

ABLEAUCTIONS COM INC  
Form 10QSB  
November 14, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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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 September 30, 2005

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.

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(Exact name of small business issuer in its charter)

Florida

59-3404233

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State or other jurisdiction of

IRS Employer Identification No.

incorporation or organization

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 November 9, 2005 was 62,406,834

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

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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.

Forward-looking statements include, but are not limited to, 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," "anticipates," "expects," "estimate," "project," "potentially," "should," "believe," "considers" or similar expressions are intended to 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 and to avoid infringing on the intellectual property rights of others; government regulation of Internet commerce and the auction industry; dependence on continued growth in use of the Internet; capacity and systems disruptions and the other risks and uncertainties described in this report. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this filing.

Other risks are discussed in our Annual Report on Form 10-KSB which we filed with the Securities and Exchange Commission on March 30, 2005.

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 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, 2004 contained in our Annual Report on Form 10K-SB filed with the Securities and Exchange Commission on March 30, 2005.

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

### *Overview*

We are a liquidation business and an on-line auction facilitator. As an auction facilitator, we provide software platforms and services to third parties to give them the ability to conduct auctions over the Internet. We earn our revenues from the following sources:

**Liquidation Services** - We sell merchandise through our Unlimited Closeouts and Ableauctions liquidation stores located in California and British Columbia respectively, and through auctions we conduct in the United States and Canada. We also generate revenues by providing inventory brokerage services at [unlimitedcloseouts.com](http://unlimitedcloseouts.com) and [unlimitedcloseouts.ca](http://unlimitedcloseouts.ca) ([www.unlimitedcloseouts.com](http://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](http://www.ableauctions.com/technology)) through the website [NAAonlinesolutions.com](http://NAAonlinesolutions.com) ([www.NAAonlinesolutions.com](http://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](http://iCollector.com) website ([www.iCollector.com](http://www.iCollector.com)). We also provide auction-related products and services for a fee ([www.icollectorlive.com/services.aspx](http://www.icollectorlive.com/services.aspx)).

**Point-of-Sale (POS) Services** - Through our subsidiary, Rapidfusion Technologies, Inc. ([www.rapidfusion.com/technology](http://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 on-line auction broadcasting services. We believe that our long term success depends on our ability to maintain and provide technology, products and services to auctioneers and liquidators worldwide.

While we have maintained overall profitability and positive cash flow over the last two 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.

Our outlook is long term. Even though certain of our sectors experience operating losses now, we believe that by continuing to develop and expand them, they will achieve profitability over time.

## **Results of Operations**

### **Three months ended September 30, 2005 compared to the corresponding period in 2004.**

**Revenues.** During the three months ended September 30, 2005, we had Sales and Commissions Revenues of \$1,358,240 compared to Sales and Commissions Revenues of \$1,293,010 during the same period in 2004, an increase of \$65,130 (or 5%). Costs of Revenues were 70% of our Sales and Commissions Revenues during the three-month period ended September 30, 2005, compared to 77 % during the same period in 2004.

Sales and Commissions Revenues for the three months ended September 30, 2005 recovered to the levels achieved in the corresponding period in 2004, representing a substantial increase from the Sales and Commissions Revenue achieved in the second quarter of 2005. Other Revenues of \$310,000 are the proceeds realized from the settlement of a legal claim, bringing total Revenue to \$1,668,240.

The recovery of Sales Revenues in the third quarter of 2005 was attributable to the rebounding of liquidation sales to targeted levels following backlog of pending orders in the second quarter of 2005. 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 decrease in the Cost of Revenue as a percentage of Sales and Commissions 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-months ended September 30, 2005, Operating Expenses were \$496,165 compared to \$284,249 for the same period in 2004, primarily due to increases of \$129,244 in Salaries and Benefits, \$87,282 in Bad Debts and \$32,025 in increased Website Maintenance.

Salaries and Benefits were higher during the three-months ended September 30, 2005 compared to the three months ended September 30, 2004 as we expanded our liquidation and auction broadcasting services, added support staff, developers and revenue generators. Salaries and Benefits totalled was \$189,956 or 38% of our Operating Expenses during the three-months ended September 30, 2005 as compared to \$60,712 or 21% of our Operating Expenses during the three-months ended September 30, 2004. We anticipate that Salaries and Benefits expenses will remain stable for the remainder of the 2005 fiscal year.

