DYNACORE HOLDINGS CORP
Form 10-Q
August 08, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934 For the quarterly period ended June 30, 2001

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 1-7636

DYNACORE HOLDINGS CORPORATION

(formerly Datapoint Corporation)

(Exact name of registrant as specified in its charter)

Delaware	74-1605174
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8410 Datapoint Drive
San Antonio, Texas 78229-8500
(Address of principal executive office and zip code)

(210) 614-3484
(Registrant's telephone number, including area code)

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___.

Applicable only to registrants involved in bankruptcy proceedings during the preceding five years: Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes X No ___.

As of June 30, 2001, 10,000,000 shares of Dynacore Holdings Corporation

Common Stock were outstanding.

DYNACORE HOLDINGS CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

Dynacore Holdings Corporation and Subsidiaries

	(In thousands, except
	(unaudited) June 30, 2001
Assets	
Current assets:	
Cash and cash equivalents	$3,554
Restricted cash and cash equivalents	--
Investment in limited partnership	1,300
Accounts receivable, net	329
Prepaid expenses and other current assets	47
Total current assets	5,230
Fixed assets, net	59
Other assets, net	614
Reorganization value in excess of amounts allocable to identifiable assets	3,507
	$9,410
Liabilities and Stockholders' Equity (Deficit)	
Current liabilities:	
Accounts payable	$7
Accrued expenses	407
Total current liabilities	414
Accrued pension and post employment liabilities	2,924
Deferred federal income tax	400
Stockholders' equity:	
Common stock of $0.01 par value. Shares authorized 30,000,000; shares issued 10,000,000.	100
Paid in capital	7,400
Retained equity (deficit)	(1,828)
Total stockholders' equity	5,672
	$9,410

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Dynacore Holdings Corporation and Subsidiaries

(Unaudited)

(In thousands, excep

	Quarter Ended		
	(Successor) June 30, 2001	(Predecessor) June 30, 2000	(S Ju
Revenue:			
Sales	$--	$21,028	
Service and other	--	12,217	
Total revenue	--	33,245	
Operating costs and expenses:			
Cost of sales	--	16,268	
Cost of service and other	--	9,636	
Research and development	--	242	
Selling, general and administrative	899	7,862	
Patent Litigation Trust expenses	82	--	
Restructuring costs	110	--	
Total operating costs and expenses	1,091	34,008	
Operating loss	(1,091)	(763)	
Non-operating income (expense):			
Interest expense	--	(302)	
Equity in loss of limited partnership	(200)	--	
Other, net	154	(662)	
Reorganization items:			
Gain on sale of European Operations	--	49,164	
Income (loss) before income taxes	(1,137)	47,437	
Income tax benefit	--	(703)	
Net income (loss)	$(1,137)	$48,140	
Net income (loss), adjusted for preferred stock dividends paid or accumulated plus gain on exchange and retirement of preferred stock - Net income (loss) applicable to common	$(1,137)	$48,026	
Basic Earnings (Loss) Per Common Share:			
Net income (loss) per common share	$(.11)	$11.57	
Gain on exchange of preferred stock	--	.01	
Net income (loss) per common share	$(.11)	$11.58	
Diluted Earnings (Loss) Per Common Share:			
Net income (loss) per common share	$(.11)	$9.49	
Gain on exchange of preferred stock	--	.01	
Net income (loss) per common share	$(.11)	$9.50	
Average Common Shares Outstanding:			

Basic	10,000,000	4,147,171
Diluted	10,000,000	5,119,573

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Dynacore Holdings Corporation and Subsidiaries
(Unaudited)

(In Thous

	Six Months (Successor) June 30, 2001
Cash flows from operating activities:	
Net income (loss)	$(1,516)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	64
Amortization of reorganized value in excess of amounts allocable to identifiable assets	121
Loss in equity of investee	200
Provisions for accounts receivable	--
Deferred income taxes	--
Gain on sale of European Operations	--
Changes in assets and liabilities:	
(Increase) decrease in receivables	29
(Increase) decrease in inventory	--
Increase (decrease) in accounts payable and accrued expenses	(1,182)
Increase (decrease) in other liabilities and deferred credits	--
Other, net	10
Net cash provided by (used in) operating activities	(2,274)
Cash flows from investing activities:	
Payments for fixed assets	--
Proceeds from sale of fixed assets	24
Investment in limited partnership	(1,500)
Other, net	--
Net cash used in investing activities	(1,476)
Cash flows from financing activities:	
Proceeds from borrowings	--
Payments on borrowings	--
Restricted cash for letters of credit	--
Net cash used in financing activities	--
Cash retained by European subsidiaries	--

Effect of foreign currency translation on cash	--
Net decrease in cash and cash equivalents	(3,750)
Cash and cash equivalents at beginning of period	7,304
Cash and cash equivalents at end of period	$3,554
Cash payments for:	
Interest	$--
Income taxes, net	$--
Non-cash investing activities:	
Receivable from sale of European Operations, net of amounts held in escrow	$--

See accompanying Notes to Consolidated Financial Statements.

DYNACORE HOLDINGS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(In thousands, except per share data)
(Unaudited)

1. Basis of Presentation

In June 2000, Dynacore Holdings Corporation (the "Company") (formerly Datapoint Corporation), elected to change its fiscal year from a July year end to a calendar year end, effective January 1, 2000. The transition period was the period from August 1, 1999 to December 31, 1999. Prior to August 1, 1999, the Company utilized a 52-53 week fiscal year and references to 1999 are for the fiscal year ended July 31, 1999.

