

ABLEAUCTIONS COM INC
Form 10-Q
August 08, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2006

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 0-28179

ABLEAUCTIONS.COM, INC

(Exact name of registrant as specified in its charter)

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Florida
(State or other jurisdiction of
Incorporation or organization)

59-3404233
(I.R.S. Employer Identification No.)

1963 Lougheed Highway
Coquitlam, British Columbia
V3K-3T8

(Address of principal executive offices)

(604) 521-3369

(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

No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of outstanding common shares, \$.001 par value, of the registrant at August 1, 2006 was 62,406,834

Transitional Small Business Disclosure Format (Check one):

Yes []

No [X]

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained herein constitutes forward-looking statements, including without limitation statements relating to goals, plans and projections regarding the Company's financial position and the Company's business strategy. The words or phrases "would be," "will allow," "intends to," "may result," "are expected to," "will continue," "expects," "estimate," "project," "indicate," "could," "potentially," "should," "believe," "considers" or similar expressions identify forward-looking statements, as well as all projections of future results of operations or earnings. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or achievements of the Company to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: risks related to technological change; the Company's dependence on key personnel; the Company's dependence on marketing relationships with auction houses, third party suppliers and strategic partners such as eBay; the Company's ability to protect its intellectual property rights; government regulation of Internet commerce and the auction industry; dependence on continued growth in use of the Internet; risks of technological change; capacity and systems disruptions; uncertainty regarding infringing intellectual property rights of others and the other risks and uncertainties described in this report.

Other risks are discussed in our Annual Report on Form 10-KSB which we filed with the Securities and Exchange Commission on March 31, 2006.

We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this filing. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events that may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this report. Please read carefully the risk factors disclosed in this report, in our Annual Report on Form 10-KSB and in other filings we make with the Securities and Exchange Commission.

Overview

Management's discussion and analysis of results of operations and financial condition are based upon our financial statements. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require management to make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following discussion of our results of operations should be read in conjunction with our audited consolidated financial statements and the related notes for the year ended December 31, 2005 contained in our Annual Report on Form 10K-SB filed with the Securities and Exchange Commission on March 31, 2006.

Below, we refer to several websites. The content included in these websites is not a part of this report.

Overview

We provide liquidation and merchandizing services to businesses to assist them with managing the sale of their products. Through our subsidiary, Unlimited Closeouts, Inc., we provide liquidation services to businesses with overstock. Through our subsidiary iCollector.com Technologies Ltd., we provide auction broadcast technology and facilitator services that allow businesses to take advantage of the on-line auction marketplace. Through our subsidiary, Rapidfusion Technologies, Inc., we develop and sell point-of-sale software. We manage our cash investments through Ableauctions.com, Inc. and, during 2005 we expanded our business through our subsidiary, Stanford Development Corporation. Stanford Development Corporation manages our real property and lending investments.

Liquidation and Merchandizing Services

Liquidation Services - We sell merchandise through our Unlimited Closeouts and Ableauctions liquidation stores located in California and British Columbia and

through auctions we conduct in the United States and Canada. We also generate revenues by providing inventory brokerage services at unlimitedcloseouts.com and unlimitedcloseouts.ca (www.unlimitedcloseouts.com).

Auction Broadcast Services We broadcast business and industrial auctions over the Internet for auctioneers and members of the National Auctioneers Association (NAA). These auctions are facilitated using our proprietary technology (www.ableauctions.com/technology) through the website NAAonlinesolutions.com (www.NAAonlinesolutions.com). Additionally, we broadcast antique and collectible auctions over the Internet for numerous galleries and auction houses throughout the world. These auctions are facilitated using eBay's live auction technology through the iCollector.com website (www.iCollector.com). We also provide auction-related products and services for a fee (www.icollectorlive.com/services.aspx).

Point-of-Sale (POS) Services - Through our subsidiary, Rapidfusion Technologies, Inc. (www.rapidfusion.com/technology), we sell to retailers, install and support our proprietary point-of-sale (POS) sales

processing and reporting system.

Our objective is to become a leading provider of liquidation and merchandising services. We believe that our long term success in this area of our business depends on our continued innovation and integration of technologies and services for auctioneers and liquidators worldwide.

While we have maintained overall profitability over the last three fiscal years, not all of our operations achieve positive operating results. We still incur losses from certain operations, such as the auctions we conduct for NAA, that are in the development stage.

We are able to maintain positive cash flow from the revenues that are produced by our remaining operations and from the interest and dividends earned by our investments.

Investment and Lending

On December 31, 2005 two of our wholly-owned subsidiaries, iTrustee.com Technologies Ltd. and Able Auctions (1991) Ltd., were amalgamated to create Stanford Development Corporation. Stanford Development Corporation develops real estate and makes short term loans. Ableauctions.com Inc. manages the investment of our cash and securities. The return on these investments has helped support the development of our liquidation and auction businesses.

