

# RITCHIE BROS AUCTIONEERS INC

## FORM 6-K (Report of Foreign Issuer)

Filed 08/12/99 for the Period Ending 06/30/99

Telephone	7783315500
CIK	0001046102
Symbol	RBA
SIC Code	7389 - Business Services, Not Elsewhere Classified
Industry	Business Services
Sector	Services
Fiscal Year	12/31

# RITCHIE BROS AUCTIONEERS INC

## FORM 6-K (Report of Foreign Issuer)

Filed 8/12/1999 For Period Ending 6/30/1999

Address	6500 RIVER RD RICHMON, V6X 4G5
Telephone	604-273-7564
CIK	0001046102
Industry	Business Services
Sector	Services
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**Form 6-K**

**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended June 30, 1999

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**RITCHIE BROS. AUCTIONEERS INCORPORATED**

9200 Bridgeport Road  
Richmond, BC, Canada  
**V6X 1S1**  
(604) 273 7564  
(Address of principal executive offices)

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[indicate by check mark whether the registrant files or will file annual reports  
under cover Form 20-F or Form 40-F]

**Form 20-F  Form 40-F**

[indicate by check mark whether the registrant by furnishing information  
contained  
in this Form is also thereby furnishing the information to the Commission  
pursuant to  
rule 12g3-2(b) under the Securities Exchange Act of 1934]

Yes  No

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## **PART 1. FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

The accompanying unaudited consolidated financial statements do not include all information and footnotes required by Canadian or United States generally accepted accounting principles. However, in the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the relevant periods have been made. Results for the interim periods are not necessarily indicative of the results to be expected for the year or any other period. These financial statements should be read in conjunction with the summary of accounting policies and the notes to the consolidated financial statements for the year ended December 31, 1998 included in the Company's Report on Form 40-F for the fiscal year ended December 31, 1998, a copy of which has been filed with the Securities and Exchange Commission.

**RITCHIE BROS. AUCTIONEERS INCORPORATED**

**CONSOLIDATED STATEMENTS OF INCOME**  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS EXCEPT PER SHARE AMOUNTS)

(unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
Auction revenues.....	\$ 35,589	\$ 29,188	\$ 53,602	\$ 50,417
Direct expenses.....	6,352	4,896	9,104	8,463
	-----	-----	-----	-----
	29,237	24,292	44,498	41,954
Expenses:				
Depreciation and amortization.....	1,500	656	2,234	1,256
General and administrative.....	11,550	9,143	23,452	20,875
	-----	-----	-----	-----
	13,050	9,799	25,686	22,131
Income from operations.....	16,187	14,493	18,812	19,823
Other income (expenses):				
Interest expense.....	(677)	(430)	(920)	(1,171)
Other.....	245	254	512	577
	-----	-----	-----	-----
	(432)	(176)	(408)	(594)
Income before income taxes.....	15,755	14,317	18,404	19,229
Income taxes:				
Current.....	5,045	5,825	5,898	7,360
Future.....	239	--	403	--
	-----	-----	-----	-----
	5,284	5,825	6,301	7,360
Net income.....	\$ 10,471	\$ 8,492	\$ 12,103	\$ 11,869
	=====	=====	=====	=====
Net income per share:				
Basic.....	\$ 0.63	\$ 0.51	\$ 0.73	\$ 0.78
	=====	=====	=====	=====
Diluted.....	\$ 0.61	\$ 0.51	\$ 0.71	\$ 0.77
	=====	=====	=====	=====
Weighted average number of shares outstanding.....	16,716,039	16,548,666	16,644,493	15,277,312
	=====	=====	=====	=====
Diluted weighted average number of shares outstanding.....	17,321,166	16,729,497	17,053,669	15,465,852
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

