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SALES ONLINE DIRECT INC
Form 10QSB
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2003

COMMISSION FILE NUMBER 0-28720

SALES ONLINE DIRECT, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

73-1479833
(I.R.S. Employer
Identification Number)

4 Brussels Street, Worcester, Massachusetts
(Address of principal executive offices)

01610
(Zip Code)

Registrant's telephone number, including area code: (508) 791-6710

Common Stock, \$0.001 Par Value
(Title of each class)

Check whether the issuer: (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 twelve 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

As of May 1, 2003, the issuer had outstanding 135,574,943 shares of its Common Stock, par value \$.001 per share.

Transitional Small Business Disclosure Format

Yes No

Sales Online Direct, Inc.
and Subsidiary
Form 10-QSB
For the Three Months ended March 31, 2003

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SALES ONLINE DIRECT, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS

| | | March 31, 2003 ---- (Unaudited) |
|---------------------------|----|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ | 34,079 |
| Accounts receivable | | 9,806 |
| Inventories | | 1,021,000 |
| Prepaid expenses | | 82,283 |
| Other current assets | | 13,325 |
| | | ----- |

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| | | |
|---|--|--------------|
| Total current assets | | 1,160,493 |
| Property and equipment, net | | 765,237 |
| Other intangible assets | | 2,026,035 |
| | | ----- |
| Total assets | | \$ 3,951,765 |
| | | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Notes payable | | \$ 155,000 |
| Accounts payable | | 356,796 |
| Accrued expenses | | 479,162 |
| | | ----- |
| Total current liabilities | | 990,958 |
| | | ----- |
| Convertible debt | | 3,827,777 |
| | | ----- |
| Contingencies | | -- |
| | | ----- |
| Shareholders' deficit: | | |
| Common stock, \$.001 par value, 350,000,000 shares authorized; 132,963,008 and 128,309,528 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively | | 132,963 |
| Additional paid-in capital | | 15,451,071 |
| Accumulated deficit | | (16,451,004) |
| Unearned compensation | | -- |
| | | ----- |
| Total shareholders' deficit | | (866,970) |
| | | ----- |
| Total liabilities and shareholders' deficit | | \$ 3,951,765 |
| | | ===== |

See accompanying notes to consolidated financial statements

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SALES ONLINE DIRECT, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31,
(Unaudited)

| | 2003 | 2002 |
|----------|------------|------------|
| | ---- | ---- |
| Revenues | \$ 425,900 | \$ 333,909 |

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| | | |
|---|--------------|----------------|
| Cost of revenues | 212,597 | 159,982 |
| | ----- | ----- |
| Gross profit | 213,303 | 173,927 |
| | ----- | ----- |
| Operating expenses: | | |
| Selling, general, and administrative expenses | 804,018 | 761,843 |
| Web site development costs | 182,591 | 252,324 |
| | ----- | ----- |
| Total operating expenses | 986,609 | 1,014,167 |
| | ----- | ----- |
| Loss from operations | (773,306) | (840,240) |
| | ----- | ----- |
| Other income (expense): | | |
| Interest expense | (88,477) | (204,890) |
| Other income | 7 | 69 |
| | ----- | ----- |
| Total other expense, net | (88,470) | (204,821) |
| | ----- | ----- |
| Loss before income taxes | (861,776) | (1,045,061) |
| Provision for income taxes | -- | -- |
| | ----- | ----- |
| Net loss | \$ (861,776) | \$ (1,045,061) |
| | ===== | ===== |
| Loss per share (basic and diluted) | \$ (0.01) | \$ (0.01) |
| | ===== | ===== |
| Weighted average shares | 130,726,073 | 92,975,922 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements

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SALES ONLINE DIRECT, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(Unaudited)

| | 2003 | 2002 |
|--|--------------|----------------|
| | ---- | ---- |
| Operating activities: | | |
| Net loss | \$ (861,776) | \$ (1,045,061) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 396,312 | 356,312 |
| Amortization of unearned compensation | 44,619 | 47,619 |