Results of Operations

Three months ended June 30, 2006 compared to the corresponding period in 2005.

Revenues. During the three months ended June 30, 2006, we had revenues of \$ 1,802,774 compared to revenues of \$613,849 during the same period in 2005, an increase of \$1,188,925 or 194%. Cost of sales were 64% of our revenues during the three-month period ended June 30, 2006, compared to 54 % during the same period in 2005.

The increase in revenues is primarily attributable to an increase in revenues earned from our liquidation services. We expect that revenues earned in the future from our liquidation services will fluctuate widely based upon seasonality, the inventory available, the timing of orders, and our ability to verify and ship orders on a timely basis.

The increase in the cost of sales as a percentage of revenue is attributable to the lower gross profit margins realized from the operations of our liquidation services, as compared to our online auction business.

Operating Expenses. During the three-months ended June 30, 2006, operating expenses were \$721,966 or approximately 40% of revenue compared to \$345,513 or approximately 56% of revenue for the three months ended June 30, 2005. The increases in operating expenses are primarily due to increases in personnel (commissions, salaries and benefits, management fees) and professional (accounting and legal) expenses.

Personnel expenses were \$490,049 or 68% of our operating expenses during the three-months ended June 30, 2006 as compared to \$212,119 or 61% of our operating expenses during the three-months ended June 30, 2005. These expenses consisted of salaries and benefits of \$211,448 (compared to \$165,560 for the three months ended June 30, 2005), management fees of \$39,027 (compared to \$19,500 for the three months ended June 30, 2005), and commissions of \$239,574 (compared to \$27,059 for the three months ended June 30, 2005). We anticipate that these personnel expenses will remain higher for the remainder of the 2006 fiscal year.

Professional fees, which are made up primarily of accounting fees and legal fees, totalled \$62,070 during the three-months ended June 30, 2006 as compared to \$(2,862) for the three-months ended June 30, 2005. The professional fees related to preparation of our Securities Exchange Act reports, the preparation of our American Stock Exchange filings and the audit of our financial statements. We expect that professional fees will increase during the remainder of the 2006 fiscal year if we make an acquisition or undertake any substantial transactions.

During the three-months ended June 30, 2006, advertising and promotion expenses were \$32,357 or 4% of our operating expenses as compared to \$27,607 or 8% of our operating expenses for the three-months ended June 30, 2005. We anticipate that advertising and promotion expenses will increase marginally for the remainder of the 2006 fiscal year as we participate in joint marketing programs and trade shows with eBay Live Auctions and the National Auctioneers Association, and increase our investor-relations expenditures.

General overhead expenses (rent, utilities and property taxes, telephone, travel, repairs and maintenance, auto, insurance and office and administration expenses) totalled \$109,934 or 15% of total operating expenses during the three months ended June 30, 2006 (compared to \$85,508 or 25% of total operating expenses for the three months ended June 30, 2005). General overhead expenses were 6% of our total revenue compared to 14% of our revenue for the three months ended June 30, 2005. Expenses for rent, utilities and property taxes totalled \$21,570, telephone expenses totalled \$20,513, travel expenses totalled \$24,899, repairs and maintenance expenses totalled \$8,190, auto expenses totalled \$2,904, insurance expenses totalled \$6,103 and office and administration expenses totalled \$25,755.

We anticipate that overhead as a percentage of operating expenses and total revenue will decrease in future periods as we achieve certain economies from our operations.

Depreciation and amortization expense was \$46,279 for the three-months ended June 30, 2006 as compared to \$34,069 for the three-months ended June 30, 2005. Depreciation and amortization expense was higher during the three months ended June 30, 2006 due to amortization of intangible assets, property and equipment.

Gross Profit. Cost of goods sold was \$1,159,441 for the three-months ended June 30, 2006 as compared to \$332,461 for the three-months ended June 30, 2005. Gross profit was \$643,333 (or 36% of revenues) for the three-months ended June 30, 2006 as compared to \$281,388 (or 46% of revenues) for the three months ended June 30, 2005. The decrease in gross profit as a percentage of revenue is attributable to the performance of our liquidation services, which realizes lower gross profit margins than our online auction business. Future gross profit margins may vary considerably from quarter-to-quarter depending on the performance of our various divisions.

Operating Net Gain (Loss). For the three months ended June 30, 2006, we realized a loss of \$124,912 from operations before other items compared to a loss of \$ 98,194 for the three months ended June 30, 2005. We recorded additional income of \$164,257 from investment income and income of \$425 from foreign exchange gain for the three months ended June 30, 2006 compared to \$145,995 for the three months ended June 30, 2005. We recorded net income for the three months ended June 30, 2006 of \$39,770, or \$0.001 per share, as compared to \$47,801, or \$0.001 per share, for the three months ended June 30, 2005.