Bad Debts totalled \$87,282 as we reassessed the recoverability of certain trade receivables arising in the last two years and determined that the Company's efforts to collect them have been unsuccessful and the amounts should be written off.

Website Maintenance increased by \$32,025 as we expanded our web presence.

**Gross Profit.** Cost of Revenues was \$951,118 for the three-months ended September 30, 2005 as compared to \$992,655 for the three-months ended September 30, 2004. Gross profits from Sales and Commissions Revenue (excluding Other Revenues) was \$407,122 (or 30% of Sales and Commissions Revenues) for the three-months ended September 30, 2005 as compared to \$300,455 (or 23% of Sales and Commissions Revenues) for the three months ended September 30, 2004. 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 September 30, 2005, we realized an overall gain of \$184,152 from operations before Other Items compared to a loss of \$9,905 for the three months ended September 30, 2004. Without the \$310,000 we received from the settlement of a legal action we brought against Liveauctioneers LLC, Julian Ellison, and John Ralston, we would have reported a loss from operations before Other Items of \$125,848. We earned additional income of \$238,524 from Investment Income for the three months ended September 30, 2005 compared to \$67,831 for the three months ended September 30, 2004. We reported Net Income for the three months ended September 30, 2005 of \$422,676, or \$0.007 per share, as compared to \$11,383, or \$0.000 per share, for the three months ended September 30, 2004.

**Nine months ended September 30, 2005 compared to the corresponding period in 2004.**

**Revenues.** During the nine months ended September 30, 2005, we had Sales and Commissions Revenues of \$3,121,833 compared to Sales and Commissions Revenues of \$3,769,234 during the same period in 2004, a decrease of \$647,410 or 17%. Cost of Revenue were 69% of our Sales and Commissions Revenues during the nine-months ended September 30, 2005, compared to 74% during the same period in 2004.

While Sales Revenues from our liquidation services increased in the third quarter, Sales Revenues year-to-date decreased due to a decline in the revenues earned from our liquidation services. We expect revenues for the fourth quarter of 2005 to exceed revenues from the corresponding period in the previous year, and we also expect revenues earned in the future to 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 decrease in the Cost of Revenue as a percentage of Sales and Commissions 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 nine months ended September 30, 2005, Operating Expenses were \$1,134,788 or approximately 36% of Sales and Commissions Revenue compared to \$875,096 or approximately 23% of Sales and Commissions Revenue for the nine months ended September 30, 2004. The increases in Operating Expenses are primarily due to increases of \$216,508 in Salaries and Benefits and Commissions, \$67,282 in Bad Debts and \$32,720 in increased Website Maintenance.

Salaries and Benefits were higher during the nine-months ended September 30, 2005 compared to the nine-months ended September 30, 2004 as we expanded our liquidation and auction broadcasting services, added support staff, developers and revenue generators. Salaries and Benefits totalled \$478,150 or 42% of our Operating Expenses during the nine-months ended September 30, 2005 as compared to \$162,656 or 19% of our Operating Expenses during the nine-months ended September 30, 2004. We anticipate that Salaries and Benefits expenses will remain stable for the remainder of the 2005 fiscal year.

Bad Debts totalled \$87,282 as we reassessed the recoverability of certain trade receivables arising in the last two years and determined that the Company's efforts to collect them have been unsuccessful and the amounts should be written off.



Website Maintenance increased by \$32,720 as we expanded our web presence.

As a result of purchasing a commercial building, our Rent and Utilities decreased to \$20,752 or 1.8% of our operating expenses during the nine months ended September 30, 2005, as compared to \$83,662 or 9.6% of our operating expenses for the nine months ended September 30, 2004. Also as a result of the purchase, we incurred property tax costs of \$30,000 for the 2005 period. Depreciation and Amortization expense increased to \$103,028 for the nine months ended September 30, 2005 as compared to \$69,552 for the nine months ended September 30, 2004. Depreciation and amortization expense was higher during the nine months ended September 30, 2005 due to amortization of intangible assets and the depreciation recorded for the recently purchased commercial building.