**RITCHIE BROS. AUCTIONEERS INCORPORATED**

**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

	JUNE 30 1999	DECEMBER 31 1998
	-----	-----
	(UNAUDITED)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$129,325	\$ 73,620
Accounts receivable.....	21,080	6,771
Inventory.....	2,332	2,355
Advances against auction contracts.....	222	5,345
Prepaid expenses and deposits.....	1,947	711
	-----	-----
Capital assets (note 2).....	154,906	88,802
Goodwill (note 3).....	75,937	61,324
Future income taxes (note 4).....	32,592	--
	2,064	2,467
	-----	-----
	\$265,499	\$152,593
	=====	=====
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Auction proceeds payable.....	\$ 86,133	\$ 14,030
Accounts payable and accrued liabilities.....	18,655	21,751
Current bank loans.....	2,851	793
Income taxes payable.....	192	3,079
	-----	-----
Bank term loans (note 6).....	107,831	39,653
	33,230	8,768
	-----	-----
	141,061	48,421
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5).....	69,128	64,728
Additional paid-in capital.....	4,332	--
Retained earnings.....	53,875	41,772
Foreign currency translation adjustment.....	(2,897)	(2,328)
	-----	-----
	124,438	104,172
	-----	-----
	\$265,499	\$152,593
	=====	=====

Subsequent event (note 8)

See accompanying notes to consolidated financial statements.

**RITCHIE BROS. AUCTIONEERS INCORPORATED**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
 (EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

(unaudited)

	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL SHAREHOLDERS' EQUITY
	-----	-----	-----	-----	-----
Balance, December 31, 1998.....	\$64,728	--	\$41,772	\$(2,328)	\$104,172
Common shares issued.....	1,345	--	--	--	1,345
Net income.....	--	--	1,632	--	1,632
Foreign currency translation adjustment.....	--	--	--	(422)	(422)
	-----	-----	-----	-----	-----
Balance, March 31, 1999.....	66,073	--	43,404	(2,750)	106,727
Common shares issued.....	3,055	--	--	--	3,055
Warrants issued.....	--	4,332	--	--	4,332
Net income.....	--	--	10,471	--	10,471
Foreign currency translation adjustment.....	--	--	--	(147)	(147)
	-----	-----	-----	-----	-----
Balance, June 30, 1999.....	\$69,128	\$4,332	\$53,875	\$(2,897)	\$124,438
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

**RITCHIE BROS. AUCTIONEERS INCORPORATED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

(unaudited)

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
	-----	-----
Cash provided by (used in)		
Operations:		
Net income.....	\$ 12,103	\$ 11,869
Items not involving the use of cash		
Depreciation and amortization.....	2,234	1,256
Employee share compensation.....	1,345	--
Future income taxes.....	403	--
Changes in non-cash working capital:		
Accounts receivable.....	(14,309)	(49,196)
Inventory.....	23	(9,721)
Advances against auction contracts.....	5,123	(6,221)
Prepaid expenses and deposits.....	(1,236)	(122)
Auction proceeds payable.....	72,103	68,952
Accounts payable and accrued liabilities.....	(3,096)	454
Income taxes payable.....	(2,887)	(3,653)
Foreign currency translation adjustment.....	(569)	(317)
	-----	-----
	71,237	13,301
Financing:		
Issuance of share capital, net of issue costs.....	--	51,775
Reorganization costs.....	--	(20)
Bank loans.....	26,520	(452)
	-----	-----
	26,520	51,303
Investments:		
Goodwill (net of non-cash consideration).....	(25,616)	--
Capital asset additions, net.....	(16,436)	(19,230)
	-----	-----
	(42,052)	(19,230)
Increase in cash and cash equivalents.....	55,705	45,374
Cash and cash equivalents, beginning of period.....	73,620	27,149
	-----	-----
Cash and cash equivalents, end of period.....	\$129,325	\$ 72,523
	=====	=====
Supplemental disclosure of cash flow information		
Interest paid.....	\$ 1,163	\$ 1,174
Income taxes paid.....	\$ 5,725	\$ 11,014

See accompanying notes to consolidated financial statements.