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| | | |
|--|-----------|--------|
| Amortization of debt discount | -- | 47, |
| Beneficial conversion feature | 52,673 | 45, |
| Common stock issued in payment of professional and consulting fees | 168,090 | 206, |
| Common stock issued in payment of interest | -- | 59, |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services | 15,984 | 220, |
| Unrealized gain on marketable securities | -- | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (2,311) | |
| Inventories | (54,251) | 2, |
| Accounts payable | 96,250 | 37, |
| Accrued expenses | 51,157 | (21, |
| Prepaid expenses and other current assets | 9,349 | (89, |
| | ----- | ----- |
| Net cash used in operating activities | (83,904) | (131, |
| | ----- | ----- |
| Investing activities: | | |
| Purchase of securities | -- | (1, |
| Property and equipment additions | -- | (137, |
| | ----- | ----- |
| Net cash used in investing activities | -- | (139, |
| | ----- | ----- |
| Financing activities: | | |
| Net proceeds from notes payable | 40,000 | 232, |
| Proceeds from convertible debt | 36,700 | 64, |
| Proceeds from exercise of stock options | -- | 2, |
| | ----- | ----- |
| Net cash provided by financing activities | 76,700 | 299, |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | (7,204) | 28, |
| Cash and cash equivalents, beginning | 41,283 | 47, |
| | ----- | ----- |
| Cash and cash equivalents, ending | \$ 34,079 | \$ 76, |
| | ===== | ===== |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

| | | |
|--------------|--------|-------|
| Income taxes | \$ -- | \$ |
| | ===== | ===== |
| Interest | \$ 367 | \$ |
| | ===== | ===== |

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S DEFICIT FOR THE THREE MONTHS ENDED MARCH 31, 2003 (Unaudited)

| | Common stock | | Additional Paid-in Capital | Ac |
|---|--------------|-----------|----------------------------------|------|
| | Shares | Amount | | |
| Balance, December 31, 2002 | 128,309,528 | \$128,310 | \$15,231,677 | \$(1 |
| Amortization of stock-based compensation | -- | -- | -- | |
| Issuance of common stock pursuant to exercise of stock options granted to employees for services | 360,492 | 360 | 15,624 | |
| Common stock issued in payment of professional and consulting fees | 3,573,282 | 3,573 | 164,517 | |
| Conversions of note payable | 719,706 | 720 | 25,680 | |
| Beneficial conversion discount | -- | -- | 13,573 | |
| Net loss | -- | -- | -- | |
| Balance, March 31, 2003 | 132,963,008 | \$132,963 | \$15,451,071 | \$(1 |

See accompanying notes to consolidated financial statements

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SALES ONLINE DIRECT, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2003 AND 2002

Note 1. Organization and Summary Of Significant Accounting Policies

Line of business

The Company operates and maintains an internet portal dedicated to collectibles in a variety of categories. The Company conducts person to person online auctions of its own merchandise and items posted under consignment arrangements by third party sellers.

General

The financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission for interim financial reporting and include all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation. These financial statements have not been audited.

Certain information and footnote disclosures normally included in

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financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the year ended December 31, 2002, which are included in the Company's Form 10-KSB.

Principles of consolidation

The accompanying financial statements include the accounts of Sales Online Direct, Inc. and its wholly-owned subsidiary, Rotman Collectibles, Inc.

Inventories

Inventories consist of collectible merchandise for sale and are stated at the lower of average cost or market on a first-in, first-out (FIFO) method.

On a periodic basis management reviews inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, at March 31, 2003 and December 31, 2002 the Company has provided for reserves totaling \$175,000 and \$180,000, respectively.

Revenue Recognition

The Company generates revenue from sales of its purchased inventories, fees and commissions on sales of merchandise under consignment type arrangements, web hosting services, appraisal services and advertising and promotional services.