**Gross Profit.** Cost of Revenues was \$2,160,895 for the nine months ended September 30, 2005 as compared to \$2,793,286 for the nine months ended September 30, 2004. Gross profits from Sales and Commissions Revenue (excluding Other Revenues) were \$960,938 (or 31% of Sales and Commissions Revenues) for the nine months ended September 30, 2005 as compared to \$975,957 (or 26% of Sales and Commissions Revenues) for the nine months ended September 30, 2004.

**Operating Net Gain (Loss).** For the nine months ended September 30, 2005, we realized an overall gain of \$33,122 from operations before Other Items compared to a gain of \$31,309 for the nine months ended September 30, 2004. Without the \$310,000 we received from the settlement of a legal action we brought against Liveauctioneers LLC, Julian Ellison, and John Ralston, we would have reported a loss from operations before Other Items of \$276,878. We earned additional income of \$478,274 from Investment Income and incurred a one-time charge of \$210,482 for legal fees and incidental costs relating to the above-referenced legal action.

We reported Net Income for the nine months ended September 30, 2005 of \$300,914, or \$ 0.005 per share, as compared to Net Income of \$165,897, or \$0.003 per share, for the nine months ended September 30, 2004.

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 and with the proceeds of the sales of our securities. A moderate portion of the revenue we earn comes from our business relationships with e-Bay 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 the 2005 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 September 30, 2005 we had working capital of \$7,635,871 made up of cash and cash equivalents of \$298,564, marketable securities of \$4,150,742, accounts receivable of \$1,538,341, loans receivable of \$153,200, inventory of \$1,289,227, prepaid expenses of \$304,439 and current portion of notes receivable of \$3,225 minus accounts payable and accrued liabilities of \$88,318 and deferred revenue of \$13,549. We anticipate that trade accounts receivables and inventory and overall working capital may increase during the remainder of the 2005 fiscal year as we expand our iTrustee.com Technologies, Ltd. and Unlimited Closeouts, Inc. liquidation operations. Cash used for operating activities totalled \$594,502 due to an increase in accounts receivable and inventory during the nine months ended September 30, 2005. We anticipate that the uses of cash will remain stable for the remainder of the 2005 fiscal year.

Our cash resources may decrease if we complete an acquisition prior to the end of the 2005 fiscal year, or if we are unable to maintain positive cash flow from our business throughout the 2005 fiscal year.

Cash flow received from investing activities during the nine-months ended September 30, 2005 was \$ 67,548 due to recoveries of the Note Receivable. Net cash flow from financing activities during the nine-months ended September 30, 2005, was \$382,605, which included proceeds from the exercise of stock options.

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 and 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. 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

On October 27, 2004, we received a demand notice from a competitor, Proxibid, Inc., to remove certain material posted on our NAALive site. The letter informed us, that in the opinion of Proxibid's counsel, certain material we displayed on our site infringed on Proxibid's copyrights and we were requested to promptly remove such material. We denied infringing Proxibid's copyrights, and we asserted that we independently developed our display features and bidding software without access to Proxibid's materials. In addition, previous versions of our content and technology were created over five years ago and may in fact predate the development by Proxibid of its technologies and copyrighted materials. Proxibid has since notified us that it intends to take no action against us relating to copyright infringement.

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

On October 5, 2005, we announced that we entered into an agreement with Artnet AG, one of the world's largest Gallery Networks, to promote our eBay Live Auction services. Under the terms of the agreement, we received the exclusive advertising rights in select areas of Artnet AG's website, artnet.com, to display and promote upcoming auctions on eBay Live Auctions. The agreement enables our subsidiary, iCollector, to tap into a wealth of resources relating to fine arts and a broad base of customers dominated by major auction houses, art dealers, museums, and insurance companies.

On May 31, 2005 we announced that we had launched a six-month pilot program jointly with Overstock.com® to develop an online reseller marketplace for selling wholesale merchandise in bulk or large quantity from inventory owned by our subsidiary, Unlimited Closeouts, and by other liquidators. Following the six-month pilot period, there are no plans to extend this agreement or proceed with the previously proposed franchise expansion until the Company can build and sustain a scalable model.

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) (2)

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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(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) 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: November 10, 2005

By:/s/ ABDUL LADHA

Name: Abdul Ladha

Title: President, Chief Executive Officer, Chief Financial Officer

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