of complete liquidation and dissolution. As a result, you should not expect any further cash distributions.

WE MAY NOT BE ABLE TO IDENTIFY OR FULLY CAPITALIZE ON ANY APPROPRIATE BUSINESS OPPORTUNITIES

We are considering various options for the use of our remaining assets, which may include business combinations with or investments in other operating companies, or entering into a completely new line of business. Nevertheless, we have not yet identified any appropriate business opportunities, and, due to a variety of factors outside of our control, we may not be able to identify or fully capitalize on any such opportunities. These factors include: (1) competition from other potential acquirers and partners of and investors in potential acquisitions, many of whom may have greater financial resources than we do; (2) in specific cases, failure to agree on the terms of a potential acquisition, such as the amount or price of our acquired interest, or incompatibility between us and management of the company we wish to acquire; and (3) the possibility that we may lack sufficient capital and/or expertise to develop promising opportunities. Even if we are able to identify business opportunities that our Board deems appropriate, we cannot assure you that such a strategy will provide you with a positive return on your investment, and may in fact result in a substantial decrease in the value of your stock. In addition, if we enter into a combination with a business that has operating income, we cannot assure you that we will be able to utilize all or even a portion of our existing net operating loss carryover for federal or state tax purposes following such a business combination. If we are unable to make use of our

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existing net operating loss carryover, the tax advantages of such a combination may be limited, which could negatively impact the price of our stock and the value of your investment. These factors will substantially increase the uncertainty, and thus the risk, of investing in our shares.

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STOCKHOLDERS MAY BE LIABLE TO OUR CREDITORS FOR UP TO AMOUNTS RECEIVED FROM US IF OUR RESERVES ARE INADEQUATE

If we pursue a plan of complete liquidation and dissolution, a Certificate of Dissolution will be filed with the State of Delaware after such plan is approved by our stockholders. Pursuant to the Delaware General Corporation Law, we will continue to exist for three years after the dissolution becomes effective or for such longer period as the Delaware Court of Chancery shall direct, for the purpose of prosecuting and defending suits against us and enabling us gradually to close our business, to dispose of our property, to discharge our liabilities and to distribute to our stockholders any remaining assets. Under the Delaware General Corporation Law, in the event we fail to create an adequate contingency reserve for payment of our expenses and liabilities during this three-year period, each stockholder could be held liable for payment to our creditors for such stockholder's pro rata share of amounts owed to creditors in excess of the contingency reserve. The liability of any stockholder would be limited, however, to the amounts previously received by such stockholder from us (and from any liquidating trust or trusts), including the cash distribution of \$1.30 per share paid to stockholders on November 3, 2003. Accordingly, in such event a stockholder could be required to return all distributions previously made to such stockholder. In such event, a stockholder could receive nothing from us under a plan of complete liquidation and dissolution. Moreover, in the event a stockholder has paid taxes on amounts previously received, a repayment of all or a portion of such amount could result in a stockholder incurring a net tax cost if the stockholder's repayment of an amount previously distributed does not cause a commensurate reduction in taxes payable. There can be no assurance that the contingency reserve maintained by us will be adequate to cover any expenses and liabilities.

OUR STOCK HAS BEEN DELISTED FROM THE NASDAQ NATIONAL MARKET, AND IS THEREFORE SIGNIFICANTLY LESS LIQUID THAN BEFORE

Our stock has been delisted from trading on The Nasdaq National Market by reason of not maintaining listing requirements due to, among other things, significantly reduced market price of our common stock. As a result, our common stock currently trades over the counter on the Nasdaq OTC Bulletin Board and the ability of our stockholders to obtain liquidity and fair market prices for our shares has been significantly impaired.

WE WILL CONTINUE TO INCUR THE EXPENSE OF COMPLYING WITH PUBLIC COMPANY REPORTING AND OTHER REQUIREMENTS

We have an obligation to continue to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended, and other applicable requirements including those under the Sarbanes-Oxley Act of 2002 even though compliance with such requirements is economically burdensome. In order to curtail expenses, if we elect to pursue a liquidation and dissolution strategy, after we file our Certificate of Dissolution, we will seek relief from the Securities and Exchange Commission from the reporting requirements under the Exchange Act, which may or may not be granted. Until such relief is granted we will continue to make obligatory Exchange Act filings. We anticipate that even if such relief is granted in the future, we will continue to file current reports on Form 8-K to disclose material events relating to our liquidation and

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dissolution along with any other reports that the Securities and Exchange Commission may require.

