

ABLEAUCTIONS COM INC
Form 10QSB
August 14, 2003

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

FORM 10-QSB

(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, 2003

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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)

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

(604) 521-3369

(Address and telephone number of registrant's principal executive offices and principal place of business)

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), or (2) has been subject to such filing requirements for the past 90 days.

Yes

[X]

No

[]

The number of outstanding common shares, \$.001 par value, of the Registrant at:

June 30, 2003: 37,896,449

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements about our financial condition, results of operations and business within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can find many of these statements by looking for words like will, should, believes, expect, anticipates, estimates, intends, may, pro-forma, or similar expressions used in this report. These forward-looking statements are subject to assumptions, risks and uncertainties, including those relating to the following:

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our ability to identify suitable acquisition opportunities and to finance, complete and integrate acquisitions;

•

our ability to obtain financing;

•

our ability to maintain our relationship with eBay;

•

our ability to continue our operations if we were to lose our President and Chief Executive Officer;

•

our ability to continue to expand our online auctions;

•

general domestic and global economic conditions that adversely impact the spending of consumers and businesses;
and

other risks that are discussed in this report and in our Form 10-KSB which we filed with the Securities and Exchange Commission on March 27, 2003.

Because these statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this filing.

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 filing. Please read carefully the risk factors disclosed in our Form 10-KSB and in other filings we make with the Securities and Exchange Commission.

Overview

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, 2002. Our financial statements have been prepared in accordance with United States generally accepted accounting principles.

Results of Operations

Three months ended June 30, 2003 compared to the corresponding period in 2002.

Revenues. During the three months ended June 30, 2003, we had net auction revenues of \$163,645 compared to \$189,229 during the same period in 2002, a decrease of \$25,584 (14%). The Company expects revenue to grow from quarter-to-quarter as it begins to deploy its own technology and related services to auction houses, enabling them to broadcast auctions over the Internet (www.ableauctions.com/technology). The Company continues to operate its liquidation store and sell inventory it owns through live and simultaneously broadcast auctions over the Internet, but not to the extent it had in previous years. Consequently, revenues for the foreseeable future will depend on services and higher gross profit margins until we increase the volume of our own auctions.

Cost of sales was 24% of our revenues during the three-month period ended June 30, 2003, compared to 23% during the same period in 2002. Due to cash flow constraints in the latter part of 2002 and during the first six months of 2003, we were not in a position to acquire as much inventory as our business plan demands. As a result, through the period ended June 30, 2003, we conducted our auctions primarily on a consignment basis. Due to the cost cutting

measures we have implemented, our cash flow is now improved. We plan to use our cash to purchase more of the inventory that we sell, since doing so results, generally, in higher gross profit margins.

Currently, we realize between 2% and 5% of all revenues earned from on-line sales, plus a set-up fee for auctions we conduct for our clients. We have introduced a full-service package that includes advertising, staffing, hosting the auction on-line and conducting the live side of the auction. As we begin to conduct a greater number of auctions using our own inventory or by implementing our full-service package, we believe that we can increase our margins substantially.

Operating Expenses. During the three month period ended June 30, 2003, operating expenses were \$59,918, compared to \$437,527 for the same period in 2002. Expenses were lower than the corresponding period in the previous year as a result of decreased salaries and benefits, accounting and legal expenditures, and an overall cost cutting program implemented by management during 2002 and 2003.

Personnel and consulting expenses were \$45,085 or 28% of our operating expenses during the three-month period ended June 30, 2003 as compared to \$254,517 or 58% of our operating expenses during the three-month period ended June 30, 2002. These expenses consisted of salaries and benefits of \$26,113 (compared to \$151,888 in 2002), consulting and management fees of \$18,192 (compared to \$102,572 in 2002), and commissions of \$780 (compared to \$57 in 2002). We anticipate that such personnel and consulting expenses will decrease as a result of the cost containment efforts and incentive stock option programs we began implementing in 2002.