For sales of merchandise owned and warehoused by the Company, the Company is responsible for conducting the auction, billing the customer, shipping the merchandise to the customer,

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processing customer returns and collecting accounts receivable. The Company recognizes revenue upon verification of the credit card transaction and shipment of the merchandise, discharging all obligations of the Company with respect to the transaction.

For sales of merchandise under consignment type arrangements, the Company takes physical possession of the merchandise, but is not obligated to, and does not, take title or ownership of merchandise. When an auction is completed, consigned merchandise that has been sold is shipped upon receipt of payment. The Company recognizes the net commission and service revenues relating to the consigned merchandise upon receipt of the gross sales proceeds and shipment of the merchandise. The Company then releases the net sales proceeds to the Consignor, discharging all obligations of the Company with respect to the transaction.

The Company charges a fixed monthly amount for web hosting services. This revenue is recognized on a monthly basis as the services are provided.

Appraisal revenues are recognized when the appraisal is delivered to the customer.

Advertising revenues are recognized at the time the advertisement is

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initially displayed on the Company's web site. Sponsorship revenues are recognized at the time that the related event is conducted.

Advertising Costs

Advertising costs totaling approximately \$23,000 in both 2003 and 2002 are charged to expense when incurred.

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to convertible debt and outstanding stock options and warrants. The number of common shares that would be issued upon conversion of the convertible debt would have been 119,217,282 as of March 31, 2003 and 23,643,989 as of March 31, 2002. The number of common shares that would be included in the calculation of outstanding options and warrants is determined using the treasury stock method. The assumed conversion of outstanding dilutive stock options and warrants would increase the shares outstanding but would not require an adjustment of income as a result of the conversion. Stock options and warrants applicable to 25,642,250 and 642,250 shares at March 31, 2003 and 2002, respectively, have been excluded from the computation of diluted earnings per share, as have the common shares that would be issued upon conversion of the convertible debt, because they are antidilutive. Diluted earnings per share have not been presented as a result of the Company's net loss for each period.

Web Site and Software Development Costs

The Company accounts for web site development costs in accordance with the provisions of EITF 00-2, "Accounting for Web Site Development Costs" ("EITF 00-2"), which requires that costs incurred in planning, maintaining, and operating stages that do not add functionality to the site be charged to operations as incurred. External costs incurred in the site application and infrastructure development stage and graphic development are capitalized. During the three months ended

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March 31, 2002, the Company capitalized approximately \$114,500 of web site development costs. There were no web site development costs capitalized during the three months ended March 31, 2003. Such capitalized costs are included in "Property and Equipment."

Recent Accounting Pronouncements

During 2002, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) Nos. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", 146 "Accounting for Costs Associated with Exit or Disposal Activities" and 147 "Acquisitions of Certain Financial Institutions - an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9". The Company does not expect their implementation to have a material impact on the Company's financial statements.

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Note 2. Notes Payable

At March 31, 2003 and December 31, 2002, the Company was obligated on short-term notes payable totaling \$155,000 and \$115,000, respectively. At March 31, 2003 and December 31, 2002 \$130,000 and \$115,000, respectively, was to a related party. The related party notes bear interest at 8%, while the remainder bears interest at 18%. All of the short-term debt is due in 2003.

Note 3. Common Stock

Call Option Agreements

The Company was granted call options for 2,283,565 unregistered common shares held by ChannelSpace Entertainment, Inc. at an exercise price of \$.001 per share. The call options expire on January 31, 2005.