WE FACE AND MIGHT FACE INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS THAT MIGHT BE COSTLY TO RESOLVE

From time to time, we have received letters from corporations and other entities suggesting that we review patents to which they claim rights or claiming that we infringe on their intellectual property rights. Such claims may result in our being involved in litigation. Although we sold our operating assets to eBay, we still have exposure for liabilities relating to our business operations prior to the sale. Further, we cannot assure you that third parties will not assert claims in the future or that we will prevail against any such claims. We could incur substantial costs to defend any claims relating to proprietary rights, which would deplete our remaining cash assets. In addition, we are obligated under certain agreements to indemnify the other party for claims that we infringe on the proprietary rights of third parties. If we are required to indemnify parties under these agreements, our remaining assets could be substantially reduced. If someone asserts a claim against us relating to proprietary technology or information, we might seek settlement of such claim. We might not be able to agree to a settlement on reasonable terms, or at all. The failure to obtain a settlement on acceptable terms would decrease cash for other purposes.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INVESTMENT PORTFOLIO

None

FOREIGN CURRENCY RISK

None

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements are included in this Report beginning at page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 2, 2004, we dismissed PricewaterhouseCoopers LLP as our independent accountants and engaged Rothstein, Kass & Company, P.C. as our independent auditors for the year ended December 31, 2003. We filed a current report on Form 8-K with the Securities and Exchange Commission with respect to this matter.

ITEM 9A. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. 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

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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 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 Securities and Exchange Commission's rules and forms. There was no change in our internal control over financial reporting that occurred during the period covered by this report 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 systems evolve with our business.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item regarding directors and executive officers is incorporated by reference from the discussion in the proxy statement for the 2005 Annual Meeting of Shareholders under the headings "Directors" and "Other Information."

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ITEM 11. EXECUTIVE COMPENSATION

The information required by this item regarding directors and executive officers is incorporated by reference from the discussion in the proxy statement for the 2005 Annual Meeting of Shareholders under the heading "Other Information."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding directors and executive officers is incorporated by reference from the discussion in the proxy statement for the 2005 Annual Meeting of Shareholders under the heading "Other Information."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item regarding directors and executive officers is incorporated by reference from the discussion in the proxy statement for the 2005 Annual Meeting of Shareholders under the heading "Other Information."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) INDEX TO FINANCIAL STATEMENTS

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The following documents are included as part of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm.....
 Report of Independent Registered Public Accounting Firm.....
 Consolidated Balance Sheets as of December 31, 2004 and 2003.....
 Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002.....
 Consolidated Statements of Convertible Preferred Stock, Stockholders' Equity (Deficit) and
 Comprehensive Loss for the years ended December 31, 2004, 2003 and 2002.....
 Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.....
 Notes to Consolidated Financial Statements.....

(a) (2) Financial Statement Schedules

Schedule II--Valuation and Qualifying Accounts.....

(a) (3) Exhibits

Please see subsection (b) below

(b) EXHIBITS

The following exhibits are incorporated herein by reference or are filed with this report as indicated below. Exhibits indicated with (+) constitute all of the management contracts and compensation plans and arrangements required to be filed as exhibits to the Report on Form 10-K.

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EXHIBIT NO. -----	TITLE -----
3.1	Form of Fifth Amended and Restated Certificate of Incorporation of the Company(1)
3.2	Composite Amended and Restated Bylaws of the Company as amended by Amendment to Bylaws adopted May 16, 2001*
4.1	Form of Specimen Certificate for the Company's Common Stock(4)
4.2	Shareholder Rights Agreement, dated as of May 17, 2001, between the Company and EquiServe Trust Company, N.A., as Rights Agent, including form of Right Certificate(2)
10.1	Form of Indemnity Agreement entered into by the Company with each of its directors(1)
10.2	Amended and Restated 1997 Stock Option Plan(1)
10.3	October 2001 Amendment to Amended and Restated 1997 Stock Option Plan(4)
10.4	1999 Stock Option Plan(1)
10.5	2000 Stock Option and Incentive Plan(1)
10.6	Composite Transaction Bonus Plan adopted August 28, 2001 as amended on March 12, 2002(4)
10.7	Employee Stock Purchase Plan(1)
10.8	Letter agreement dated June 26, 2001 between the Company and Nanda Krish(3)
10.9	Amended and Restated Agreement Concerning Termination of