During the three-month period ended June 30, 2003, advertising and promotion expenses were \$5,507 or 3% of our operating expenses as compared to \$6,921 or 2% of our operating expenses for the three-month period ended June 30, 2002. Advertising expenses were lower in comparison to 2002 as we began to realize the benefit of having our licensees advertise using the name Ableauctions . We anticipate promotion expenses to increase during the remainder of 2003 as the number of auctions and liquidations increase.

General overhead expenses totalled \$78,919 this quarter (compared to \$42,289 in 2002) or 49% (compared to 9.7%) of our total operating expenses and 48% (compared to 22%) of our total revenue. Rent and utilities totalled \$13,299, telephone \$4,437, travel related to operations \$1,532, repairs and maintenance \$1,085, automotive \$600, insurance \$30,232 and office and administration expenses \$27,734.

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 and if we are able to secure less expensive insurance. If we expand our operations, we anticipate that the overall level of general overhead expenses in dollars will increase.

Professional fees, accounting and legal, were \$18,875 during the three-month period ended June 30, 2003 as compared to \$84,033 for the three-month period ended June 30, 2002. The professional fees related to preparation of our Securities Exchange Act reports, professional fees associated with the preparation of our American Stock Exchange filings, and professional fees associated with our acquisitions and financings. We expect that professional fees will increase during the remainder of this fiscal year since we are prosecuting a legal action against a former employee. Furthermore, if we are able to do so, we intend to try to make at least one acquisition during this fiscal year. If we are successful in making an acquisition, we will be required to incur expenses relating to the drafting and review of the documents related to the transaction.

Depreciation and amortization expense was \$45,932 for the three-month period ended June 30, 2003 as compared to \$42,280 for the three-month period ended June 30, 2002.

Gross Profit. Cost of goods sold were \$39,743 for the three-month period ended June 30, 2003 as compared to \$44,030 for the three-month period ended June 30, 2002. Gross profits were \$123,902 of (or 76% of revenues) for the three-month period ended June 30, 2003 as compared to \$145,199 (or 77% of revenues) for the period ended June 30, 2002. Routinely, gross margins for inventory we sell through our liquidation store and auction are approximately 40%. If we provide auction-broadcasting services, the gross profit margin may be higher. We expect gross profits to be higher in future periods as we realize both the benefits of our inventory procurement model (buying large quantities of discount merchandise and distributing this merchandise to various outlets) and as we generate more revenue from our auction broadcasting services.

Operating Net Gain. For the quarter ended June 30, 2003, we realized a gain from continuing operations of \$32,531 as compared to the quarter ended June 30, 2002 in which we had net loss of \$420,977. We realized net income for the second quarter of 2003 of \$32,531 or \$0.01 per share as compared to a net loss of \$613,523 for the second quarter of 2002, or (\$0.02) per share.

We believe that our operations will remain profitable. We believe that revenues and earnings will increase as we grow. We will incur overall losses in the future only if we are able to obtain additional financing and expand our business and marketing of our Internet technology through acquisition. The losses will be created to the extent of the excess of technology development and marketing over the income from operations. If we are unable to obtain additional financing, we will continue to develop our Internet technology and market our products and services through consultants and specialists.

Six months ended June 30, 2003 compared to the corresponding period in 2002.

Revenues. During the six months ended June 30, 2003, we had net auction revenues of \$303,837 compared to \$269,883 during the same period in 2002, an increase of \$33,954 (13%). The Company expects revenue to grow from quarter-to-quarter as it begins to deploy its own technology and related services to auction houses, enabling them to broadcast auctions over the Internet (www.ableauctions.com/technology). The Company continues to operate its

liquidation store and sell inventory it owns through live and simultaneously broadcast auctions over the Internet, but not to the extent it had in previous years. Consequently, revenues for the foreseeable future will depend on services and higher gross profit margins until we increase the volume of our own auctions.

