

ABLEAUCTIONS COM INC
Form 10QSB
May 15, 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: March 31, 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 small business issuer in its charter)

Florida

59-3404233

State or other jurisdiction of incorporation or organization
Identification No.

IRS Employer

1963 Lougheed Highway

Coquitlam, British Columbia

V3K-3T8

(604) 521-3369

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 May 9, 2005 were 62,406,834.

Transitional Small Business Disclosure Format (Check one): Yes []; No []

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 risks of 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 and positive cash flow 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 March 31, 2006 compared to the corresponding period in 2005.

Revenues. During the three months ended March 31, 2006, we had revenues of \$2,039,152 compared to revenues of \$1,149,744 during the same period in 2005, an increase of \$889,408 (or 77%). Costs of revenues were 65% of our sales revenues during the three-month period ended March 31, 2006, compared to 76 % during the same period in

2005.

The increase in revenues reflects stronger performance in our auction broadcast services (iCollector.com and NAALive.com) and the business sector related to the liquidation of surplus inventory, which is managed through our subsidiaries Unlimited Closeouts, Inc. The increase in our revenues was due primarily to our decisions to expand the on-line inventory liquidation business and to increase our on-line auctions, as well as from more effectively advertising our services.

The decrease in the cost of revenue as a percentage of sales revenue is attributable to the performance of our online auction business, which realizes higher gross profit margins, and on our ability to realize higher margins from our liquidation services.

Operating Expenses. During the three month period ended March 31, 2006, operating expenses were \$689,069 or approximately 34% of revenue compared to \$311,420 or approximately 27% of revenue for the same period in 2005. Operating expenses were higher than the corresponding period in the previous year due to increases in commissions paid, accounting and legal fees, salaries and benefits, travel costs and website maintenance fees.

The commissions paid during the three-month period ended March 31, 2006 were considerably higher compared to the same quarter in the previous year. The commissions paid are related directly to the revenue and as a result of the increase in revenue, we recorded an increase in commission expense.

Personnel expenses were \$510,181 or 74% of our operating expenses during the three-month period ended March 31, 2006 as compared to \$176,106 or 57% of our operating expenses during the three-month period ended March 31, 2005. These expenses consisted of salaries and benefits of \$154,457 (compared to \$122,634 for the same period in 2005), management fees of \$38,973 (compared to \$36,620 for the same period in 2005), and commissions of \$316,751 (compared to \$16,852 for the same period in 2005). We anticipate that these personnel expenses will remain consistent for the remainder of 2006.

During the three-month period ended March 31, 2006, advertising and promotion expenses were \$20,318 or 3% of our operating expenses as compared to \$23,262 or 7% of our operating expenses for the three-month period ended March 31, 2005.

General overhead expenses totalled \$91,643 during the three month period ended March 31, 2006 (compared to \$70,921 for the same period in 2005) or 13% (compared to 23% for the same period in 2005) of our total operating expenses and 5% (compared to 6% for the same period in 2005) of our total revenue. General overhead expenses include rent and utilities, which totalled \$7,796, telephone, which totalled \$11,117, travel related to operations, which totalled \$23,844, repairs and maintenance, which totalled \$1,033, automotive, which totalled \$1,246, insurance, which totalled \$4,175, website maintenance, which totalled \$15,057 and office and administration expenses, which totalled \$27,375.

Professional fees, which are made up primarily of accounting fees and legal fees, totalled \$70,907 during the three-month period ended March 31, 2006 as compared to \$32,549 for the three-month period ended March, 2005.

The professional fees related to preparation of our Securities Exchange Act reports, the preparation of our American Stock Exchange filings and preparation of financial statements. We expect that professional fees will increase during the remainder of this fiscal year.

Depreciation and amortization expense was \$45,593 for the three-month period ended March 31, 2006 as compared to \$32,154 for the three-month period ended March 31, 2005. Depreciation and amortization expense was higher during the three months ended March 31, 2006 due to amortization of intangible assets and the depreciation recorded for the real estate we own.

Bad debt write-offs totalled (\$21,654) as we were successful in recovering our trade receivables from previous years.

Interest expense totalled \$17,674 as a result of a bank loan we had in the previous year which was paid off during the three months ended March 31, 2006.

Gross Profit. Cost of revenues was \$1,329,766 for the three-months ended March 31, 2006 as compared to \$877,316 for the three-months ended March 31, 2005. Gross profits from revenue was \$709,386 (or 35% of revenues) for the three-months ended March 31, 2006 as compared to \$272,428 (or 24% of revenues) for the three months ended March 31, 2005. The increases in gross profit as a percentage of revenue are attributable to the performance of our online auction business, which realizes higher gross profit margins, and on our ability to realize higher margins from 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 three months ended March 31, 2006, we realized a loss of \$25,276 from operations before Other Items compared to a loss of \$71,146 for the three months ended March 31, 2005. We earned additional income of \$139,455 from investment income and \$26,131 from the gain on sale of property held for development for the three months ended March 31, 2006 compared to investment income of \$91,419, foreign exchange of \$20,646 and a one-time charge of \$210,482 for legal fees for the three months ended March 31, 2005.

The Company recorded a net income for the three month period ended March 31, 2006 of \$140,310, or \$0.002 per share, as compared to a net loss of \$169,563, or \$0.003 per share, for the three month period ended March 31, 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 sustain our operations. 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 March 31, 2006 we had working capital of \$8,212,913 made up of cash and cash equivalents of \$1,124,476, marketable securities of \$1,504,151, accounts receivable of \$1,535,212, loans receivable of \$3,091,824, inventory of \$1,017,907, prepaid expenses of \$118,373 and notes receivable of \$3,211 minus accounts payable and accrued liabilities of \$168,025 and deferred revenue of \$14,216. 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 used for operating activities totalled \$675,835 due to an increase in accounts receivable and inventory during the three months ended March 31, 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 received from investing activities during the three-months ended March 31, 2006 was \$947,369, representing proceeds received from the sale of property held for development and sale of marketable securities. Net cash flow from financing activities during the three-months ended March 31, 2006, was (\$1,395,349) which resulted from the 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. UNREGISTERED SALES OF EQUITY 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

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: May 15, 2006

By:/s/ ABDUL LADHA

Name: Abdul Ladha

Title: President, Chief Executive

Officer, Chief Financial Officer