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10.10	Employment, Severance Pay and Related Matters dated as of October 11, 2001 between the Company and Mathew Ackley(4) Second Amended and Restated Agreement Concerning Termination of Employment, Severance Pay and Related Matters dated as of October 11, 2001 between the Company and Janet Smith(4)
10.11	Lease Agreement dated November 9, 1999, between DIV Unicorn, LLC and the Company(1)
10.12	Siteharbor Services Agreement between the Company and NaviSite, Inc. dated as of November 1, 2001 together with Amendment to Siteharbor Services Agreement dated as of November 1, 2001(4)
10.13	Indemnification Agreement among the Company and Sierra Ventures VII, LP, and Sierra Ventures Associates VII, LLC, dated February 25, 1999(1)
10.14	Warrant to Purchase Common Stock between the Company and Lycos, Inc. dated as of May 12, 1999(1)
10.15	Auction Services Agreement, dated September 15, 1999, by and between the Company and Ticketmaster Online-CitySearch(1)
10.16	Agreement Concerning termination of Employment, Severance Pay and related Matters dated as of January 17, 2002 between the Company and Nanda Krish(5)
10.17	Second Amendment to Agreement dated as of March 15, 2002 between the Company and NaviSite, Inc.(5)
10.18	Promotions Agreement dated as of April 10, 2002 between the Company and eBay Inc.(7)
10.19	Third Amendment to Agreement dated as of December 1, 2002 between the Company and Navisite, Inc.*
10.20	Agreement Concerning Employment and Termination dated as of January 20, 2003 between the Company and David George. *
10.80	Services Agreement dated as of November 17, 2004 between the Company and Barington Capital Group, L.P.*
21	List of Subsidiaries*
23.1	Consent of Rothstein, Kass & Company, P.C.*
23.2	Consent of PricewaterhouseCoopers LLP*
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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* Filed with this Report.

- (1) Included as an exhibit to, and incorporated in this Report by reference to, the Company's Registration Statement on Form S-1 (No. 333-92677), as amended, filed with the SEC.
- (2) Included as an exhibit to, and incorporated in this Report by reference to, the Company's Current Report on Form 8-K dated May 17, 2001 filed with the SEC on May 22, 2001.
- (3) Included as an exhibit to, and incorporated in this Report by reference

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to, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 filed with the SEC on November 9, 2001.

- (4) Included as an exhibit to, and incorporated in this Report by reference to, the Company's Annual Report on Form 10-K for the year ended December 31, 2001 filed with the SEC on March 31, 2002.
- (5) Included as an exhibit to, and incorporated in this Report by reference to, the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 filed with the SEC on May 14, 2002.
- (6) Included as an exhibit to, and incorporated in this Report by reference to, the Company's Report on Form 8-K filed with the SEC on May 20, 2002.
- (7) Included as an exhibit to, and incorporated in this Report by reference to, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 filed with the SEC on August 14, 2002.

(c) Financial Statement Schedules

Please see page II-1 of this Annual Report on form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 30, 2005.

DYNABAZAAR, INC.

By: /s/ William J. Fox

 William J. Fox
 President and Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ William J. Fox ----- William J. Fox	President, Chief Executive Officer and Director (Principal Executive Officer)	March 30
/s/ Melvyn Brunt ----- Melvyn Brunt	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 30
/s/ Rory J. Cowan -----	Director and Chairman of the Board	March 30

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Rory J. Cowan

/s/ Lloyd I. Miller, III ----- Lloyd I. Miller, III	Director	March 30
/s/ James A. Mitarotonda ----- James A. Mitarotonda	Director	March 30
/s/ Karen Schneider ----- Karen Schneider	Director	March 30
/s/ Raymond Steele ----- Raymond Steele	Director	March 30

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DYNABAZAAR, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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Notes to Consolidated Financial Statements.....