Stock Options

On February 1, 2001 the Company adopted the 2001 Non-Qualified Stock Option Plan (the "2001 Plan") and has filed Registration Statements on Form S-8 to register 50,000,000 shares of its common stock. Under the 2001 Plan employees and consultants may elect to receive their gross compensation in the form of options to acquire the number of shares of the Company's common stock equal to their gross compensation divided by the fair value of the stock on the date of grant. During the three months ended March 31, 2003 the Company granted options for 3,933,774 shares at various dates aggregating \$184,074 under this plan. During the three months ended March 31, 2002 the Company granted options for 3,845,201 shares at various dates aggregating \$423,485 under this plan. All options granted during each period were exercised.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock option plans. Accordingly, compensation cost has been recognized based on the difference between the fair market value of the common stock at the grant date and the exercise price. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates for awards under the plan consistent with SFAS No. 123, the Company's net loss for the three months ended March 31, 2003 and 2002 would have been (\$1,150,894) and (\$1,059,552), respectively, and the loss per share would have been (\$.01) for each period.

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Note 4. Income Taxes

There was no provision for income taxes for the periods ended March 31, 2003 and 2002 due to the Company's net operating loss and its valuation reserve against deferred income taxes.

The difference between the provision for income taxes from amounts computed by applying the statutory federal income tax rate of 34% and the Company's effective tax rate is due primarily to the net operating loss incurred by the Company and the valuation reserve against the Company's deferred tax asset.

At March 31, 2003, the Company has federal and state net operating loss carry forwards of approximately \$12,710,000 available to offset future taxable income. The state carry-forwards will expire intermittently through 2008, while the federal carry forwards will expire intermittently through 2023.

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Note 5. Convertible Debt Financing

As of March 31, 2003 the Company has issued \$4,193,824 of convertible debt, which is presented net of unamortized beneficial conversion discounts of \$366,047.

On March 23, 2000, the Company entered into a Securities Purchase Agreement (the "Agreement"), whereby the Company sold an 8% convertible note in the amount of \$3,000,000 (the "Series A Note"), due in shares of common stock on March 31, 2002 to Augustine Fund, L.P. (the "Buyer"). The Series A Note, as most recently modified on May 21, 2002, is convertible into common stock at a conversion price equal to the lesser of: (1) \$.375 per share, or (2) seventy-three percent (73%) of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. In connection with the agreement, the Company also issued warrants to the Buyer and Delano Group Securities to purchase 300,000 and 100,000 shares of common stock, respectively. The purchase price per share of common stock is equal to \$2.70, one hundred and twenty percent (120%) of the lowest of the closing bid prices for the common stock during the five (5) trading days prior to the closing date. The warrants will expire on March 31, 2005. A May 21, 2002 modification agreement extended the maturity date of the note until September 30, 2002, provided for additional ninety-day extensions, the third of which was exercised on March 31, 2003, beyond that date until March 31, 2005, waived interest for periods after March 31, 2002, and released the Company from all requirements to register any common shares issuable under the note or to keep any existing registration statements effective. As of March 31, 2003 the outstanding balance of his note was \$2,544,350, since \$455,650 has been converted into 6,502,142 shares of the Company's common stock at conversion prices ranging from \$.028 to \$.236 per share.

On November 7, 2001, the Company entered into a Loan Agreement, whereby it issued an 8% convertible note in the amount of \$1,000,000, due November 7, 2003 (the "Series B Note") to Buyer. This note was modified on May 21, 2002 to, among other things, allow the Company to borrow up to \$2,000,000. The Series B Note, as modified, is convertible into common stock at a conversion price equal to the lesser of: (1) \$.25 per share, or (2) seventy-three percent (73%) of the average of the closing bid price for the common stock for the five (5) trading days immediately preceding the conversion date. Based upon advances through March 31, 2003, had the Buyer converted the Series B Note at issuance, Buyer would have received \$2,259,555 in aggregate value of the company's common stock upon conversion of the convertible note. As a result, in accordance with EITF 00-27, the intrinsic value of the beneficial conversion feature of \$610,081 is being charged to interest expense over the term of the related note. The beneficial conversion feature that was charged to interest expense totaled \$52,673 and \$45,599 during the three months ended March 31, 2003 and 2002, respectively. The total beneficial conversion discount related to this note has been recorded as an increase in additional paid in capital and the unamortized portion as a reduction in the related note. In addition, the Company entered into a

