

ABLEAUCTIONS COM INC  
Form 10QSB  
May 15, 2007

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 March 31, 2007**

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  
(I.R.S. Employer  
incorporation or organization)  
Identification No.)

**Suite 200 - 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 May 8, 2007 was 65,348,009

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 registrant 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 loss of the registrant's key personnel; the registrant's dependence on marketing relationships with auction houses, third party suppliers and strategic partners such as eBay; the registrant'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; capacity and systems disruptions; uncertainty regarding infringing intellectual property rights of others, risks over which the registrant has no control, such as a general downturn in the economy which may adversely affect the value of real property and impact discretionary spending by consumers, and the other risks and uncertainties described in this report.

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 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, 2006 contained in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2007.

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 2006 we expanded our business through our subsidiary, Axion Investment Corporation (which was formerly known as Stanford Development Corporation). Axion Investment Corporation manages our real property and loans to third parties. We have included information in the discussion below about our websites. Information included on our websites is not a part of this report.

**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](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 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 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, Real Property Development and Lending**

The return on our investments, real property development and lending help support the development of our liquidation and auction businesses, including the development of new technologies for use by on-line businesses.

Investment of our cash is managed by Ableauctions.com, Inc. In an effort to expand our business we created Axion Investment Corporation, referred to in this discussion as Axion . Axion develops real estate and makes short term loans.

### **Results of Operations**

#### **Three months ended March 31, 2007 compared to the corresponding period in 2006.**

**Revenues.** During the three months ended March 31, 2007, we had revenues of \$1,014,911 compared to revenues of \$2,039,152 during the same period in 2006, a decrease of \$1,024,241 or 50%.

The decrease in revenues is attributable to a 62% decrease in revenues earned from our liquidation services. Revenues from our liquidation services totalled \$651,803 (or 64% of our total revenue) compared to revenues of \$1,707,891 (or 84% of our total revenue) during the same period in 2006. We expect revenues to rebound for the remainder of 2007. 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. We anticipate

that revenues from our liquidation sector will continue to represent the majority of overall revenues.

Revenues from our iCollector and NAALive auction operations grew 7% to \$221,745 during the three months ended March 31, 2007, compared to the same period in 2006. The number of auction sessions facilitated in the first quarter of 2007 increased by 86% to 399 compared to 214 auction sessions for the same period in 2006.

We believe that, for the remainder year, the strength of our liquidation business and the number of antique and collectible auctions we manage is directly related to the general economy of the United States, and that a strong economy will have a positive effect on our revenues in those two areas of our business.

**Operating Expenses.** During the three month period ended March 31, 2007, operating expenses were \$534,514 or approximately 53% of revenue compared to \$689,069 or approximately 34% of revenue for the same period in 2006.

Operating expenses as a percentage of revenue were higher than the corresponding period in the previous year due to the decrease in revenue and a significant fixed cost component of our operating expenses. Our most significant fixed costs include salaries and benefits, management fees, and office and administration costs. We expect operating expenses to be approximately 40% to 45% of revenue for the remainder of the year.

The decrease in our total operating expenses resulted primarily from a decrease of \$214,830 in commissions we paid, which was due to the decrease in the number of liquidation transactions we facilitated and adjustments in our commission structures, and a decrease of \$66,102 in accounting and legal fees.

During the three month period ended March 31, 2007, the cost of investor relations and shareholder information services was \$17,531. There was no similar cost for investor relations and shareholder information services for the same period in 2006. We expect the cost of investor relations in 2007 to increase significantly as our plan is to increase our shareholder services.

During the three month period ended March 31, 2007, salaries and benefits totalled \$231,213 compared to \$154,457 for the same period in 2006. The increase of \$76,756 or approximately 49.7% from the previous year was due to new employees and increased benefits. We expect salaries and benefits to remain the same for the duration of the year.

Total personnel expenses, including salaries and benefits, totalled \$372,134 or 70% of our operating expenses during the three-month period ended March 31, 2007 as compared to \$510,181 or 74% of our operating expenses during the three-month period ended March 31, 2006. In addition to salaries and benefits, personnel expenses included management fees of \$39,000 (compared to \$38,973 for the same period in 2006), and commissions of \$101,921

(compared to \$316,751 for the same period in 2006).

During the three-month period ended March 31, 2007, advertising and promotion expenses were \$13,444 or 3% of our operating expenses as compared to \$20,318 or 3% of our operating expenses for the three-month period ended March 31, 2006.

General overhead expenses increased by \$17,986 or approximately 19.6%, to \$109,629 during the three month period ended March 31, 2007 (compared to \$91,643 for the same period in 2006). General overhead expenses comprised 21% (compared to 13% for the same period in 2006) of our total operating expenses and 11% (compared to 4.5% for the same period in 2006) of our total revenue. General overhead expenses include rent and utilities, which totalled \$17,892, telephone, which totalled \$10,438, travel related to operations, which totalled \$5,673, repairs and maintenance, which totalled \$13,133, automotive, which totalled \$596, insurance, which totalled \$11,631, website maintenance, which totalled \$24,602 and office and administration expenses, which totalled \$25,664.

Depreciation and amortization expense was \$39,382 for the three-month period ended March 31, 2007 as compared to \$45,593 for the three-month period ended March 31, 2006. Depreciation and amortization expense was lower during the three months ended March 31, 2007 as we have fully depreciated one of our intangible assets.