**RITCHIE BROS. AUCTIONEERS INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(TABULAR DOLLAR AMOUNTS EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

JUNE 30, 1999

(Information as at June 30, 1999 and for the six-month periods ended June 30, 1999 and 1998 is unaudited)

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) BASIS OF PRESENTATION:**

These unaudited consolidated financial statements present the financial position, results of operations and changes in shareholders' equity and cash flows of Ritchie Bros. Auctioneers Incorporated (the "Company").

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Except as disclosed in note 7, these consolidated financial statements comply, in all material respects, with generally accepted accounting principles in the United States.

**2. CAPITAL ASSETS**

Capital assets at December 31, 1998 are as follows:

	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
	-----	-----	-----
Land and improvements.....	\$36,631	\$ 900	\$35,731
Buildings.....	21,056	2,825	18,231
Automotive equipment.....	5,164	1,606	3,558
Computer equipment.....	1,920	739	1,181
Yard equipment.....	2,619	1,124	1,495
Office equipment.....	1,996	1,018	978
Leasehold improvements.....	200	50	150
	-----	-----	-----
	\$69,586	\$8,262	\$61,324
	=====	=====	=====

Capital assets at June 30, 1999 are as follows:

	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
	-----	-----	-----
Land and improvements.....	\$41,584	\$1,123	\$40,461
Buildings.....	29,239	3,139	26,100
Automotive equipment.....	6,529	1,967	4,562
Computer equipment.....	2,454	922	1,532
Yard equipment.....	2,891	1,262	1,629
Office equipment.....	2,591	1,145	1,446
Leasehold improvements.....	287	80	207
	-----	-----	-----
	\$85,575	\$9,638	\$75,937
	=====	=====	=====

**3. GOODWILL**

In April 1999, the Company recorded goodwill of \$33,003,000 on the purchase of the auction business of Forke, Inc. (the "Forke acquisition"). The goodwill balance is being amortized on a straight line basis over 20 years, resulting in a charge to income of \$411,000 for the quarter ended June 30, 1999.

**RITCHIE BROS. AUCTIONEERS INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**  
(TABULAR DOLLAR AMOUNTS EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

JUNE 30, 1999

(Information as at June 30, 1999 and for the six-month periods ended June 30, 1999 and 1998 is unaudited)

#### 4. FUTURE INCOME TAXES

In the fourth quarter of 1998, the Company changed its policy for accounting for income taxes by adopting the provisions of Section 3465, Income Taxes, of The Handbook of the Canadian Institute of Chartered Accountants. Under this standard, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The adoption of Section 3465 did not impact amounts reported in the prior period.

#### 5. SHARE CAPITAL

##### **SHARES AND WARRANTS ISSUED:**

In March 1998, the Company issued 3,335,000 common shares in connection with its initial public offering. Net proceeds raised from the offering, after deducting underwriting commissions and other direct costs, and after adding the future income tax benefit related to the amortization of underwriting costs, were \$53.9 million.

In February 1999, the Company issued 50,000 common shares to an employee. The transaction was recorded at a share price of \$26.875 per share, the market value of the common shares on the issuance date.

In April, 1999, the Company acquired the auction business of Forke, Inc. through the payment of \$25 million cash and the issuance of 100,000 common shares and 400,000 warrants to acquire common shares of the Company. The warrants are fully vested and have an exercise price of \$26.69 per share and expire on April 1, 2001. The shares have been valued using the market price of \$30.55 per share and the warrants have been valued at \$4,332,000 using an option pricing model. The combined value of \$7,387,000 for the shares and warrants has been included as non-cash consideration in the Forke acquisition.

##### **OPTIONS GRANTED:**

In February 1999, the Company granted to directors and employees 17,000 options to acquire common shares. Each option has an exercise price of \$26.875, the market value of the common shares on the grant date, and expires on February 21, 2009.