Registration Rights Agreement whereby the Company agreed to file a Registration Statement with the Securities and Exchange Commission (SEC) within sixty (60) days of a request from the Buyer ("Filing Date"), covering the common stock to be issued upon conversion of the Series B Note. If this Registration Statement is not declared effective by the SEC within sixty (60) days of the filing date the conversion percentage shall decrease by two percent (2%) for each month that the Registration Statement is not declared effective. The May 21, 2002 modification extended the maturity date of the Series B Note to November 7, 2004, provided the opportunity to extend the maturity date to November 7, 2005,

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required that principal and interest be payable in shares of common stock, or cash, at the discretion of the Company, and provided that any fees or expenses related to any registration of the common stock will be borne equally by the Company and the Buyer.

On November 7, 2001, the Company entered into a second Loan Agreement whereby it issued a 6% convertible note, due November 7, 2003 (the "Rotman Note"), to Leslie Rotman, the mother of Gregory and Richard Rotman. The Rotman Note was converted into 23,916,378 shares of common stock at conversion prices ranging from \$.0298 to \$.05152 per share in early January 2002. Since the Rotman Note was fully converted in early January 2002 the related beneficial conversion feature of \$250,000 was charged to interest expense in 2001.

Note 6. Issuance of Common Stock

During the three months ended March 31 2003 and 2002 the Company issued 3,573,282 and 1,367,289 shares of common stock respectively, in connection with the payment of approximately \$168,000 and \$207,000 of professional and consulting fees, respectively.

During the three months ended March 31, 2003 the Company issued 719,706 shares of common stock in connection with payments totaling \$26,400 on the Series A Note (Note 5).

In addition, during the three months ended March 31, 2002 the Company issued 2,393,400 shares of common stock in connection with the payment of approximately \$60,000 of interest due on its convertible debt and 294,750 shares of common stock in connection with the exercise of stock options.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

Our primary business, based on our revenues, is the purchase and sale of collectibles and memorabilia. We operate an online auction site that provides a full range of services to sellers and buyers, and maintain multiple collectibles portals, offering integrated information and services to the collectibles community. The collectibles industry includes every person that collects items having either economic or sentimental value, such as antiques, sports and entertainment memorabilia, stamps, coins, figurines, dolls, collector plates, plush and die cast toys, cottage/village reproductions and other decorative or limited edition items that are intended for collecting and other memorabilia. A portal is an Internet web site that enables visitors to search for, and visit, other related sites, access related services, and obtain relevant data. Over the past two years, our focus has been portal development in our own industry of collectibles. To that end, we developed our web site www.CollectingChannel.com, and we acquired a large collection of entertainment memorabilia. We plan to converge our multiple sites into one integrated site in 2003. We also plan to build other portals, some that will charge fees to access their services, and others to leverage company-owned technology and web sites. In 2003, we began to offer "AuctionInc." software, a suite of online management tools developed by us during 2001 and 2002, to other online sellers, and we expanded our online appraisal services and autograph signing events.

Critical Accounting Policies

Our significant accounting policies are more fully described in Note 1 to our financial statements. However, certain of our accounting policies are

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particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management; as a result, they are subject to an inherent degree of uncertainty. In applying these policies, our management makes estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Those estimates and judgments are based upon our historical experience, the terms of existing contracts, our observance of trends in the industry, information that we obtain from our customers and outside sources, and on various other assumptions that we believe to be reasonable and appropriate 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. Our critical accounting policies include:

Inventory: Inventory is stated at the lower of average cost or market on a first-in, first-out method. On a periodic basis we review inventories on hand to ascertain if any is slow moving or obsolete. In connection with this review, we establish reserves based upon our experience and management's assessment of current product demand.