Six months ended June 30, 2006 compared to the corresponding period in 2005.

Revenues. During the six months ended June 30, 2006, we had revenues of \$3,841,926 compared to revenues of \$1,763,593 during the same period in 2005, an increase of \$2,078,333 or 118%. Cost of sales were 65% of our revenues during the six-months ended June 30, 2006, compared to 69 % during the same period in 2005.

The increase in revenues is primarily attributable to an increase in revenues earned from our liquidation services. We expect that revenues earned in the future from our liquidation services will fluctuate widely based upon seasonality, the inventory available, the timing of orders, and our ability to verify and ship orders on a timely basis.

Operating Expenses. During the six-months ended June 30, 2006, operating expenses were \$1,411,035 or approximately 37% of revenue compared to \$638,623 or approximately 36% of revenue for the six months ended June 30, 2005. The increases in operating expenses are primarily due to increases in personnel (commissions, salaries and benefits, management fees) and professional (accounting and legal) expenses. Operating expenses as a percentage of revenue were consistent with the corresponding period in the previous year.

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Personnel expenses were \$1,000,230 or 71% of our operating expenses during the six-months ended June 30, 2006 as compared to \$369,915 or 58% of our operating expenses during the six-months ended June 30, 2005. These expenses consisted of salaries and benefits of \$365,905 (compared to \$288,194 for the six months ended June 30, 2005), management fees of \$78,000 (compared to \$37,810 for the six months ended June 30, 2005), and commissions of \$556,325 (compared to \$43,911 for the six months ended June 30, 2005). We anticipate that these personnel expenses will remain higher for the remainder of the 2006 fiscal year.

Professional fees, which are made up primarily of accounting fees and legal fees, totalled \$132,977 during the six-months ended June 30, 2006 as compared to \$29,687 for the six-months ended June 30, 2005. The professional fees related to preparation of our Securities Exchange Act reports, the preparation of our American Stock Exchange filings and the audit of our financial statements. We expect that professional fees will increase during the remainder of the 2006 fiscal year if we make an acquisition or undertake any substantial transactions.

During the six-months ended June 30, 2006, advertising and promotion expenses were \$52,675 or 4% of our operating expenses as compared to \$50,869 or 8% of our operating expenses for the six-months ended June 30, 2005. We anticipate that advertising and promotion expenses will increase marginally for the remainder of the 2006 fiscal year as we participate in joint marketing programs and trade shows with eBay Live Auctions and the National Auctioneers Association, and increase our investor-relations expenditures.

General overhead expenses (rent, utilities and property taxes, telephone, travel, repairs and maintenance, auto, insurance and office and administration expenses) totalled \$186,520 or 13% of total operating expenses during the six-months ended June 30, 2006 (compared to \$152,104 or 24% of total operating expenses for the six months ended June 30, 2005). General overhead expenses were 5% of our total revenue compared to 9% of our total revenue for the six months ended June 30, 2005. Rent, utilities, and property tax totalled \$29,366, telephone expenses totalled \$31,630, travel expenses totalled \$48,743, repairs and maintenance expenses totalled \$9,223, auto expenses totalled \$4,150, insurance expenses totalled \$10,278 and office and administration expenses totalled \$53,130.

We anticipate that overhead as a percentage of operating expenses and total revenue will decrease in future periods as we achieve certain economies from our operations. We anticipate that the overall level of general overhead expenses in dollars will increase as our revenues increase.

Depreciation and amortization expense was \$91,872 for the six-months ended June 30, 2006 as compared to \$66,223 for the six-months ended June 30, 2005. Depreciation and amortization expense was higher during the six months ended June 30, 2006 due to amortization of intangible assets, property and equipment.

Gross Profit. Cost of goods sold was \$2,489,207 for the six-months ended June 30, 2006 as compared to \$1,209,777 for the six-months ended June 30, 2005. Gross profits were \$1,352,719 (or 35% of revenues) for the six-months ended June 30, 2006 as compared to \$553,816 (or 31% of revenues) for the six months ended June 30, 2005. The increase in gross profit as a percentage of revenue is attributable to the performance of our online auction business,

which realizes higher gross profit margins than our liquidation services. Future gross profit margins may vary considerably from quarter-to-quarter depending on the performance of our various divisions.

Operating Net Gain (Loss). For the six-months ended June 30, 2006, we realized a loss of \$150,188 from operations before other items compared to a loss of \$151,030 for the six-months ended June 30, 2005. We earned additional income of \$303,712 from investment, \$425 from foreign exchange gain and \$26,131 from the gain on sale of property held for development for the six months ended June 30, 2006 compared to investment income of \$239,750 and a one-time charge of \$210,482 for legal fees for the six months ended June 30, 2005.