It is recommended that these statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

The accompanying unaudited consolidated financial statements have been prepared by Dynacore Holdings Corporation in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the information furnished reflects all adjustments which are necessary for a fair statement of the results of the interim periods presented. All adjustments made in the interim statements are of a normal recurring nature.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

The results for the quarter and six months ended June 30, 2001, are not necessarily indicative of the results to be expected for the full year.

2. Sale of European Operations

The Company entered into a Letter of Intent, dated January 26, 2000, with the European based CallCentric Ltd. ("CallCentric") to sell certain of its European based subsidiaries (the "European Operations"). Pursuant to an agreement dated as of April 19, 2000 (the "Sale Agreement"), on June 30, 2000, after receipt of approval from the Bankruptcy Court, as more fully described below, the Company sold (the "Sale") its European Operations to Datapoint Newco I Limited ("DNL"), a United Kingdom corporation affiliated with CallCentric, for $49.5 million in cash, less certain adjustments in the event that the aggregate shareholder's deficit of the European Operations exceeded $10 million (the "Purchase Price"). The Sale Agreement contemplated, among other things, that the Company would file for reorganization pursuant to Chapter 11 of the United States Bankruptcy Code, which was filed on May 3, 2000 and that the sale of the European Operations to DNL would be subject to higher and better offers, if any, and the approval of the United States Bankruptcy Court (the "Court"). The Court approved the sale on June 15, 2000 and the sale was consummated on June 30, 2000 (the "Closing"). Pursuant to the Sale Agreement, at Closing DNL deposited $6 million from the Purchase Price in escrow, $4 million pending resolution of various issues relating to the UK Pension Plan and $2 million pending preparation of the closing balance sheet. Upon final resolution of these issues the full $4 million escrow relating to the UK Pension Plan was released to DNL and $1.625 million of the $2 million escrow was released to the Company and $375 thousand was released to DNL. Accordingly, the final Purchase Price after such adjustments was $45.125 million.

3. Reorganization Plan

Reorganization Under Chapter 11

On May 3, 2000 (the "Petition Date"), the Company filed a petition for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court. The Chapter 11 filing was the result of a default related to the semi-annual interest payment on the Company's then outstanding 8 7/8% Convertible Subordinated Debentures (the "Debentures"), recurring operating losses and cash flow problems. The filing of a Chapter 11 petition operates as a stay of, among other actions, the commencement or continuation of a judicial administrative or other action or proceeding against a debtor that was or could have been initiated before the commencement of a Chapter 11 case or the enforcement against the debtor or against the property of the estate or a judgment obtained before the commencement of the case. Under Chapter 11, substantially all prepetition liabilities of debtors are subject to settlement under a plan of reorganization. The consummation of a plan of reorganization is dependent upon the satisfaction of numerous conditions, including, among other things, the acceptance by several classes of interests and confirmation by the Bankruptcy Court.

On December 5, 2000, the Company's Amended Plan of Reorganization (the "Plan") was approved by the Bankruptcy Court and became effective December 18, 2000 (the "Effective Date"). The accompanying consolidated financial statements were prepared in conformity with principles of accounting applicable to a going concern and reflect all adjustments relating to settlement of the claims of any class of creditors that were provided for in the Company's Plan of Reorganization.

On the Effective Date, as defined in the Plan, all of the then existing debt and equity in Dynacore was cancelled and 10 million shares of new common stock, as well as 10 million beneficial interests, representing interests in the Dynacore Patent Litigation Trust (as defined below), formed to pursue Dynacore's patent litigations, were issued.

The confirmed Plan provided for the distribution of $34.8 million in cash from the proceeds of the sale of the European Operations to Debenture holders and other unsecured creditors of Dynacore on the Effective Date. In addition, pursuant to the confirmed Plan: (i) Debenture holders and other unsecured creditors received 25% of the equity of the reorganized corporation, the ability to designate 3 out of 7 members on the Board of Directors, and 40% of a trust (the "Patent Litigation Trust"), formed to pursue the patent litigations of Dynacore, (ii) holders of Dynacore's preferred stock, par value $1.00 per share, received 23.5% of the equity of the reorganized corporation, and 3.5% of the Patent Litigation Trust, (iii) holders of the common stock, par value $.25 per share, received 41.5% of the equity of the reorganized corporation, (iv) current officer management received 10% of the equity of the reorganized corporation as part of a settlement of certain officer administrative claims that included employment contract cancellation and other contractual entitlements and (v) the remaining 56.5% interest in the Patent Litigation Trust was retained by the reorganized Dynacore.

The Plan contemplated that the beneficial interests in the Patent Litigation Trust would be transferable and tradable. In addition, pursuant to the approved Plan and as reflected in its Restated Certificate of Incorporation, Dynacore is obligated to distribute to its then stockholders, 75% of the first $100 million of net proceeds, if any, received on account of its beneficial interest in the Patent Litigation Trust after adjustment for corporate tax and payment of all patent litigation expenses. Also, as part of the Plan, Dynacore has committed to lend the Patent Litigation Trust up to $1 million to pursue Dynacore's patent litigations. For both the quarter and six months ended June 30, 2001, the amount of such loan is $82 thousand. The Patent Litigation Trust is accounted for as a consolidated subsidiary of the Company. As such, the loan amount is eliminated in consolidation and the Patent Litigation Trust expenses of $82 thousand are included in the Company's Consolidated Statements of Operations. None of the Patent Litigation Trust expenses have been allocated to the 43.5% minority interest because the minority interest has no obligation to fund cumulative losses of the Patent Litigation Trust. Future income of the Patent Litigation Trust, if any, will be allocated entirely to the Company until the loan and interest have been fully recovered.