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Dynabazaar, Inc.

We have audited the accompanying consolidated balance sheets of Dynabazaar, Inc. & Subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of operations, consolidated statements of convertible preferred stock, stockholders' equity (deficit) and comprehensive loss, and consolidated cash flows for each of the two years in the period ended December

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31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

In connection with our audit of the consolidated financial statements referred to above, we audited the financial schedules listed under Item 15. In our opinion, these financial schedules, when considered in relation to the consolidated financial statements taken as a whole, present fairly, in all material respects, the information stated therein.

/s/ Rothstein, Kass & Company, P.C.

Roseland, New Jersey
March 9, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Dynabazaar, Inc.:

In our opinion, the consolidated statements of operations, of cash flows and of changes in convertible preferred stock, stockholders' equity (deficit) and comprehensive loss for the year ended December 31, 2002 present fairly, in all material respects, the results of operations and cash flows of Dynabazaar, Inc. and its subsidiaries for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for the year ended December 31, 2002 listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States).

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Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 7, 2003

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DYNABAZAAR, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	200

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 8,
Restricted cash	
Accounts receivable, net of allowance of zero and \$162 at December 31, 2004 and 2003, respectively	
Prepaid expenses	
Other current assets (see Note 5 and 8)	2,

Total current assets	11,
Long-term marketable securities	
Long-term prepaid expenses	1,
Property and equipment, net	
Other assets (see Note 8)	

Total assets	\$ 12, =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$
Accrued expenses	
Current portion of unutilized space accrual	
Other current liabilities (see Note 8)	2,

Total current liabilities	2,
Other long-term liabilities (see Note 8)	

Total liabilities	2, -----
Commitments and contingencies	

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Stockholders' equity

Common stock, \$0.001 par value; 90,000,000 shares authorized, 29,426,385 shares issued at December 31, 2004 and 2003	151,
Additional paid-in capital	(3,
Treasury stock, (at cost); 2,458,441 and 2,376,641 shares at December 31, 2004 and 2003, respectively	(138,
Accumulated other comprehensive income, net	
Accumulated deficit	
<hr/>	
Total stockholders' equity	10,
<hr/>	
Total liabilities and stockholders' equity	\$ 12,
<hr/>	

The accompanying notes are an integral part of the consolidated financial statements.

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DYNABAZAAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	FOR THE YEAR	
	2004	2003
	----	----
Revenue	\$ --	\$ --
Operating expenses:		
Cost of revenue, exclusive of zero, \$11, and \$134 in 2004, 2003 and 2002, respectively, reported below as equity-related charges	--	--
Sales and marketing, exclusive of zero, \$41, and \$9,465 in 2004, 2003 and 2002, respectively, reported below as equity-related charges	--	--
Development and engineering, exclusive of zero, \$32, and \$195 in 2004, 2003 and 2002, respectively, reported below as equity-related charges	--	--
General and administrative, exclusive of zero, \$23, and \$100 in 2004, 2003 and 2002, respectively, reported below as equity-related charges	2,227	--
Restructuring charges	--	--
Unutilized office space charge	--	--
Equity-related charges	--	--
<hr/>		
Total operating expenses	2,227	--
<hr/>		
Loss from operations	(2,227)	--
Interest income	265	--
Gain on sale of assets	--	--
<hr/>		
Net loss	(1,962)	--
<hr/>		
Dividends and accretion on redeemable convertible preferred stock	--	--
<hr/>		

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Net loss attributable to common shareholders	\$ (1,962)	\$
Basic and diluted net loss per common share	\$ (0.07)	\$
Shares used to compute basic and diluted net loss per common share	27,024	

The accompanying notes are an integral part of the consolidated financial statements.