##### **OPTIONS EXERCISED AND CANCELLED:**

During the six months ended June 30, 1999, 21,750 options were exercised at \$0.10 each and 1,500 options, having an exercise price of \$0.10 each, were cancelled. These \$0.10 options had been granted to employees of the Company prior to the Company's initial public offering. At June 30, 1999, 147,750 \$0.10 options remain outstanding.

#### 6. BANK TERM LOANS

During the quarter ended June 30, 1999, the Company entered into a \$35 million term loan agreement to finance the acquisition of the auction business of Forke, Inc. and certain related assets. The loan bears interest at a floating rate, to be paid quarterly beginning June 30, 1999. The Company is required to make minimum

**RITCHIE BROS. AUCTIONEERS INCORPORATED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)**  
(TABULAR DOLLAR AMOUNTS EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

JUNE 30, 1999

(Information as at June 30, 1999 and for the six-month periods ended June 30, 1999 and 1998 is unaudited)

annual payments of \$5 million in respect of the principal amount of the debt. At June 30, 1999 the Company had utilized \$25 million of the facility and the floating interest rate was 5.91%.

**7. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial information which differ, in certain respects, from accounting practices generally accepted in the United States and from requirements promulgated by the United States Securities and Exchange Commission.

Material differences to the consolidated financial statements and related notes of the Company are as follows:

Consolidated statements of net income per share

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
Net income per share in accordance with United States GAAP				
Basic.....	\$ 0.63	\$ 0.51	\$ 0.73	\$ 0.78
Diluted.....	\$ 0.62	\$ 0.51	\$ 0.72	\$ 0.77
	=====	=====	=====	=====
Weighted average number of shares outstanding.....	16,716,039	16,548,666	16,644,493	15,277,312
Diluted average number of shares outstanding.....	16,984,669	16,729,497	16,851,937	15,465,852

Consolidated statements of comprehensive net income

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
Net income.....	\$10,471	\$8,492	\$12,103	\$11,869
Other comprehensive income (loss) adjustments				
Foreign currency translation.....	(147)	(264)	(569)	(317)
	-----	-----	-----	-----
Comprehensive net income in accordance with United States GAAP.....	\$10,324	\$8,228	\$11,534	\$11,552
	=====	=====	=====	=====

**8. SUBSEQUENT EVENT**

On July 8, 1999, in connection with the Forke acquisition, the Company acquired three properties, each consisting of land and buildings, for cash consideration of \$8.6 million. This acquisition was financed through a bank term loan (note 6).

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

### OVERVIEW

The following discussion summarizes the significant factors affecting the consolidated operating results and financial condition of Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros." or the "Company") for the three-month and six-month periods ended June 30, 1999 compared to the three-month and six-month periods ended June 30, 1998. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included herein and included in the Company's Annual Report and Report on Form 40-F for the fiscal year ended December 31, 1998. The Company prepares its consolidated financial statements in accordance with generally accepted accounting principles in Canada which, except as set out in note 7 to the consolidated financial statements, result in materially consistent financial position and results of operations to that which would be reported under generally accepted accounting principles in the United States. Amounts discussed below are based on consolidated financial statements prepared in accordance with Canadian accounting principles.

Ritchie Bros. is the world's leading auctioneer of industrial equipment. At June 30, 1999, the Company operated from over 50 locations in North America, Europe, Asia, Australia and the Middle East. The Company sells, through unreserved public auctions, a broad range of used equipment, including equipment utilized in the construction, transportation, mining, forestry, petroleum and agricultural industries.