Fresh Start Reporting

Under the provision of Statement of Position (SOP) 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," issued in November 1990 by the American Institute of Certified Public Accountants, the Company prepared a consolidated pro forma balance sheet as of the Effective Date, December 18, 2000 on the basis of "fresh start" reporting since the reorganization value, as defined, was less than the total of all post-petition liabilities and pre-petition claims, and holders of voting shares immediately before confirmation of the Plan received less than fifty percent of the voting shares of the emerging entity. Under this concept, all assets and liabilities were restated to reflect the reorganization value of the reorganized entity, which approximates its fair value at the date of reorganization. The accumulated deficit of the Company was eliminated and its capital structure was recast in conformity with the Plan. As such, the accompanying consolidated balance sheet at June 30, 2001, represents that of a successor company.

The Company estimated the fair value of the reorganized entity based upon the issuance of 10 million shares of new common stock at a value of $0.75 per share pursuant to the approved Plan While the estimated reorganization value of the Company has been primarily allocated to specific asset categories pursuant to Fresh Start Reporting, the effects of such are subject to further refinement or adjustment. Current assets have been recorded at their book value, which the Company believes approximates fair value. Equipment and other fixed assets, have been recorded at their fair value as estimated by management after considering replacement cost or potential sales value. Intellectual property has been

revalued as estimated by management after considering its remaining life. After the revaluation of the reorganized Company was completed, an intangible asset of $3,775 reflecting the reorganization value in excess of identifiable assets was established, which is being amortized on a straight-line basis over 15 years. Under the recently issued Statement of Financial Accounting No. 142 -Goodwill and Other Intangible Assets, amortization of the reorganization value in excess of identifiable assets will cease on January 1, 2002. Subsequently, the value will be subjected to periodic impairment testing and will be reduced through a charge to income or loss if there is insufficient future value to support its carrying amount. During the first quarter ended March 31, 2001, a favorable settlement of certain contested bankruptcy claims existing at the Fresh Start date resulted in a gain of $140. This gain of $140 was applied directly to the intangible asset. Therefore at June 30, 2001, the intangible asset was $3,635 less accumulated amortization of $128 resulting in a net balance of $3,507.

4. Investment in Limited Partnership

On May 1, 2001, the Company, with the approval of its Board of Directors, agreed to become a Limited Partner of a partnership (the "Partnership"), of which Asher B. Edelman & Associates, LLC ("Edelman & Associates") is the General Partner for an initial investment of $1.5 million. Edelman & Associates is an entity controlled by Asher B. Edelman, who is Dynacore's Chairman of the Board and Chief Executive Officer and of which Gerald N. Agranoff, Dynacore's Vice Chairman of the Board, Chief Operating Officer and Acting President, is a member. The primary purpose of the Partnership is to acquire by open market purchase, privately negotiated purchase or otherwise, securities of a specific publicly traded company in the natural resource industry. Edelman & Associates has expressly waived all management and incentive fees associated with the Company's investment which would ordinarily be payable by an investor in this Partnership. As of June 30, 2001, based upon the closing prices of the securities as of that date, the Partnership had approximately $3.2 million of assets and approximately $0.9 of liabilities for a net asset value of approximately $2.3 million. The Company's ownership interest in the Partnership approximated 56% and the Company's share of the Partnership's capital was approximately $1.3 million. As an investment partnership, the Partnership accounts for its investments in the publicly traded securities at fair value. Changes in the fair value of the Partnership's securities are reflected in the partnership's net income for the period. The Company carries its investment in the Partnership on the equity method. Under the equity method, the Company's allocable share of the earnings and losses of the Partnership is included in the determination of the Company's net income. The Company's approximate $200,000 share of the Partnership's loss for the quarter ended June 30, 2001 is included in non-operating income/(expense) on the statement of operations. This investment is reflected as a short term investment as the Company intends to liquidate this investment, as permitted by the Partnership agreement, prior to the end of the fourth quarter of 2001.

5. Commitments and Contingencies

From time to time, the Company is a defendant in lawsuits generally incidental to its business. The Company is not currently aware of any such suit which, if decided adversely to the Company, would result in a material liability.

6. Net Income (Loss) Applicable to Common Share

Net income (loss) applicable to common share is as follows. As a result of the new common stock which was issued on the Effective Date, all share data has been adjusted to reflect its issuance at the rate of .225177 shares of new common stock for each share of old common stock.

	Quarter Ended					
	(Successor) 06/30/01			(Predecessor) 06/30/00		
	Income	Shares	EPS	Income	Shares	EPS
Income (loss) before extraordinary credit	$(1,137)			$48,140		
Preferred stock dividends accumulated	--			(160)		
Gain on the exchange and retirement of preferred stock	--			46		
Basic EPS	$(1,137)	10,000	$(.11)	$48,026	4,147	$11.58
Dilutives:						
Convertible preferred stock				160	289	(.75
Convertible debentures				428	683	(1.33
Diluted EPS	$(1,137)	10,000	$(.11)	$48,614	5,119	$9.50

	Six Months Ended					
	(Successor) 06/30/01			(Predecessor) 06/30/00		
	Income	Shares	EPS	Income	Shares	EPS
Income (loss) before extraordinary credit	$(1,516)			$47,632		
Preferred stock dividends accumulated	--			(321)		
Gain on the exchange and retirement of preferred stock				100		
Basic EPS	$(1,516)	10,000	$(.15)	$47,411	4,142	$11.4
Dilutives:						
Convertible preferred stock				321	289	(.7
Convertible debentures				1,643	683	(1.0
Diluted EPS	$(1,516)	10,000	$(.15)	$49,375	5,114	$9.6