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DYNABAZAAR, INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK,
STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In thousands)

	SHARES	AMOUNT	SHARES	AMOUNT	ADDITIONAL
	-----	-----	-----	AT PAR	PAID-IN
	CONVERTIBLE		COMMON		CAPITAL
	PREFERRED STOCK		STOCK		-----
	-----		-----		
January 1, 2002	--	\$ --	29,062	\$ 29	\$ 189,370
Comprehensive loss:					
Net loss	--	--	--	--	--
Foreign currency translation					
adjustment	--	--	--	--	--
Unrealized loss on marketable					
securities	--	--	--	--	--
Comprehensive loss					
Issuance of Series B					
convertible preferred stock	952	1,796	--	--	--
Effective EITF 01-09 on					
convertible preferred stock	--	114	--	--	--
Series B convertible preferred					
stock dividend	--	--	--	--	(81)
Series B convertible preferred					
stock accretion	--	57	--	--	(57)
Repurchase of common stock	--	--	--	--	--
Issuance of common stock upon					
exercise of employee stock					
options	--	--	320	1	10
Issuance of common stock under					
the employee stock purchase					
plan	--	--	39	--	32
Cancellation of employee stock					
options	--	--	--	--	(527)
Equity-related charges	--	--	--	--	--
Deferred compensation related					
to employee stock options	--	--	--	--	--

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Balance at December 31, 2002	952	1,967	29,421	30	188,747
Comprehensive loss:					
Net loss	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--
Unrealized gain on marketable securities	--	--	--	--	--
Comprehensive loss					
Series B convertible preferred stock accretion	--	33	--	--	(33)
Series B convertible preferred stock dividend	--	--	--	--	(90)
Issuance of common stock upon exercise of employee stock options	--	--	--	--	(352)

(CONTINUED ON NEXT PAGE)

The accompanying notes are an integral part of the consolidated financial

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DYNABAZAAR, INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK,
STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In thousands)

	DEFERRED COMPENSATION AND EQUITY-RELATED CHARGES -----	ACCUMULATED OTHER COMPRE- HENSIVE INCOME (LOSS) -----	ACCUMULATED DEFICIT -----	COMPRE- HENSIVE LOSS -----
January 1, 2002	\$ (10,580)	\$ (13)	\$ (109,949)	--
Comprehensive loss:				
Net loss	--	--	(21,977)	\$ (21,977)
Foreign currency translation adjustment	--	98	--	98
Unrealized loss on marketable securities	--	(73)	--	(73)
Comprehensive loss				(21,952)
Issuance of Series B convertible preferred stock	--	--	--	--
Effective EITF 01-09 on convertible preferred stock	--	--	--	--
Series B convertible preferred stock dividend	--	--	--	--

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Series B convertible preferred stock accretion	--	--	--	--
Repurchase of common stock	--	--	--	--
Issuance of common stock upon exercise of employee stock options	--	--	--	--
Issuance of common stock under the employee stock purchase plan	--	--	--	--
Cancellation of employee stock options	527	--	--	--
Equity-related charges	9,414	--	--	--
Deferred compensation related to employee stock options	480	--	--	--
<hr/>				
Balance at December 31, 2002	(159)	12	(131,926)	--
<hr/>				
Comprehensive loss:				
Net loss	--	--	(4,599)	(4,599)
Foreign currency translation adjustment	--	122	--	122
Unrealized gain on marketable securities	--	57	--	57
Comprehensive loss				(4,420)
Series B convertible preferred stock accretion	--	--	--	--
Series B convertible preferred stock dividend	--	--	--	--
Issuance of common stock upon exercise of employee stock options	--	--	--	--

The accompanying notes are an integral part of the consolidated financial statements

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DYNABAZAAR, INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK,
STOCKHOLDERS' EQUITY (DEFICIT) AND COMPREHENSIVE LOSS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(In thousands)

	SHARES	AMOUNT	SHARES	AMOUNT	ADDITIONAL
	-----	-----	-----	AT PAR	PAID-IN
	-----	-----	-----	-----	CAPITAL
	-----	-----	-----	-----	-----
	CONVERTIBLE	PREFERRED STOCK	COMMON STOCK	-----	-----
	-----	-----	-----	-----	-----
Issuance of common stock under employee stock purchase plan	--	--	6	--	--
Cancellation of employee stock options	--	--	--	--	--