Gross auction sales represent the aggregate selling prices of all items sold at Ritchie Bros. auctions during the periods indicated. Gross auction sales are key to understanding the financial results of the Company, since the amount of auction revenues and to a lesser extent, certain expenses, are dependent on it. Auction revenues include commissions earned as agent for consignors through both straight commission and gross guarantee contracts, plus the net profit on the sale of equipment purchased and sold by the Company as principal. Under a gross guarantee contract, the consignor is guaranteed a minimum amount of proceeds on the sale of its equipment. When the Company guarantees gross proceeds, it earns a commission on the guaranteed amount and typically participates in a negotiated percentage of proceeds, if any, in excess of the guaranteed amount. If auction proceeds are less than the guaranteed amount, the Company's commission would be reduced, or, if sufficiently lower, the Company would incur a loss. Auction revenues are reduced by the amount of any losses on gross guarantee consignments and sales by the Company as principal. Auction revenues also include interest income earned that is incidental to the auction business.

The Company's gross auction sales and auction revenues are affected by the seasonal nature of the auction business. Gross auction sales and auction revenues tend to increase during the second and fourth calendar quarters during which the Company generally conducts more auctions than in the first and third calendar quarters. The Company's gross auction sales and auction revenues are also affected on a period-to-period basis by the timing of major auctions. In newer markets where the Company is developing operations, the number and size of auctions and, as a result, the level of gross auction sales and auction revenues, is likely to vary more dramatically from period-to-period than in the Company's established markets where the number, size and frequency of the Company's auctions are more consistent. Finally, economies of scale are achieved as the Company's operations in a region mature from conducting intermittent auctions, establishing a regional auction unit, and ultimately to developing a permanent auction site. Economies of scale are also achieved when the size of the Company's auctions increases.

The Company is aware of potential restrictions that may affect the ability of equipment owners to transport certain equipment between some jurisdictions. Management believes that these potential restrictions have not had a significant impact on the Company's business, financial condition or results of operations to date. However, the extent of any future impact on the Company's business, financial condition or results of operations from these potential restrictions cannot be predicted at this time.

Although the Company cannot accurately anticipate the future effect of inflation, inflation historically has not had a material effect on the Company's operations.

On April 1, 1999, Ritchie Bros. acquired the auction business of Forke, Inc. ("Forke"), a major auctioneer of industrial equipment headquartered in Lincoln, Nebraska. Whereas Ritchie Bros. operates in over 50 locations throughout North America, Europe, Asia, Australia and the Middle East, Forke operated primarily in the United States. Forke had been conducting industrial auctions since 1921 and pioneered the industrial auction business in the United States. The Company did not acquire Forke's equipment finance business. To acquire Forke's auction business, the Company paid cash of \$25 million, issued 100,000 common shares of the Company, and granted warrants to acquire 400,000 common shares of the Company at an exercise price of \$26.69 per share. The Company recorded goodwill of \$33.0 million on the acquisition, consisting of the cash paid plus \$7.4 million recorded for the fair value of the shares and warrants issued and \$0.6 million of capitalized acquisition expenses. In related transactions, in May 1999, the Company acquired an office building in Nebraska for \$1.3 million and in July 1999, the Company acquired permanent auction sites in North Carolina and New Mexico, and land and buildings in Texas for combined consideration of \$8.6 million. The Company has also entered into an agreement to purchase an additional permanent auction site in Florida, pending satisfactory completion of customary due diligence. Operating expenses related to the acquisition commenced in the second quarter of 1999, however incremental revenues are not expected until the third or fourth quarter of 1999.

On April 20, 1999, the Company opened its newest permanent auction site on the Gold Coast of Australia, near Brisbane, thereby upgrading its existing regional auction unit to a permanent auction site.

In May 1999, the Company purchased 60 acres of land in Montreal, Quebec with the intention of constructing a permanent auction site to service the Montreal market. The new site is expected to replace the Company's existing Montreal-based regional auction unit in the first half of 2000, once the new auction facilities have been constructed.

In July 1999, the Company entered into an agreement to lease up to 15 acres of land in Singapore, where it will establish a new Asian regional auction unit. The first sale on the Singapore property is expected in the fourth quarter of 1999, and construction of a purpose-built auction facility is expected to be completed in 2000.