The EPS computations for the quarter and six months ended June 30, 2001 and 2000, respectively, exclude the following shares for stock options, because their effect would have been antidilutive:

Quarter Ended		Six Months Ended	
(Successor) 06/30/01	(Predecessor) 06/30/00	(Successor) 06/30/01	(Predecessor) 06/30/00

Stock options	750	796	750	796

7. Other Non-operating Income (Expense)

	Quarter Ended		Six Months	
	(Successor)	(Predecessor)	(Successor)	(P
(In thousands)	06/30/01	06/30/00	06/30/01	
Interest earned	$53	$--	$234	
Foreign currency gains (losses)	101	(151)	283	
Equity in loss of limited partnership	(200)	--	(200)	
Other	--	(511)	--	
	$(46)	$(662)	$317	

8. Operating Segments

In fiscal 1999, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires the reporting of certain financial information by operating segment and geographical area. Prior to the Petition Date, Dynacore was principally engaged in the development, acquisition, marketing, servicing, and system integration of computer and communication products - both hardware and software. These products and services were for integrated computer, telecommunication and video conferencing network systems. The Company's then Chief Operating Decision Maker (CODM) assessed performance and allocated resources based on a geographic reporting structure. Substantially all of the Company's operations consisted of ten European subsidiaries and to a lesser extent domestic operations. Reportable operating segments under SFAS No. 131 included the Company's subsidiaries residing in Sweden, the United Kingdom, France, and Belgium. Each of these subsidiaries functioned as value-added resellers of networking and telephony products.

Following the sale of the Company's European Operations, there are no longer any reportable separate segments.

9. Acquisitions

Consistent with the determination of its Board of Directors to shift the focus of the Company towards acquiring, developing and marketing products with internet and e-commerce applications, on July 27, 1999, the Company, through its then newly formed subsidiary, Corebyte Inc., conditionally acquired (the "Corebyte Acquisition") the Corebyte communication and networking software product family (the "Corebyte Products"). The acquisition was accomplished pursuant to an Asset Purchase Agreement, by and among the Company, SF Digital, LLC and John Engstrom ("Engstrom"), dated July 27, 1999. Given the lack of a significant revenue stream resulting from longer than anticipated software developmental and marketing efforts and the availability of similar Internet applications in the marketplace, in January 2001, the Company began a thorough evaluation of the Corebyte operations, prospects, and strategic options. Pending the outcome of this evaluation, which will include the exploration and discussions with various parties for alternative uses and markets for the Corebyte developed source code and underlying technologies, if any, the Company has significantly restructured and curtailed Corebyte's day-to-day operations, to include the elimination of its Web hosting services to third parties.

The Company's results of operations for the quarter and six month period ended June 30, 2001 includes revenue of approximately $0 and $9, respectively and expenses of approximately $21 and $199, respectively (including approximately $90 of severance paid during the quarter ended March 31, 2001) related to the Corebyte operations.

10. Accounts Receivable

The Company has a receivable from Vugate, Inc. ("Vugate") the buyer of its videoconferencing business (MINX). This receivable consists of a note with a $375 face value that is payable out of certain Vugate cash flows. This note is carried on the balance sheet at $284, which represents the present value of the estimated payments at a discount rate of 12.5% per annum. The remaining $21 receivable from Vugate represents rental and related charges to Vugate as a sub-tenant of the Company's San Antonio facility. An additional $24 is receivable from other parties.

11. Accrued Expenses

	June 30, 2001	Dec. 31, 2000
Salaries, commissions, bonuses and other benefits	$30	$370
Accrued professional fees-bankruptcy & sale of European Operations	19	680
Other	358	566
	$407	$1,616

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
(For the Quarter and Six Months Ended June 30, 2001 and 2000)

Overview

The operations of Dynacore for the quarter and six month period ended June 30, 2001 (referred to as the "Successor Company"), and all prior periods presented (referred to as the "Predecessor Company") in this report were significantly affected by the sale of the Company's European Operations on June 30, 2000 and the cessation of virtually all of the production operations of the Company. In addition, the financial data for the quarter and six-month period ended June 30, 2001 reflects the adoption of Fresh Start Accounting on December 18, 2000, the Effective Date of the approved Plan.

The Fresh Start basis of accounting is in accordance with the Statement of Position (SOP) 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," issued in November 1990 by the Institute of Certified Public Accountants. Under this accounting treatment, all assets and liabilities were restated to reflect the reorganization value of the reorganized entity, which approximates its fair value at the date of reorganization. In addition, the accumulated deficit of the Company was eliminated and its capital structure was recast in conformity with the Plan. Accordingly, the accompanying financial data for the quarter and six-month period ended June 30, 2001 represents that of a successor company and as such, is not comparable to prior periods.

Since the confirmation of the Company's Amended Plan of Reorganization (the "Plan"), the Company has been actively pursuing an acquisition of assets, property or business that may be beneficial to it and its stockholders. In considering whether to complete any such acquisition, the Board of Directors shall make the final determination, and the approval of stockholders will not be sought unless required by applicable law, the Company's Restated Certificate of Incorporation, Bylaws or contract. The Company can give no assurance that any such endeavor will be successful or profitable.