Cost of sales were 33% of our revenues during the six-month period ended June 30, 2003, compared to 29% during the same period in 2002. Due to cash flow constraints in the latter part of 2002 and during the first six months of 2003, we were not been in a position to acquire as much inventory as our business plan demands. As a result, through the period ended June 30, 2003, we conducted our auctions primarily on a consignment basis. Due to the cost cutting measures we have implemented, our cash flow is now improved. We plan to use our cash to purchase more of the inventory that we sell, since doing so results, generally, in higher gross profit margins.

Currently, we realize between 2% and 5% of all revenues earned from on-line sales, plus a set-up fee for auctions we conduct for our clients. We have introduced a full-service package that includes advertising, staffing, hosting the auction on-line and conducting the live side of the auction. As we begin to conduct a greater number of auctions using our own inventory or by implementing our full-service package, we believe that we can increase our margins substantially.

Operating Expenses. During the six month period ended June 30, 2003, operating expenses were \$194,192, compared to \$706,536 for the same period in 2002. Expenses were lower than the corresponding period in the previous year as a result of decreased salaries and benefits, accounting and legal expenditures, and an overall cost cutting program implemented by management during 2002 and 2003.

Personnel and consulting expenses were \$101,601 or 34% of our operating expenses during the six-month period ended June 30, 2003 as compared to \$393,645 or 55% of our operating expenses during the six-month period ended June 30, 2002. These expenses consisted of salaries and benefits of \$48,966 (compared to \$239,176 in 2002), consulting and management fees of \$50,077 (compared to \$153,412 in 2002), and commissions of \$2,558 (compared to \$57 in 2002). We anticipate that such personnel and consulting expenses will decrease as a result of the cost containment efforts and incentive stock option programs we began implementing in 2002.

During the six-month period ended June 30, 2003, advertising and promotion expenses were \$16,422 or 6% of our operating expenses as compared to \$24,115 or 3% of our operating expenses for the six-month period ended June 30, 2002. Advertising expenses were lower in comparison to 2002 as we began to realize the benefit of having our licensees advertise using the name Ableauctions . We anticipate promotion expenses to increase during the remainder of 2003 as the number of auctions and liquidations increase.

General overhead expenses totalled \$116,065 this period (compared to \$102,548 in 2002) or 39% (compared to 15%) of our total operating expenses and 38.1% (compared to 37.9% in 2002) of our total revenue. Rent and utilities totalled \$26,116, telephone \$6,718, travel related to operations \$3,330, repairs and maintenance \$1,688, automotive \$1,399, insurance \$41,145 and office and administration expenses \$35,669.

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 and if we are able to secure less expensive insurance. If we expand our operations, we anticipate that the overall level of general overhead expenses in dollars will increase.

Professional fees, accounting and legal, were \$44,620 during the six-month period ended June 30, 2003 as compared to \$98,740 for the six-month period ended June 30, 2002. The professional fees related to preparation of our Securities Exchange Act reports, professional fees associated with the preparation of our American Stock Exchange filings, and professional fees associated with our acquisitions and financings. We expect that professional fees will increase during the remainder of this fiscal year since we are prosecuting a legal action against a former employee. Furthermore, if we are able to do so, we intend to try to make at least one acquisition during this fiscal year. If we are successful in making an acquisition, we will be required to incur expenses relating to the drafting and review of the documents related to the transaction.

Depreciation and amortization expense was \$91,752 for the six-month period ended June 30, 2003 as compared to \$101,644 for the six-month period ended June 30, 2002.

Gross Profit. Cost of goods sold were \$99,042 for the six-month period ended June 30, 2003 as compared to \$77,107 for the six-month period ended June 30, 2002. Gross profits were \$204,795 (or 67% of revenues) for the six-month period ended June 30, 2003 as compared to \$192,776 (or 71% of revenues) for the period ended June 30, 2002. Routinely, gross margins for inventory we sell through our liquidation store and auction are approximately 40%. If we provide auction-broadcasting services, the gross profit margin may be higher. We expect gross profits to be higher in future periods as we realize both the benefits of our inventory procurement model (buying large quantities of discount merchandise and distributing this merchandise to various outlets) and as we generate more revenue from our auction broadcasting services.