**Gross Profit.** Cost of revenues was \$540,091 (or 53% of revenues) for the three-months ended March 31, 2007 as compared to \$1,329,766 (or 65% of revenues) for the three-months ended March 31, 2006. Gross profit was \$474,820 (or 47% of revenues) for the three-months ended March 31, 2007 as compared to \$709,386 (or 35% of revenues) for the three-months ended March 31, 2006.

The increase in gross profit as a percentage of revenue is a result of improving the pricing and product offerings of our liquidation operations. The increase also reflects the performance of our high-profit auction broadcasting services group. The revenue of the auction services group increased while the revenue of the liquidation services group declined.

Future gross profit margins may vary considerably from quarter-to-quarter depending on the performance of our various divisions. We believe that over time, our gross profit as a percentage of revenue will range between 25% and 30%, based on the anticipated returns from our revenue streams.

**Operating Net Gain (Loss).** For the three months ended March 31, 2007, we realized a loss of \$99,076 from operations before Other Items compared to a loss of \$25,276 for the three months ended March 31, 2006. We earned additional income of \$113,343 from investment income as compared to \$139,455 for the same period in 2006.

We recorded net income for the three month period ended March 31, 2007 of \$19,998, or \$0.000 per share, as compared to a net income of \$140,310, or \$0.002 per share, for the three month period ended March 31, 2006.

We intend to continue to find ways to expand our business, including 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, 2007 we had working capital of \$6,828,371 made up of cash and cash equivalents of \$1,260,583, accounts receivable of \$1,311,654, loans receivable of \$4,877,066, inventory of \$972,526 and prepaid expenses of \$220,598 net of accounts payable and accrued liabilities of \$71,037, deferred revenue of \$40,490 and a bank loan of \$1,702,529. We anticipate that trade accounts receivables and inventory and overall working capital may increase during the remainder of the 2007 fiscal year as we expand our liquidation operations. Cash used for operating activities totalled \$66,910 due to an increase in inventory and prepaid expenses during the three months ended March 31, 2007. We anticipate that the uses of cash will remain stable for the remainder of the 2007 fiscal year. Our cash resources may decrease if we complete an acquisition prior to the end of the 2007 fiscal year, or if we are unable to maintain positive cash flow from our business throughout the 2007 fiscal year.

Net cash used in investing activities during the three-months ended March 31, 2007 was \$936,758, which was primarily due to loan advances made during the year. Net cash from financing activities during the three-months ended March 31, 2007, was \$1,153,835 which resulted from the proceeds of a bank loan.

### **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

On April 9, 2007 Abdul Ladha, our Chief Executive Officer, President, Chief Financial Officer and a director, entered into a Securities Purchase Agreement with us pursuant to which he purchased units consisting of one share of our common stock, \$0.001 par value, and a warrant to purchase three shares of our common stock. The purchase price was \$0.20 per unit, the last sale price of our common stock on Thursday, April 5, 2007, the last trading day prior to the purchase. Mr. Ladha purchased a total of 2,941,175 units, representing 2,941,175 shares of common stock and warrants to purchase an additional 8,823,525 shares. The total purchase price for the investment was \$588,235. The warrants have an exercise price of \$0.20, a term of 10 years and will expire, if not exercised, on April 9, 2017. We relied on Section 4(2) of the Securities Act to issue these securities, as there was no form of general solicitation or general advertising undertaken and the acquirer occupies a status that affords him effective access to the information registration would otherwise provide.

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

#### ITEM 5. OTHER INFORMATION

As we reported in our Annual Report on Form 10-KSB, through our subsidiary, Axion Investment Corporation, we are developing a parcel of vacant land located at 9655 King George Highway. We acquired the property in August 2005 for \$1,270,000.

We intend to develop the property by improving it with a retail facility of approximately 4,300 square feet and with a residential complex consisting of 111 condominiums of approximately 80,000 square feet. We estimate that the cost

to develop the property will be approximately \$15.2 million. We expect to receive a loan from Royal Bank of Canada in the amount of \$11.4 million to pay for a portion of these development costs. Our portion of the development costs, which total approximately \$3.8 million, will be paid in stages. Including land, we have paid approximately \$1.8 million toward these costs to date, and we expect to pay an additional \$2 million within 90 days.

As of May 9, 2007, we have entered into agreements to pre-sell 100% of the 111 condominiums prior to construction.

The estimated date of the confirmation of the credit facility from the Royal Bank of Canada is May 30, 2007. The estimated date for issuance of the building permit from the City of Surrey is August 15, 2007. The estimated date of commencement of construction will be August 15, 2007 and the estimated date of completion for the development is March 15, 2009.

If the Development is suspended for any reason, including but not limited to our inability to obtain financing or permits, we will not be able to recover all of our expenses. There can be no assurance that the Development will be successful or that developing the property in this manner will increase, or even maintain, its value.

## ITEM 6. EXHIBITS

### **Exhibits:**

3.1

Certificate of Incorporation (1)

3.1.1

Amendment to Certificate of Incorporation (2)

3.2

By-laws (1)

10.1

Securities Purchase Agreement dated April 9, 2007 between the registrant and Abdul Ladha (3)

10.2

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Warrant Agreement dated April 9, 2007 between the registrant and Abdul Ladha (3)

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Certification pursuant to Rule 13a-14(a) and 15d-14(a) (4)

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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(4)

(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) Incorporated by reference from the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 11, 2007.

(4) 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: May10, 2007

By:/s/ ABDUL LADHA

Name: Abdul Ladha

Title: President, Chief Executive

Officer, Chief Financial Officer