The Company does not intend to restrict its search to any particular business or industry, and the areas in which it will seek out acquisitions, reorganizations or mergers may include, but will not be limited to, the fields of high technology, manufacturing, natural resources, service, research and development, communications, transportation, insurance, brokerage, finance and all medically related fields, among others. The Company recognizes that because of its lack of significant resources, the number of suitable potential business ventures which may be available to it will be extremely limited, and may be restricted to entities who desire to avoid what these entities may deem to be the adverse factors related to an initial public offering. The most prevalent of these factors include substantial time requirements, legal and accounting costs, the inability to obtain an underwriter who is willing to publicly offer and sell shares, the lack of or the inability to obtain the required financial statements for such an undertaking, limitations on the amount of dilution public investors will suffer to the benefit of the stockholders of any such entities, along with other conditions or requirements imposed by various federal and state securities laws, rules and regulations.

Management intends to consider a number of factors prior to making any decision as to whether to participate in any specific business endeavor, none of which may be determinative or provide any assurance of success. These may include, but will not be limited to an analysis of the quality of the entity's management personnel; the anticipated acceptability of any new products or marketing concepts; the merit of technological changes; its present financial condition, projected growth potential and available technical, financial and managerial resources; its working capital, history of operations and future prospects; the nature of its present and expected competition; the quality and experience of its management services and the depth of its management; its potential for further research, development or exploration; risk factors specifically related to its business operations; its potential for growth, expansion and profit; the perceived public recognition or acceptance of its products, services, trademarks and name identification; and numerous other factors which are difficult, if not impossible, to properly analyze without referring to any objective criteria.

Regardless, the results of operations of any specific entity may not necessarily be indicative of what may occur in the future, by reason of changing market strategies, plant or product expansion, changes in product emphasis, future management personnel and changes in innumerable other factors. Further, in the case of a new business venture or one that is in a research and development mode, the risks will be substantial, and there will be no objective criteria to examine the effectiveness or the abilities of its management or its business objectives. Also, a firm market for its products or services may yet need to be established, and with no past track record, the profitability of any such entity will be unproven and cannot be predicted with any certainty.

Management will attempt to meet personally with management and key personnel of the entity sponsoring any business opportunity afforded to the Company, visit and inspect material facilities, obtain independent analysis or verification of information provided and gathered, check references of management and key personnel and conduct other reasonably prudent measures calculated to ensure a reasonably thorough review of any particular business opportunity.

The Company is unable to predict the time as to when and if it may actually participate in any specific business endeavor. The Company anticipates that proposed business ventures will be made available to it through personal contacts of directors, executive officers and principal stockholders, professional advisors, broker dealers in securities, venture capital personnel, members of the financial community and others who may present unsolicited proposals. In certain cases, the Company may agree to pay a finder's fee or to otherwise compensate the persons who submit a potential business endeavor in which the Company eventually participates.

Although the Company has not entered into any proposals, arrangements or understandings with the owners of any business or company regarding the possibility of an acquisition by or merger transaction with the Company, the Company has received expressions of interest regarding such a possibility from several businesses. After preliminary due diligence was conducted in this regard, formal presentations from two of these businesses were made to the Company's Board of Directors. Upon careful consideration, the Company's Board of Directors concluded that neither opportunity was in the best interests of the Company and its shareholders, and therefore terminated any further discussions with these businesses. The Company's executive management also reviewed a third business opportunity. However, after the completion of preliminary due diligence, both parties could not agree upon a proposal to enter into serious negotiations. The Company is however, actively pursuing additional opportunities for an acquisition or merger transaction.

Since the sale of its European Operations, substantially all of the principal assets of the Company are currently the cash proceeds from the sale of the European Operations which are being held in a money market mutual fund and a limited Partnership (as more fully described below) pending future redeployment in an operating business other than an investment company. Pursuant to the Investment Company Act of 1940, as amended (the "40 Act"), a company that owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of government securities and cash items) is subject to registration and regulation as an investment company unless it qualifies for a statutory or regulatory exclusion or exemption from investment company status. Furthermore, a company that is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities is subject to registration and regulation as an investment company.

Since the sale of its European Operations, the Company has been relying on a temporary one-year exclusion from investment company status under the 40 Act, since as indicated above the Company's intent, as soon as reasonably possible, is to engage in a business other than that of investing, reinvesting, owning, holding or trading in securities. The Company believes that following the temporary one-year exclusion, based on its current asset mix, and its current activities it will not be treated as an investment company. However, if the Company is unsuccessful in completing its initiatives, the Company believes there is a future risk of becoming subject to regulation and registration as an investment company. The Company does not believe that it is feasible for the Company to register as an investment company because the 40 Act rules are inconsistent with the Company's strategy of acquiring, and actively managing an operating business. In addition, if the Company were required to register as an investment company, then it would incur substantial additional expense as a result of the 40 Act's record keeping, reporting, voting, proxy disclosure and other requirements. After the end of the one-year grace period if the Company does not qualify for any other exclusion or exemption afforded by the 40 Act, it may be required either to register as an investment company or take significant business actions that are contrary to its business objectives in order to avoid being required to register as an investment company. For example, the Company might be compelled to acquire additional assets that it might not otherwise have acquired, be forced to forgo opportunities to acquire interests in companies or other assets or be forced to sell or refrain from selling such interests or assets. In addition, the Company might need to sell certain assets which are considered to be investment securities.

In order to be certain of its status under the 40 Act, the Company may apply to the Securities and Exchange Commission for an order finding that it is primarily engaged in a business other than investing in securities. The Company can give no assurance that such an order, if applied for, will be granted.

Dynacore believes that it had approximately $137 million of net operating loss ("NOL") carryovers (after all reductions in such NOLs required by Section 108 of the Internal Revenue Code of 1986, as amended (the "Code")) and approximately $35 million of capital loss carryovers prior to the consummation of its Plan. Section 382 of the Code limits the full annual utilization of NOL carryovers of a "loss corporation" that has undergone an Ownership Change (as defined below). Dynacore believes that had it not qualified for the 382 Bankruptcy Exception described below its use of its NOL and capital loss carryovers would have been subject to Section 382 limitations following its reorganization under the Plan.