## **RESULTS OF OPERATIONS**

### **SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998**

#### **Auction Revenues**

Auction revenues of \$53.6 million for the six months ended June 30, 1999 increased by \$3.2 million, or 6.3%, from the comparable period in 1998 due to increased gross auction sales and higher average auction revenue rates. Gross auction sales of \$589.1 million for the six months ended June 30, 1999 increased \$22.2 million, or 3.9%, from the comparable period in the prior year, primarily as a result of increased gross auction sales in the United States. Results for 1999 included significant auctions in Fort Worth, Texas; Houston, Texas; Las Vegas, Nevada; Dubai, the United Arab Emirates; and in the Port of Moerdijk, the Netherlands. Auction revenues as a percentage of gross auction sales have averaged approximately 8.80% on a long-term basis. In the first six months of 1999, the auction revenue rate of 9.10% was higher than the long-term average and higher than the 8.89% rate experienced in the comparable 1998 period. The Company's expectations with respect to the long-term average auction revenue rate remain unchanged.

#### **Direct Expenses**

Direct expenses are expenses that are incurred as a direct result of an auction sale being held. Direct expenses include the costs of hiring personnel to assist in conducting the auction, lease expenses for temporary auction sites, travel costs for full time employees to attend and work at the auction site, security hired to safeguard equipment while at the auction site and advertising specifically related to the auction. Direct expenses of \$9.1 million for the six-month period ended June 30, 1999 increased by \$0.6 million compared to the comparable 1998 period due to increased auction activity generated by the Company in the 1999 period. As a percentage of gross auction sales, direct expenses were 1.55% for the six months ending June 30, 1999,

higher than the 1.49% experienced in the first six months of 1998. This increase is attributable to a higher proportion of smaller auctions conducted by the Company in 1999.

### **Depreciation and Amortization Expense**

Depreciation is calculated on capital assets employed in the Company's business, including building and site improvements, automobiles, yard equipment, and computers. Amortization results from expensing, over 20 years, the \$33.0 million of goodwill recorded as a result of the acquisition of the auction business of Forke in April 1999. In the six-month period ending June 30, 1999, depreciation and amortization expense was \$2.2 million, compared to \$1.2 million in the comparable 1998 period. This increase is the result of the depreciation of new auction facilities constructed over the past year and amortization of \$0.4 million of goodwill for the period from April 1, 1999 to June 30, 1999. The Company expects to incur quarterly amortization charges of \$0.4 million over the next 20 years as a direct result of the acquisition of the auction business of Forke.

### **General and Administrative Expense**

General and administrative expense ("G&A") includes employee expenses such as salaries, wages, performance bonuses and benefits, non-auction related travel, institutional advertising, insurance, general office, and computer expenses. For the six months ended June 30, 1999, the Company incurred G&A of \$23.5 million, as compared to \$20.9 million for the comparable six-month period in 1998. During the first quarter of 1999 the Company incurred a special compensation expense of approximately \$1.3 million related to a share issuance to an employee. The Company does not intend to make similar share issuances in the future. G&A also increased in the second quarter due to the operation of new permanent auction sites and an administrative office in the United States as part of the acquisition of the auction business of Forke. Management anticipates that G&A will increase in the future due to the personnel hired in connection with the Forke transaction, and an increasing level of administrative infrastructure to support the continued expansion of the Company's operations. See "-- Overview."

### **Income from Operations**

Income from operations was \$18.8 million in the six months ended June 30, 1999 compared to \$19.8 million in the comparable 1998 period. The decrease is primarily the result of increased G&A and depreciation and amortization expenses in the second quarter of 1999, partially offset by increased auction revenues for the six months ended June 30, 1999 compared to the same period in 1998.

### **Interest Expense**

Interest expense includes interest and bank charges paid on term bank debt. Interest expense for the six months ended June 30, 1999 decreased to \$0.9 million, compared to \$1.2 million incurred in the six months ended June 30, 1998. The decrease resulted from lower balances on the Company's operating credit facilities during 1999 versus the comparable 1998 period, partially offset by increased interest expense attributable to debt incurred by the Company in connection with the acquisition of the auction business and certain assets of Forke in the 1999 period. Management anticipates increased interest expense in future periods as a result of debt incurred in connection with the Forke transaction. See "- Overview" and "Liquidity and Capital Resources."