Property and Equipment and Other Intangible Assets: Property and equipment and other intangible assets are stated at cost. Depreciation and amortization are computed over estimated useful lives that are reviewed periodically. In connection with this review we consider changes in the economic environment, technological advances, and management's assessment of future revenue potential.

Results of Operations

The following discussion compares the Company's results of operations for the three months ended March 31, 2003 with those for the three months ended March 31, 2002. The Company's financial statements and notes thereto included elsewhere in this quarterly report contain detailed information that should be referred to in conjunction with the following discussion.

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Revenue. For the three months ended March 31, 2003, revenue was \$425,900, 97% of which is attributable to sales of the Company's own product and fees from buyers and sellers through the Rotman Auction operations. Gross sales of the Company's own product were approximately \$415,600. Advertising and web hosting fees were approximately \$6,200 or 1% of gross revenues during the quarter ended March 31, 2003.

The Company's 2003 first quarter revenues represent an increase of approximately \$92,000, or 28%, from the three-month period ended March 31, 2002, in which revenue was approximately \$333,900. For the three month period ended March 31, 2002, sales of the Company's product were approximately \$321,200, or 96% of gross sales, and advertising and web hosting fees were \$12,500, or 4% of gross revenues.

The reason for the increase in revenues was a combination of higher sales of Company owned product of \$94,400 from the same period in 2002 and \$4,000 for Ask the Appraiser(TM), offset by a decrease of \$6,300 in advertising and web hosting fees. Higher sales of Company owned product are the net result of higher sales of sports memorabilia, movie posters, and other collectibles. Gross profit from Company owned product sales for the three months ended March 31, 2003 was \$204,600, which represents an increase of \$43,400 from the comparable quarter in 2002, in which gross profit from Company owned product sales was \$161,200. Since gross margin percentages on Company owned product were approximately the same

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for the first quarter of 2003 than in 2002, and sales of Company owned product were \$94,400 higher in the quarter ended March 31, 2003, the Company produced \$43,400 more gross margin dollars.

Operating Expenses. Total operating expenses for the three months ended March 31, 2003 were approximately \$986,600, compared to \$1,014,200 for the corresponding period in 2002, a decrease of \$27,600. Sales, general and administrative ("SG&A") expenses for the three months ended March 31, 2003 were approximately \$804,000, compared to \$761,800 for the three months ended March 31, 2002. The increase of \$42,200 in SG&A costs includes an increase in payroll and related costs of \$51,200 and an increase in professional fees of \$65,200, offset by a decrease in miscellaneous SG&A costs of \$71,700. Depreciation and amortization decreased by approximately \$2,500 due to certain assets becoming fully depreciated during 2002. Costs associated with planning, maintaining and operating our web sites for the three months ended March 31, 2003 decreased approximately \$69,700 from the corresponding period in 2002. This decrease is due primarily to a decrease in payroll of \$259,200, offset by increases in consulting fees of \$33,000, as certain employees were replaced with consultants, depreciation of \$22,100, computer expenses of \$20,500, and the fact that there were no web site development costs capitalized for the quarter ended March 31, 2003 compared to \$114,500 in web site development costs for the corresponding quarter in 2002.

Interest Expense. For the quarter ended March 31, 2003, the Company incurred interest charges of approximately \$88,500 associated with one convertible note, compared to interest charges of \$205,000 for the corresponding period in 2002. The decrease of \$116,500 is attributable to approximately \$3,000,000 in convertible debt that became non-interest bearing effective April 1, 2002, and full recognition as of March 31, 2002 of \$47,800 related to warrants and deferred finance fees, offset by charges associated with new convertible debt.

Net Loss. The Company realized a net loss for the three months ended March 31, 2003 of approximately \$861,800, or \$.01 per share, as compared to a loss of \$1,045,100, or \$.01 per share for the three months ended March 31, 2002.

Inflation. The Company believes that inflation has not had a material effect on its results of operations.