Generally, a "loss corporation" undergoes an ownership change (an "Ownership Change") as defined by Section 382 of the Code if immediately after any "owner shift involving a 5-percent shareholder" (in general, any change in the respective ownership of stock of a corporation affecting the percentage of stock of such corporation owned by any person who is a "5-percent shareholder" before or after such change) or any "equity structure shift" (in general, except for certain reorganizations, any tax-free reorganization under Section 368 of the Code and, to the extent provided in Treasury regulations, taxable reorganization-type transactions, public offerings and similar transactions): (A) the percentage of the stock of the loss corporation owned by one or more 5-percent shareholders has increased by more than 50 percentage points over (B) the lowest percentage of stock of the loss corporation (or any predecessor corporation) owned by such shareholders at any time during the "testing period" (in general, the 3-year period ending on the day of any owner shift involving a 5-percent shareholder or equity structure shift).

A "loss corporation", for purposes of Section 382 of the Code, is a corporation, like Dynacore, that either is entitled to use an NOL carryover or has an NOL for the taxable year in which an Ownership Change occurs and, except as provided in Treasury regulations, any corporation with a net unrealized built-in loss. A "5-percent shareholder" means any person holding 5 percent or more (by value) of the stock of a loss corporation at any time during the testing period. In general, in determining whether an Ownership Change has occurred, all stock owned by shareholders of a loss corporation who are not 5-percent shareholders is treated as stock owned by a single 5-percent shareholder (referred to as the "public group"), regardless of whether such stock comprises an aggregate of 5 percent of the loss corporation's stock.

Notwithstanding the foregoing, the normal Code Section 382 rules generally do not apply to any Ownership Change if (i) the loss corporation is (immediately before such Ownership Change) under the jurisdiction of the court in a bankruptcy under Title 11 of the United States Code or similar case ("Title 11 Case"), and (ii) the shareholders and creditors of the loss corporation (determined immediately before such Ownership Change) own (after such Ownership Change and as a result of being shareholders or creditors immediately before such change) stock of such corporation possessing at least 50 percent of the total voting power of the stock of such loss corporation and has a value equal to at least 50 percent of the total value of the stock of such loss corporation (the "382 Bankruptcy Exception"). Dynacore believes that the circumstances surrounding its reorganization in accordance with the terms of the Plan were such that it qualified for the 382 Bankruptcy Exception. In addition, subject to certain "built-in-loss" rules that should have no appreciable effect on Dynacore and, under certain circumstances, certain possible limitations set forth in the consolidated return regulations, Dynacore does not expect to be subject to any limitations on the use of its NOL carryovers under any other provisions of the Code other than Section 382. Moreover, the Section 382 continuity of business enterprise requirement normally applicable to loss corporations that have experienced an Ownership Change should not apply to Dynacore since loss corporations that qualify and elect to rely on the 382 Bankruptcy Exception are exempted from such requirement.

However, due to its reliance on the 382 Bankruptcy Exception, Dynacore was required to reduce its NOL carryovers by the amount of interest paid or accrued during the preceding three year period on its Debentures that was converted into the equity of the reorganized corporation pursuant to the Plan. Taking both the reduction for such disallowed interest and all other reductions in its NOLs required by Section 108 of the Code (relating to cancellation of indebtedness income), Dynacore believes that its NOL carryovers were approximately $137 million following the consummation of the Plan.

In addition, if a loss corporation has taken advantage of the 382 Bankruptcy Exception to one Ownership Change and subsequently experiences a second Ownership Change within 2 years following the first Ownership Change, it must reduce its NOL carryovers to zero for all tax periods ending after the date of the second Ownership Change. The testing period for the second Ownership Change, however, begins on the first day following the earlier Ownership Change to which the 382 Bankruptcy Exception applied (rather than beginning on any prior date, as would otherwise be the case under the three-year rule), meaning, in effect, that the percentage ownership of Dynacore by 5-percent shareholders would have to increase within two years by more than 50 percentage points over their ownership as determined on the date of the Ownership Change in Dynacore subject to the 382 Bankruptcy Exception. For periods following such latter date, Dynacore will again be subject to the general Section 382 rules applicable to changes of more than 50 percent in stock ownership by its 5-percent shareholders within a rolling 3-year period as described above.

As part of the Plan the Company restated its Certificate of Incorporation and in order to maintain its NOL and capital loss carryovers the Restated Certificate of Incorporation includes certain provisions which impose restrictions designed to prevent Ownership Changes from occurring. These provisions, as well as structuring considerations, may interfere with the Company's ability to acquire a business since use of the Company's stock as consideration in any acquisition transaction may be limited if the Company desires to retain its NOL and capital loss carryovers.

Patents and Trademarks

Dynacore owns certain patents, copyrights, trademarks and trade secrets in network technologies, which it considers valuable proprietary assets.

Multi-speed Networking Patents

During the quarter ended June 30, 2001, the Company and the Dynacore Patent Litigation Trust filed suit in the Southern District of New York against U.S. Philips Corporation, STMicroelectronics, Inc., Compaq Computer Corporation, Hewlett-Packard Corporation, Epson America, Inc., Fujitsu America, Inc., Matsushita Electric Corporation of America, Texas Instruments Incorporated, Eastman Kodak Company, Dell Computer Corporation, Dell Marketing Corporation, Gateway, Inc., Motorola, Inc., Apple Computer, Inc., and NEC Computers, Inc. for patent infringement regarding United States Patent No. 5,077,732. This patent incorporates into a single network multiple different operational capabilities and a method of communicating information between at least three devices. The suit alleges that The Institute of Electrical and Electronic Engineers ("IEEE") standard for the computer and electronics industry known as 1394 utilizes technology that falls within the scope of the subject matter of the `732 Patent.