Operating Net Loss. For the six-month period ended June 30, 2003, we realized a loss from continuing operations of \$59,695 as compared to the six-month period ended June 30, 2002 in which we had net loss of \$776,738. We realized net income for the six-month period of 2003 of \$36,502 or \$0.01 per share as compared to a net loss of \$981,764 for the corresponding period of 2002, or (\$0.03) per share.

We believe that our operations will remain profitable. We believe that revenues and earnings will increase as we grow. We will incur overall losses in the future only if we are able to obtain additional financing and expand our business and marketing of our Internet technology through acquisition. The losses will be created to the extent of the excess of technology development and marketing over the income from operations. If we are unable to obtain additional financing, we will continue to develop our Internet technology and market our products and services through consultants and specialists.

Liquidity and Capital Resources

Our working capital at June 30, 2003 was \$1,273,922. We had cash and cash equivalents of \$814,163, accounts receivables of \$448,257, inventory of \$170,363, and prepaid expenses of \$30,353 at June 30, 2003. We anticipate that trade accounts receivables and inventory may increase during the remainder of fiscal 2003 as we increase the number and frequency of our auctions and as we expand our business operations. Cash flow used for operating activities was \$(323,859), to reduce accounts payable. Cash flow from financing activities was \$968,513 during the quarter ended June 30, 2003, primarily as a result of the exercise of stock options. We anticipate that our cash reserves will double for 2003 if all outstanding options are exercised and will only decrease if we complete an acquisition during 2003, or if we are unable to maintain positive cash flow from our business through 2003. Cash flow used in investing activities during the quarter ended June 30, 2003 was \$(23,672), which was related to the sale of the Company's subsidiary Ehli Auctions.

Unless we are able to obtain financing, we are not planning to make significant capital expenditures during the 2003 fiscal year. We believe that revenues from our operations and current working capital will be sufficient to satisfy our working capital needs for the remainder of 2003.

Outlook

We believe that our efforts at cost containment and the changes we have made to our technology will provide us with benefits in the future.

We intend to meet our cash requirements through revenues generated from our operations and private or public placements of our equity or debt securities. We are currently seeking financing but we cannot assure you that we will obtain financing on acceptable terms, if at all. If our revenues are not adequate to meet our cash requirements and we cannot obtain financing, we may be required to abandon some of our operations, sell some of our assets or certain business operations or liquidate our business, all of which will have a material adverse effect on our business and results of operations.

During the 2003 fiscal year we will continue to operate at our locations in Washington and Coquitlam, British Columbia, conducting both auctions and liquidations. We also will continue to conduct auctions at customer locations in bankruptcies and insolvencies. Through our wholly owned subsidiary iCollector, we currently conduct approximately 75 auctions per year on eBay for our antique and collectible clients and approximately 36 auctions per year using our own technology.

We intend to aggressively market the iCollector services jointly with eBay and expand the iCollector workforce to enable us to conduct more auctions in Europe and North America. We intend to engage strategic partners to conduct

auctions for us on a commission basis, as necessary, rather than sustain the significant overhead associated with managing and maintaining permanent auction facilities.

We plan to continue our research and development efforts to improve our web site and auction broadcasting technologies. We continuously maintain and refine our live auction broadcasting technologies by increasing the speed of our bidding process, the preview of merchandise and the method of registering bidders. We anticipate that we will spend approximately \$100,000 on our research and development efforts during the 2003 fiscal year.

We intend to broadcast the auctions of other auction houses from a variety of locations throughout North America, to continue licensing our software to other auction companies and to continue marketing efforts in the remainder of 2003. We also intend to identify possible candidates for strategic relationships or a possible acquisition.

We anticipate adding up to 5 new employees with e-commerce, software development, sales and software maintenance experience during 2003 to manage and market our iCollector division. The hiring of these employees will be subject to the Company increasing profits and obtaining additional financing. Thus far, no additional employees have been hired for this purpose.