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Deferred compensation related to employee stock options	--	--	--	--	
Reversal of Series B preferred expenses	--	--	--	--	
Series B liquidation preference	--	--	--	--	(2,
Series B redemption and retirement	(952)	(2,000)	--	--	
Dividend payment	--	--	--	--	(35,

Balance at December 31, 2003	--	--	29,427	30	151,

Comprehensive loss:					
Net loss	--	--	--	--	
Foreign currency translation adjustment	--	--	--	--	
Comprehensive loss					
Treasury stock purchase (at cost)	--	--	--	--	

Balance at December 31, 2004	--	\$ --	29,427	\$ 30	\$ 151,
=====					

(CONTINUED BELOW)

	DEFERRED COMPENSATION AND EQUITY-RELATED CHARGES -----	ACCUMULATED OTHER COMPRE- HENSIVE INCOME (LOSS) -----	ACCUMULATED DEFICIT -----	COMPRE- HENSIVE LOSS -----
Issuance of common stock under employee stock purchase plan	--	--	--	--
Cancellation of employee stock options	52	--	--	--
Deferred compensation related to employee stock options	107	--	--	--
Reversal of Series B preferred expenses	--	--	--	--
Series B liquidation preference	--	--	--	--
Series B redemption and retirement	--	--	--	--
Dividend payment	--	--	--	--

Balance at December 31, 2003	--	191	136,525	--

Comprehensive loss:				
Net loss	--	--	(1,962)	(1,962)
Foreign currency translation adjustment	--	122	--	122
Comprehensive loss				(1,840)

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Treasury stock purchase (at cost)	--	--	--	--
Balance at December 31, 2004	--	\$ 313	\$ (138,467)	--

The accompanying notes are an integral part of the consolidated financial statements.

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DYNABAZAAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	FOR THE ----- 2004 ----
Cash flows from operating activities:	
Net loss	\$ (1,962)
Adjustments to reconcile net loss to net cash used in operating activities:	
Gain on sale of assets	--
Depreciation	109
Provision for bad debt	144
Amortization of deferred compensation and equity-related charges	--
Loss on disposal of property and equipment	--
Redeemable convertible preferred stock issued to customer	--
Changes in operating assets and liabilities:	
Accounts receivable	207
Prepaid expenses and other current assets	58
Long-term prepaid expenses	330
Other assets	903
Accounts payable	(82)
Accrued expenses	(838)
Deferred revenue	--
Accrual for unutilized office space	(1,200)
Other non-current liabilities	--
Net cash used in operating activities	(2,331)
Cash flows from investing activities:	
Proceeds from sale of assets, net of selling costs	--
Long term prepaid	--
Additions to property and equipment	--
Purchase of marketable securities	--
Proceeds from maturity of marketable securities	5,000
(Increase) decrease in restricted cash	523
Net cash provided by investing activities	5,523
Cash flows from financing activities:	
Repayment of capital lease obligation	--
Proceeds from issuance of common stock, net of issuance costs	--
Proceeds from issuance of Series B convertible preferred stock, net of issuance costs	--

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Payment of liquidation preference of Series B convertible preferred stock	---
Payment of redemption of convertible preferred stock	---
Purchase of treasury stock	(22)
Dividends paid on preferred stock	---
Dividends paid on common stock	---

Net cash used in financing activities	(22)

Effect of foreign exchange rates on cash and cash equivalents	122
Net increase (decrease) in cash and cash equivalents	3,292
Cash and cash equivalents, beginning of period	5,697

Cash and cash equivalents, end of period	\$ 8,989
=====	

The accompanying notes are an integral part of the consolidated financial s

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DYNABAZAAR, INC.
Notes to Consolidated Financial Statements

1. THE COMPANY

Through September 3, 2003, Dynabazaar, Inc. ("we," "us," "Dynabazaar" or 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 of 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. Following the closing of the asset sale, we changed our name from "Fairmarket, Inc." to "Dynabazaar, Inc."

In January 2004, James Mitarotonda was appointed as our President and Chief Executive Officer and Mel Brunt was appointed as our Chief Financial Officer. In December 2004, Mr. Mitarotonda resigned as the Company's President and Chief Executive Officer and remained a director of the Company. In December 2004, Mr. William Fox became the Company's President and Chief Executive Officer.