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Assets

At March 31, 2003, total assets of the Company were \$3,951,800, compared to \$4,308,100 at December 31, 2002. The decrease was primarily due to depreciation and amortization totaling \$396,300 offset by an increase in inventories of \$54,000.

Operating Cash Flows

A summarized reconciliation of the Company's net losses to cash used in operating activities for the three months ended March 31, 2003 compared to March 31, 2002, is as follows:

| | 2003 | 2002 |
|-------------------------------|--------------|----------------|
| | ---- | ---- |
| Net loss | \$ (861,800) | \$ (1,045,100) |
| Depreciation and amortization | 440,900 | 404,100 |

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| | | |
|---|-----------------|------------------|
| Amortization of beneficial conversion discount and debt discount | 52,700 | 93,400 |
| Common stock issued in payment services | 184,100 | 427,300 |
| Common stock issued in payment of interest | -- | 59,800 |
| Changes in current assets and liabilities | 100,200 | (71,500) |
| | ----- | ----- |
| Net cash used in operating activities | \$ (83,900) | \$ (132,000) |
| | ===== | ===== |

Working Capital and Liquidity

The Company had cash and cash equivalents of \$34,000 at March 31, 2003, compared to \$41,300 at December 31, 2002. The Company had \$169,000 of working capital at March 31, 2003, compared to working capital of \$316,000 at December 31, 2002. At March 31, 2003 current liabilities were \$991,000 compared to \$803,600 at December 31, 2002. During the quarter ended March 31, 2003 current liabilities increased primarily due to accrued interest, consulting fees, and payroll.

As discussed in Note 5 of the Financial Statements, the Company has outstanding convertible notes held by Augustine Fund, L.P. ("Augustine Fund"). The Series A Note, in the original principal amount of \$3,000,000, has been reduced by \$455,650 through the conversion of common stock. The Company has available approximately \$350,000 under the \$2,000,000 Series B Note. During 2002, Augustine had refused to honor certain draw requests, citing inadequate liquidity in the Company's common stock and Augustine's lack of cash resources. As of March 31, 2003, Augustine Fund was current with all draw requests. If, in the future, Augustine Fund fails to honor draw requests, the Company may need to seek alternative financing or seek damages for breach of contract from Augustine Fund.

The Company's independent auditors have issued a going concern opinion on the Company's consolidated financial statements for the year ended December 31, 2002. The Company needs an infusion of \$500,000 of additional capital to fund anticipated operating costs over the next 12 months. However, management anticipates continued growth in gross profit. Management anticipates that its suite of management tools, called "AuctionInc.", its new online appraisal service, Ask the Appraiser(TM), offered through eBay, and sales from its movie poster inventory, will continue to increase revenues and result in higher gross profit. Subject to the discussion below, management believes that the Company has sufficient cash commitments to fund operations during the next 12 months. These commitments include

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call options for approximately 2.3 million shares of common stock, which, once assigned by the Company, can generate between \$95,000 and \$750,000 of cash. In addition, Augustine Fund is required to provide additional financing, under its \$2,000,000 convertible note at the Company's request in the amount of \$350,525. Management also obtained private financing in 2002 and the first quarter of 2003 in the aggregate amount of \$130,000 pursuant to 8% promissory notes held by a related party, and \$25,000 pursuant to an 18% promissory note to an unrelated party. This short term financing at higher interest rates is for the purpose of purchasing inventory. We anticipate that this private financing will be repaid shortly after the related inventory is sold.

Management believes that these plans should result in obtaining sufficient operating cash through the end of 2003. However, there can be no assurance that an assignment of the call options can be concluded on reasonably acceptable

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terms or that Augustine will honor our draw requests. If these assignments are not completed or draw requests are not honored, management may need to seek alternative sources of capital to support operations. In addition, management believes that operating costs and interest expense will continue to decrease. Management believes that future software development fees will decrease substantially because the AuctionInc. software development is substantially complete, payroll will decline due to changes in benefits and staffing, and professional fees will decline because the Company has resolved its litigation issues.