### **Other Income**

Other income arises from equipment appraisals performed by the Company, and other miscellaneous sources. Other income for the six months ended June 30, 1999 of \$0.5 million did not change significantly from the comparable 1998 period.

## **Income Taxes**

Income taxes of \$6.3 million for the six months ended June 30, 1999 have been computed based on rates of tax that apply in each of the tax jurisdictions in which the Company operates. The effective tax rate of 34.2% on net income for the six months ended June 30, 1999 is lower than the rate the Company experienced in the prior year primarily due to a shift in the proportion of auction sales and expenses occurring in higher tax rate jurisdictions.

## **THREE MONTHS ENDED JUNE 30, 1999 COMPARED TO THREE MONTHS ENDED JUNE 30, 1998**

### **Auction Revenues**

Auction revenues of \$35.6 million for the three months ended June 30, 1999 increased by \$6.4 million, or 21.9%, from the comparable period in 1998 due to increased gross auction sales and higher average auction revenue rates. Gross auction sales of \$387.3 million for the three months ended June 30, 1999 increased \$48.1 million, or 14.2%, from the comparable period in the prior year, primarily as a result of increased gross auction sales in the United States. Results for the second quarter of 1999 included significant auctions in Dubai, the United Arab Emirates; the Port of Moerdijk, the Netherlands; Houston, Texas; and Fort Worth, Texas. Auction revenues as a percentage of gross auction sales were 9.19% in the three months ended June 30, 1999 compared to 8.60% in the comparable 1998 period and a long-term average of 8.80%. The Company's expectations with respect to the long-term average auction revenue rate remain unchanged.

### **Direct Expenses**

Direct expenses of \$6.4 million increased by \$1.5 million for the three-months ended June 30, 1999 compared to the comparable 1998 period due to increased auction activity generated by the Company in the 1999 period. As a percentage of gross auction sales, direct expenses were 1.64% for the three-month period ending June 30, 1999, higher than the 1.44% for the comparable period in 1998. This increase is attributable to a higher proportion of smaller auctions conducted by the Company in the second quarter of 1999.

### **Depreciation and Amortization Expense**

In the three-month period ending June 30, 1999, depreciation and amortization expense was \$1.5 million, compared to \$0.7 million in the comparable 1998 period. This increase is primarily the result of new auction facilities being depreciated in the three months ending June 30, 1999 as compared to the three months ending June 30, 1998 and goodwill amortization of \$0.4 million from April 1, 1999 to June 30, 1999 as a result of the acquisition of the auction business of Forke.

### **General and Administrative Expense**

For the three months ended June 30, 1999, the Company incurred G&A costs of \$11.6 million, as compared to \$9.1 million for the comparable three month period in 1998. This increase is primarily attributable to the acquisition of new permanent auction sites and an administrative office in the United States as part of the acquisition of the auction business of Forke.

### **Income from Operations**

Income from operations was \$16.2 million in the three months ended June 30, 1999 compared to \$14.5 million in the comparable 1998 period. The increase is primarily the result of increased gross auction sales and increased auction revenue rates, offset in part by an increase in G&A and depreciation and amortization expenses.

### **Interest Expense**

Interest expense for the three months ended June 30, 1999 increased to \$0.7 million, compared to \$0.4 million incurred in the three months ended June 30, 1998. The increase is attributable to debt incurred by the Company in connection with the acquisition of the auction business and certain assets of Forke in the 1999

period. Management anticipates increased interest expense in future periods as a result of debt incurred in connection with the Forke transaction. See "-- Overview" and "Liquidity and Capital Resources."

### **Other Income**

Other income of \$0.2 million for the three months ended June 30, 1999 did not change from the comparable 1998 period.