In connection with Company's cessation of its online auction business, effective as of January 1, 2004, the Company relocated its principal executive offices to 888 Seventh Avenue, 17th Floor, New York, 10019, an office maintained by Barington Capital Group, LP ("Barington"), a limited partnership whose general partner is a corporation of which James Mitarotonda is Chairman, President and Chief Executive Officer. Mr. Mitarotonda is a director of the Company and our former President and Chief Executive Officer. William Fox, the President, Chief Executive Officer and a director of the Company, is the Vice Chairman of Barington. We paid Barington a monthly fee of \$8,000 for performing certain administrative services on behalf of the Company. In connection with the agreement, we granted to James Mitarotonda an option to purchase up to 320,000 shares of our common stock. The option is fully exercisable and was granted with an exercise price per share equal to \$0.33, the fair market value of our common stock on the grant date.

On January 20, 2004, the Company executed a settlement agreement with Acquaport Unicorn, Inc., the landlord of the Company's Woburn, Massachusetts headquarters, providing for termination of the Company's lease in consideration of a cash

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payment of \$1.2 million. In March 2004 the cash payment was made and on April 9th, 2004 our last employee was terminated and the premises vacated.

On June 15, 2004, we received a letter from the Nasdaq Stock Market notifying us that, because the closing price of our common stock has closed below \$1.00 per share for 30 consecutive trading days and we do not presently conduct an operating business, the Company's common stock would be delisted on June 24, 2004. Our stock now trades over the counter on the Nasdaq OTC bulletin board.

On June 22, 2004, the Board of Directors of the Company authorized the termination of the Company's Shareholder Rights Agreement based on its assessment that the termination of the Rights Agreement would benefit the Company's stockholders and enhance the corporate governance practice of the Company. The Company entered into an Amendment No 1 to the Shareholder Rights Agreement, dated as of July 7, 2004, by and between the Company and EquiServe Trust Company, N.A., as Rights Agent, which provided for the termination of the Company's Shareholder Rights Agreement on July 31, 2004.

On August 20, 2004, the Company announced that the Board of Directors had authorized the repurchase of up to 5 million shares of the Corporation common stock. To date, we have purchased 81,800 shares at an average price per share of \$ 0.2689.

On September 28, 2004, the Company executed a settlement with Regal House Limited, the landlord of the Company's London, UK headquarters, providing for termination of the Company's lease in consideration of a cash payment of approximately \$463,000. The cash payment was drawn from the security deposit of approximately \$569,000 held by the landlord. The remaining balance of \$106,000 was returned to us.

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As of September 30, 2004, we held an available-for-sale security in the form of a United States Government Bond. On October 6, 2004, this position was liquidated and re-invested in cash.

At the December 17, 2004 Board of Directors meeting, the Board unanimously approved a revision to the Administrative Services Agreement entered into with Barington Capital Group, LP (Barington) in December 2003. The revision includes an increase in the monthly fee payable to Barington for performing certain services on behalf of the Company from \$8,000 to \$15,000.

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. At this time, our board of directors has not made any decision to pursue any one of these options and has not identified 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 the 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

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the extent that management of the Company moves forward on any alternative strategy, such strategy may have an impact on the Company's liquidity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Dynabazaar and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated. Certain reclassifications of prior year amounts have been made to conform with current year presentation.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ materially from those estimates.

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. At December 31, 2004, and at various times during the year, balances of cash at financial institutions exceeded the federally insured limit. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash and cash equivalents.

RISKS AND UNCERTAINTIES

The Company has no significant concentration of credit risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements. Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of cash and cash equivalents, marketable securities and trade accounts receivable. The Company places its cash, cash equivalents and marketable securities with what the Company believes are high credit quality financial institutions.

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CUSTOMERS

Our customers included traditional retailers, distributors and manufacturers as well as Internet portals and other web communities primarily engaged in e-commerce. In 2003, we had two major customers that each accounted for more than 10% of our revenue. eBay, Inc. accounted for 38% and Microsoft Corporation accounted for 11% of total revenue. In 2002, we had three customers that each accounted for more than 10% of our total revenue. Sam's West, Inc. accounted for 13.6%, eBay, Inc. accounted for 13.1% and Microsoft Corporation accounted for 12.6% of total revenue. In November 2002, our contract with eBay, Inc. related to the Burger King promotion program was terminated.