Forward Looking Statements

This Quarterly Report on Form 10-QSB contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) regarding the Company and its business, financial condition, results of operations and prospects. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements in this Report. Additionally, statements concerning future matters such as the development of new services, technology enhancements, purchase of equipment, credit arrangements, possible changes in legislation and other statements regarding matters that are not historical are forward-looking statements.

Although forward-looking statements in this quarterly report reflect the good faith judgment of the Company's management, such statements can only be based on facts and factors currently known by the Company. Consequently, forward-looking statements are inherently subject to risks, contingencies and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in this Report. Although the Company believes that its plans, intentions and expectations reflected in these forward-looking statements are reasonable, the Company can give no assurance that its plans, intentions or expectations will be achieved. For a more complete discussion of these risk factors, see Exhibit 99.1, "Risk Factors", in the Company's Form 10-KSB for the fiscal year ended December 31, 2002.

For example, the Company's ability to achieve positive cash flow and to become profitable may be adversely affected as a result of a number of factors that could thwart its efforts. These factors include the Company's inability to successfully implement the Company's business and revenue model, the collectibles community not accepting the services the Company offers, higher costs than anticipated, the Company's inability to sell its products and services to a sufficient number of customers, the Company's failure to attract sufficient interest in and traffic to its sites, the Company's inability to complete development of its sites, the failure of the Company's operating systems, and the Company's inability to increase its revenues as rapidly as anticipated. If the Company is not profitable, it will not be able to continue its business operations.

ITEM 3. CONTROLS AND PROCEDURES

Based on the evaluation of the Company's disclosure controls and procedures as of a date within 90 days of the filing date of this quarterly report, each of Gregory Rotman, the President of the Company, and Richard Rotman, the Chief Financial Officer of the Company, have concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is

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recorded, processed, summarized and reported, within the time period specified by 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 these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

(c) During the first quarter of 2003, Augustine Fund, L.P. converted \$26,400 of the March 23, 2000 convertible note into 719,706 shares of common stock of the Company. Augustine Fund, L.P. is an accredited investor that represented that it acquired the convertible notes and the warrants issued in connection with the note for its own account. The issuance of the securities is exempt from registration under Section 4(2) of the Securities Act of 1933 and Regulation D promulgated thereunder. The Company did not issue any shares of its common stock, par value \$.001 per share, to Augustine Fund, L.P., for interest due pursuant to the eight percent convertible note issued by the Company to the Augustine Fund, L.P. on November 7, 2001.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

99.1 Certification of President and CFO pursuant to Section 906 of the 2002 Sarbanes-Oxley Act.

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(b) Reports on Form 8-K:

The Company filed a report on Form 8-K with the Securities and Exchange Commission as of February 3, 2003, under Item 4, announcing that Wolf & Company, P.C. had been dismissed as the Company's independent accountants effective January 27, 2003, and that Carlin, Charron & Rosen, LLP has been appointed as the Company's independent accountants effective January 31, 2003.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the

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undersigned, thereunto duly authorized.

Dated: May 12, 2003

SALES ONLINE DIRECT, INC.
Registrant

/s/ Gregory Rotman

Gregory Rotman, President

/s/ Richard Rotman

Richard Rotman, Chief Financial Officer, Vice
President and Secretary

CERTIFICATIONS

I, Gregory Rotman, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Sales Online Direct, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal

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controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Gregory Rotman

Gregory Rotman, President

I, Richard Rotman, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Sales Online Direct, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

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committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Richard Rotman

Richard Rotman, Chief Financial Officer

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LIST OF EXHIBITS

| Exhibit No. ----- | Description ----- |
|----------------------|---|
| 99.1 | Certification of President and CFO pursuant to Section 906 of the 2002 Sarbanes-Oxley Act |