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, domestic and foreign government spending, budgetary 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. In the past the majority of our revenues were derived from the business operations of our wholly owned subsidiary, Able Auctions (1991) Ltd., whose operations are conducted in British Columbia, Canada and in Canadian dollars. Although we do not believe we currently have any materially significant market risks relating to our operations resulting from foreign exchange rates, if we enter into financing or other business arrangements denominated in currency other than the U.S. dollar or the Canadian dollar, variations in the exchange rate may give rise to foreign exchange gains or losses that may be significant.

We currently have no material long-term debt obligations. We do not use financial instruments for trading purposes and we are not a party to any leverage derivatives.

ITEM 3: DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Chief Financial Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with the Company's accounting personnel. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits 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 the Company's 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

Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Company's shareholders approved and adopted the following actions at the Company's annual general meeting on July 15, 2003:

The shareholders appointed Abdul Ladha (FOR: 24,710,878 AGAINST: 2,463 ABSTAINED: 200), Barrett Sleeman (FOR: 24,712,778 AGAINST: 563 ABSTAINED: 200), Dr. David Vogt (FOR: 24,712,778 AGAINST: 563 ABSTAINED: 200) and Michael Boyling (FOR: 24,712,778 AGAINST: 563 ABSTAINED: 200) to the Board of Directors of the Company.

The shareholders ratified the selection of Cinnamon Jang Willoughby (FOR: 24,712,663 AGAINST: 678 ABSTAINED: 200) as independent auditor for the Company for the fiscal year ending December 31, 2003.

The shareholders also approved the resolution to authorize and empower its Board of Directors, at their discretion, to effect a reverse split the Company's stock if necessary (FOR: 24,419,980 AGAINST: 223,661 ABSTAINED: 72,900).

The shareholders also approved an increase in the number of shares of common stock in the Ableauctions.com, Inc. 1999 Stock Option Plan (FOR: 12,565,415 AGAINST: 2,037,419 ABSTAINED: 0).

ITEM 5. OTHER INFORMATION

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On May 18, 2003, Morgan & Company, Chartered Accountants (the Former Auditor) were asked to resign as our independent auditor. None of the Former Auditor s reports for the year ended December 31, 2002 or thereafter contained an adverse opinion or disclaimer of opinion, however the report was modified as to the Company s ability to continue as a going concern. We engaged Cinnamon Jang Willoughby, Chartered Accountants as our independent auditor on May 18, 2003. Our decision to change our auditor was approved by our Board of Directors.

During our fiscal year ended December 31, 2002 and through May 18, 2003, there were no disagreements with the Former Auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of the Former Auditor would have caused it to make reference thereto in its report on the financial statements for such year.

On February 12, 2002, Shikaze Ralston Tam Kurozumi, Chartered Accountants (SRTK) resigned as our independent auditor. None of SRTK s reports for the year ended December 31, 2000 or thereafter contained an adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope, or accounting principle. We engaged Morgan & Company, Chartered Accountants as our independent auditor on February 12, 2002.

During our fiscal year ended December 31, 2001 and through February 12, 2002, there were no disagreements with SRTK on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of SRTK would have caused it to make reference thereto in its report on the financial statements for such year. Our decision to change auditor was approved by our Board of Directors.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

3.1

Certificate of Incorporation(1)

3.2

By-laws(1)

31.1

Certification Pursuant to Rule 13a-14(a) and 15d-14(a) (2)

31.2

Certification Pursuant to Rule 13a-14(a) and 15d-14(a) (2)

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Certification Pursuant to Section 1350 of Title 18 of the United States Code (2)

(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) Filed herewith.

No current reports on Form 8-K were filed during the quarter ended June 30, 2003.

SIGNATURES

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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: August 14, 2003

By:/s/ ABDUL LADHA

Name: Abdul Ladha

Title: President & Chief Executive Officer

(Principal Executive Officer)

Date: August 14, 2003

By: /s/ NAILIN ESMAIL

Name: Nailin Esmail

Title: Chief Financial Officer

(Principal Financial Officer)