PROPERTY AND EQUIPMENT

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Property and equipment are carried at cost less accumulated depreciation. Costs of major additions and betterments are capitalized; maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations. On disposal, the related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is included in results of operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	ESTIMATED USEFUL LIFE -----
Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of lease term or asset useful life

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events, such as service discontinuance, technological obsolescence, facility closure or other changes in circumstances indicate that the carrying amount of the asset may not be recoverable. When such events occur, the Company compares the carrying amount of the assets to their undiscounted expected future cash flows. If this comparison indicates that there is an impairment, the amount of the impairment is calculated using expected, discounted cash flows using the Company's weighted average cost of capital.

REVENUE RECOGNITION

Prior to the eBay, Inc. sale, the Company derived revenues from application fees, transaction fees and professional services fees. In accordance with SEC Staff Accounting Bulletin No. 101, the Company did not record revenue until all of the following criteria are met: persuasive evidence of an arrangement exists; services have been rendered; the Company's price to its customer is fixed and determinable; and collectibility is reasonably assured.

Application fees consisted of implementation fees and fixed monthly hosting, support and operating fees. An implementation fee was generally charged for the initial design, development and implementation of a customer's dynamic pricing or points based site or the Company's MarketSelect service, in accordance with the terms of the contract. The implementation fee was generally payable upon execution of the contract, recorded as deferred revenue and recognized as revenue, ratably, over the contract period. A fixed monthly hosting fee covered hosting services, direct customer support services, end-user customer support services, services for online billing and collection of fees for community sites, and other monthly operating services provided by the Company. Fixed monthly service fees were recognized as revenue in the month that the service is provided.

Merchant customers generally paid transaction fees at varying percentages of the gross proceeds from the sale of their listed products and services, whether sold on their sites or on other Dynabazaar Network sites or, in the case of the Company's MarketSelect service, on the eBay site. For community customers, transaction fees consisted of the Company's share of listing fees charged by community customers for the listing of products and

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services, enhanced listing fees charged by community customers for the prominent display of a particular seller listing and success fees charged to sellers upon a completed sale of a listing. Community customers paid transaction fees calculated in one of two ways. Generally, under contracts entered into before 2000, these fees were calculated based on a percentage of the gross proceeds from the sale of the items that were listed through the community site and sold either on the community site or on other Dynabazaar Network sites. These communities received a percentage of the gross proceeds from the sale of items that were listed directly on other sites in the Dynabazaar Network and sold through the community site. Contracts entered into starting in early 2000 generally provided for payment by the community customer of transaction fees with respect to the sale of listings that were placed on the community site that were calculated as a percentage of the transaction fee that the community site charged to its end-users; similarly, for listings that are listed directly through other sites in the Dynabazaar Network and sold through the community site, the community site received from the Company a percentage of the success fee that the listing site charged to the listing site's end-user when the listing sells. The Company recorded transaction revenue net of amounts paid to its customers as described above. Transaction fees were invoiced and recognized as revenue at the completion of the listing period.

Professional services fees primarily consisted of fees for consulting services provided by the Company related to the Company's outsourced, private-label, dynamic pricing solutions, including business applications, technical customization, integration, e-marketing, usability and other consulting services. Certain professional services fees, including technical customization and integration related to ongoing service relationships, were billed over the term of the service, recorded as deferred revenue and recognized as revenue, ratably, over the remaining term of the service contract. Fees for consulting services, which represent a separate earnings process and are unrelated to ongoing services, including business applications, e-marketing, usability and other consulting services, were generally billed and recognized as revenue in the period the service was provided.

We follow the guidance of Emerging Issues Task Force issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products ("EITF 01-09") in determining whether consideration, including equity instruments, given to a customer should be recorded as an operating expense or a reduction of revenue recognized from that same customer. Consideration given to a customer is recorded as a reduction of revenue unless both of the following conditions are met:

- o We receive an identifiable benefit in exchange for the consideration, and the identified benefit is suff