We recorded net income for the six-months ended June 30, 2006 of \$180,080, or \$0.003 per share, as compared to a loss of \$121,762, or \$(0.002) per share, for the six-months ended June 30, 2005.

We intend to continue to find ways to expand our business, including through acquisitions. We believe that revenues and earnings will increase as we grow.

Liquidity and Capital Resources

Our capital requirements, particularly as they relate to our desire to expand through acquisitions, our plan to purchase inventory we liquidate and our continued development of our software for live auctions, have been and will continue to be significant. Our future cash requirements and the adequacy of available funds will depend on many factors, including the pace at which we are able to make acquisitions, the pace at which we can deploy our technology and related services to auction houses, the acceptance of our packaged services by our clients and the availability of merchandise to purchase for auction and liquidation.

To date, we have funded our operations with our revenues, with dividends and interest from our investments and with the proceeds of the sales of our securities. A moderate portion of the revenue we earn comes from the auctions we hold through eBay and the National Auctioneers Association. If one or both of these business relationships were terminated, our revenues could decline. We cannot guarantee that these relationships will continue, or even if they continue, that we will earn enough revenue to operate these segments of our business profitably, which we have not been able to do to date. Currently, however, we believe that revenues from our operations together with interest and dividends earned on our investments and our cash on hand will be sufficient to satisfy our working capital needs for the remainder of this fiscal year. During the next 12 months, if we need to raise additional capital, we intend to do so through public or private offerings of our securities or from loans, if we are able to obtain them. We have no commitments for financing for our future needs and we cannot guarantee that financing will be available to us, on acceptable terms or at all. If we do not earn revenues sufficient to support our business and we fail to obtain other financing, either through an offering of our securities or by obtaining loans, we may be required to curtail, or even to cease, our operations.

As of June 30, 2006 we had working capital of \$8,281,622 made up of cash and cash equivalents of \$423,742, short-term investments of \$1,492,288, accounts receivable of \$1,632,888, loans receivable of \$3,814,110, inventory of \$960,390, prepaid expenses of \$83,992 and current portion of notes receivable of \$2,016 minus accounts payable and accrued liabilities of \$112,928 and deferred revenue of \$14,876. We anticipate that trade accounts receivables and inventory and overall working capital may increase during the remainder of the 2006 fiscal year as we expand our liquidation operations. Cash flow used for operating activities required \$701,669 due primarily to a decrease in inventory during the six months ended June 30, 2006. We anticipate that the uses of cash will remain stable for the remainder of the 2006 fiscal year. Our cash resources may decrease if we complete an acquisition prior to the end of the 2006 fiscal year, or if we are unable to maintain positive cash flow from our business throughout the 2006 fiscal year.

Cash flow from investing activities during the six-months ended June 30, 2006 was \$(173,040), due to sale of marketable securities and loan advances. Net cash flow used in financing activities during the six-months ended June 30, 2006, was \$(1,395,349), which included repayment of a bank loan.

We have not made any material commitments for capital expenditures in the immediate future.

Quantitative and Qualitative Disclosure about Market Risk

We believe that we do not have any material exposure to interest or commodity risks. We are exposed to certain economic and political changes in international markets where we compete, such as inflation rates, recession, foreign ownership restrictions, and trade policies and other external factors over which we have no control.

Our financial results are quantified in U.S. dollars and a majority of our obligations and expenditures with respect to our operations are incurred in U.S. dollars. The majority of our investment portfolio is in Canadian dollars.

We may have significant market risks relating to our operations resulting from foreign exchange rates from our investments or if we enter into financing or other business arrangements denominated in currency other than the U.S. dollar. Variations in the exchange rate may give rise to foreign exchange gains or losses that may be significant.

ITEM 3: DISCLOSURE CONTROLS AND PROCEDURES

Management carried out an evaluation, under the supervision and with the participation of our President, who is also our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting

personnel. Based on that evaluation, the President/Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

Part II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

3.1

Certificate of Incorporation (1)

3.1.1

Amendment to Certificate of Incorporation (2)

3.2

By-laws (1)

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Certification pursuant to Rule 13a-14(a) and 15d-14(a) (3)

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Certification Pursuant to 18 U.S.C. Section 1850 as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002⁽³⁾

(1) Incorporated by reference from the Form 10-SB filed with the Securities and Exchange Commission on November 13, 1999, as amended on December 30, 1999.

(2) Incorporated by reference from the Form 10-QSB for the quarter ended June 30, 2004 filed with the Securities and Exchange Commission on August 12, 2004.

(3) Filed herewith.

SIGNATURES

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

ABLEAUCTIONS.COM INC.

Date: Aug 2, 2006

By:/s/ ABDUL LADHA

Name: Abdul Ladha

Title: President, Chief Executive

Officer, Chief Financial Officer