Any recovery by way of judgment or settlement will be received, net of expenses, by the Dynacore Patent Litigation Trust. Dynacore Holdings Corporation holds 56.5% of the Dynacore Patent Litigation Trust interests. The balance of the interests were distributed to former unsecured creditors and preferred shareholders of the Company when it emerged from bankruptcy proceedings in December 2000.

As the owner of United States Patent Nos. 5,008,879 and 5,077,732 related to network technology, the Company believes these patents cover most products introduced by various suppliers to the networking industry and dominates certain types of dual-speed technology on networking recently introduced by various industry leaders. Dynacore has asserted one or both of these patents in the United States District Court for the Eastern District of New York against a number of parties:

(1) Datapoint Corporation* v. Standard Micro-Systems, Inc. and Intel Corporation, No. C.V.-96-1685;

(2) Datapoint Corporation* v. Cisco Systems, Plaintree Systems Corp., Accton Technologies Corp., Cabletron Systems, Inc., Bay Networks, Inc., Crosscom Corp. and Assante Technologies, Inc. No. CV 96 4534;

(3) Datapoint Corporation* v. Dayna Communications, Inc., Sun Microsystems, Inc., Adaptec, Inc. International Business Machines Corp., Lantronix, SVEC America Computer Corporation, and Nbase Communications, No. CV 96 6334; and

(4) Datapoint Corporation* v. Standard Microsystems Corp. and Intel Corp., No. CV-96-03819.

* The Company expects to make a motion with the Court to reflect the name change to Dynacore Holdings Corporation.

These actions were consolidated for discovery, and for purposes of claim construction. On January 20, 1998, a hearing commenced in the United States District Court that concluded on January 23, 1998 during which claim construction was submitted to a Special Master. The Special Master's report was issued April of 1998 adverse to Dynacore. The Company had filed two sets of objections to certain portions of this report. The objections were overruled. These objections will now have to be resolved at the Appellate Court level. The briefing is completed. Both patents have been submitted to the Patent Office for re-examination. A certificate for one of the patents has been issued upon re-examination. The other patent, after appeal in re-examination, has been allowed, but has not yet been certified. The appeal has been stayed pending the complete outcome of the re-examination proceedings.

The above actions represent the trust property which the Company transferred and assigned to the Patent Litigation Trust pursuant to the certain Patent Litigation Trust Agreement, by and among the Company and the Patent Litigation Trust trustees. As previously mentioned, the Company has retained a 56.5% interest in the Patent Litigation Trust.

Results of Operations

On June 30, 2000, the Company sold its European Operations, which constituted substantially all of the Company's operations. As such, the results of operations for the quarter and six-month period ended June 30, 2000 included the performance of these operations and therefore are not comparable to the quarter and six-month period ended June 30, 2001.

The following is a summary of the Company's sources of revenue (prior to the consummation of the Sale, approximately 99 percent of Dynacore's international revenue was derived from customers in Western Europe):

	Quarter Ended		Six Months Ended	
(In thousands)	(Successor) 06/30/01	(Predecessor) 06/30/00	(Successor) 06/30/01	(Predecessor) 06/30/00
Sales:				
U.S.	$--	$54	$--	$83
Foreign	--	20,974	--	37,716
	--	21,028	--	37,799
Service and other:				
U.S.	--	134	9	$344
Foreign	--	12,083	--	24,782
	--	12,217	9	25,126
Total revenue	$--	$33,245	$9	$62,925

For the quarter and six-month period ended June 30, 2001, the Company reported a net loss of $1,137 and $1,516, respectively. For the same periods, the Company reported an operating loss of $1,091 and $1,833, respectively, which included approximately $110, and $210, respectively of severance expenses related to the termination of seven employees of the Company's Corebyte subsidiary and one employee of the Company during the quarter ended March 31,2001 and four employees of the Company during the quarter ended June 30, 2001.

Non operating income/(loss) for the quarter and six month period ended June 30, 2001, was approximately $(46) and $317, respectively, and consisted of interest income of $53 and $234, respectively, and a foreign currency transaction gain of $101 and $283, respectively, primarily related to the liability for the pension benefits and other post employment obligations for all employees of the Company's German subsidiary who did not transfer to DNL at the time of the Sale. Also included was a loss of $200, for the quarter and six months ended June 30, 2001, representing the equity in loss of a limited partnership.

For the quarter and six month period ended June 30, 2000, the Company reported operating losses of $763 and $1.5 million, respectively and net income of $48.1 million and $47.6 million, respectively. Substantially all of the Company's revenue of $33.2 million and $62.9 million, respectively, recorded for the quarter and six-month period ended June 30, 2000, related to the Company's European Operations.

Financial Condition

During the first six months of 2001, the Company's cash and cash equivalents decreased approximately $3.8 million. Primarily, this decrease was the result of the payment of the Company's current operating expenses for the first six months of 2001, the $1.5 million investment described below and payment during the first six months of 2001 of certain liabilities related to the finalization of the Company's "Plan".

On May 1, 2001, the Company, with the approval of its Board of Directors, agreed to become a Limited Partner of a partnership (the "Partnership"), of which Asher B. Edelman & Associates, LLC ("Edelman & Associates") is the General Partner for an initial investment of $1.5 million. Edelman & Associates is an entity controlled by Asher B. Edelman, who is Dynacore's Chairman of the Board and Chief Executive Officer and of which Gerald N. Agranoff, Dynacore's Vice Chairman of the Board, Chief Operating Officer and Acting President, is a member. The primary purpose of the Partnership is to acquire by open market purchase, privately negotiated purchase or otherwise, securities of a specific publicly traded company in the natural resource industry. Edelman & Associates has expressly waived all management and incentive fees associated with the Company's investment which would ordinarily be payable by an investor in this Partnership. As of June 30, 2001, based upon the closing prices of the securities as of that date, the Partnership had approximately $3.2 million of assets and approximately $0.9 of liabilities for a net asset value of approximately $2.3 million. The Company's ownership interest in the Partnership approximated 56% and the Company's share of the Partnership's capital was approximately $1.3 million. As an investment partnership, the Partnership accounts for its investments in the publicly traded securities at fair value. Changes in the fair value of the Partnership's securities are reflected in the partnership's net income for the period. The Company carries its investment in the Partnership on the equity method. Under the equity method, the Company's allocable share of the earnings and losses of the Partnership is included in the determination of the Company's net income. The Company's approximate $200,000 share of the Partnership's loss for the quarter ended June 30, 2001 is included in non-operating income/(expense) on the statement of operations. This investment is reflected as a short term investment as the Company intends to liquidate this investment, as permitted by the Partnership agreement, prior to the end of the fourth quarter of 2001.

As of June 30, 2001, the Company had cash and cash equivalents of approximately $3.6 million, which the Company believes is sufficient to meet its cash requirements for 2001.

Restructuring Costs
(In thousands)

During the quarter and six months ended June 30, 2001, the Company incurred restructuring costs for employee termination costs of $110 and $210, respectively. These costs related primarily to the termination of seven employees of the Company's Corebyte subsidiary and one employee of the Company during the quarter ended March 31, 2001 and four employees of the Company during the quarter ended June 30, 2001. Of such four former employees, three still provide services on an as needed basis to the Company. At June 30, 2001, accrued but unpaid restructuring costs were approximately $28. Such costs are expected to be paid during the third quarter of 2001. During the quarter and six months ended June 30, 2000, the Company did not incur any restructuring costs.

Restructuring charges are not recorded until specific employees are determined (and notified of termination) by management in accordance with its overall restructuring plan.

Cautionary Statement Regarding Risks and Uncertainties That May Affect Future Results

This Quarterly Report on Form 10-Q contains forward-looking statements about the business, financial condition and prospects of the Company. The actual results of the Company could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties, including, without limitation, actions which may be taken by trade creditors of the Company or holders of the Company's Debentures, changes in product demand, the availability of products, changes in competition, economic conditions, new product development, changes in tax and other governmental rules and regulations applicable to the Company, and other risks indicated in the Company's filings with the Securities and Exchange Commission. These risks and uncertainties are beyond the ability of the Company to control, and in many cases, the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words "believes," "estimates," "plans," "expects," and "anticipates" and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information concerning market risk is contained on page 16 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000 and is incorporated by reference to such annual report.

On May 1, 2001, the Company, with the approval of its Board of Directors, agreed to become a Limited Partner of a partnership (the "Partnership"), of which Asher B. Edelman & Associates, LLC ("Edelman & Associates") is the General Partner for an initial investment of $1.5 million. Edelman & Associates is an entity controlled by Asher B. Edelman, who is Dynacore's Chairman of the Board and Chief Executive Officer and of which Gerald N. Agranoff, Dynacore's Vice Chairman of the Board, Chief Operating Officer and Acting President, is a member. The primary purpose of the Partnership is to acquire by open market purchase, privately negotiated purchase or otherwise, securities of a specific publicly traded company in the natural resource industry. Edelman & Associates has expressly waived all management and incentive fees associated with the Company's investment which would ordinarily be payable by an investor in this Partnership. As of June 30, 2001, based upon the closing prices of the securities as of that date, the Partnership had approximately $3.2 million of assets and approximately $0.9 of liabilities for a net asset value of approximately $2.3 million. The Company's ownership interest in the Partnership approximated 56% and the Company's share of the Partnership's capital was approximately $1.3 million. As an investment partnership, the Partnership accounts for its investments in the publicly traded securities at fair value. Changes in the fair value of the Partnership's securities are reflected in the partnership's net income for the period. The Company carries its investment in the Partnership on the equity method. Under the equity method, the Company's allocable share of the earnings and losses of the Partnership is included in the determination of the Company's net income. The Company's approximate $200,000 share of the Partnership's loss for the quarter ended June 30, 2001 is included in non-operating income/(expense) on the statement of operations. This investment is reflected as a short term investment as the Company intends to liquidate this investment, as permitted by the Partnership agreement, prior to the end of the fourth quarter of 2001.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Item 3 of Registrant's Report on Form 10-K for the fiscal year ended December 31, 2000, for a description of certain legal proceedings heretofore reported.

The Company is a Plaintiff in a number of actions related to its patents and trademarks, which are more fully described in the Management's Discussion and Analysis overview section of this Form 10Q.

Item 6. Exhibits and Reports on Form 8-K

There were no reports on Form 8-K that were filed during the quarter ended June 30, 2001.

SIGNATURE

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

DYNACORE HOLDINGS CORPORATION
(Registrant)

DATE: August 8, 2001

/s/ Phillip P. Krumb

Phillip P. Krumb
Chief Financial Officer
(Chief Accounting Officer)