### **Income Taxes**

Income taxes of \$5.3 million for the three months ended June 30, 1999 have been computed based on rates of tax that apply in each of the tax jurisdictions in which the Company operates. The effective tax rate of 33.5% on net income for the three months to June 30 is lower than the rate the Company experienced in the prior year primarily due to a shift in the proportion of auction sales and expenses occurring in higher tax rate jurisdictions.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash can fluctuate significantly from period to period, largely due to differences in timing of receipt of gross sale proceeds from buyers and the payment of net amounts due to consignors. If auctions are conducted near a period end, the Company may hold cash in respect of those auctions that will not be paid to consignors until after the period end. Accordingly, management believes a more meaningful measure of the Company's liquidity is working capital, including cash.

At June 30, 1999, working capital, including cash, was \$47.1 million, compared to \$49.2 million at December 31, 1998.

Net capital expenditures by the Company during the six months ended June 30, 1999 were \$16.4 million as compared to \$19.2 million for the six months ended June 30, 1998. In the 1999 period, the Company acquired Forke's administrative office in Nebraska and continued to incur site development costs in the United States, Canada, Australia and Europe.

The Company is continuing with its plan to add additional permanent auction sites in selected international locations and is presently in various stages of commitments to acquire land for development in the United States and Canada. In July 1999, the company acquired three auction sites in connection with the Forke acquisition for \$8.6 million and intends to acquire a fourth site from Forke pending satisfactory completion of customary due diligence.

The Company has established credit facilities with financial institutions in the United States, Canada, Europe, and Australia. The Company presently has access to credit lines for operations exceeding \$95.0 million and to credit lines for funding property acquisitions exceeding \$35.0 million. At June 30, 1999, the Company had no bank debt relating to operations, and bank debt related to property acquisitions totaled \$11.1 million. The Company also has a \$35.0 million term loan facility that was negotiated to finance a portion of the Forke acquisition, of which \$25.0 million had been drawn down at June 30, 1999. On July 8, 1999, the Company acquired three auction sites in connection with the Forke acquisition for cash consideration of \$8.6 million and drew down the remaining \$10.0 million from the term loan facility related to the Forke acquisition.

All borrowings in connection with the Forke acquisition have been financed through a bank term loan bearing interest at a floating rate, which was 5.91% on June 30, 1999. Interest is payable quarterly and the Company is required to make minimum annual payments of \$5 million in respect of the principal amount of the debt. See "-- Overview".



## **YEAR 2000 COMPLIANCE**

The Company relies on computer systems to operate its business, including applications used to control information about bidders and consignors and to operate certain of its marketing, finance and administrative functions. The year 2000 issue, which is common to most companies, relates to the inability of such computer systems to properly recognize and process date sensitive information with respect to dates in the Year 2000 and thereafter.

The Company has substantially completed its Year 2000 compliance efforts, which began in 1997, and does not expect any material disruption of its operations as a result of any failure to achieve Year 2000 compliance. Related costs incurred to date have not had, and estimated future costs are not anticipated to have, a material impact on the Company's business, financial condition, or results of operations. However, as testing of Year 2000 functionality of the Company's systems has necessarily occurred in a simulated environment, the Company will not be able to test full system year 2000 interfaces and capabilities prior to the Year 2000.

The most reasonable likely worst case Year 2000 scenario would involve the failure of one or more of the Company's key suppliers to become Year 2000 compliant. In such a scenario, the Company's ability to adequately advertise its auctions and account for receipts and payments as efficiently as it does at present could be negatively affected.

The Company has developed contingency plans in the event of the Company's or its key suppliers' failure to achieve full Year 2000 compliance. The plans include identifying alternate organizations that may act as replacements for those with which the Company presently conducts business and which may not achieve full Year 2000 compliance, including one or more of its lenders, marketing service suppliers, or external software providers. Failure by the Company or any of its key suppliers to achieve full Year 2000 compliance in a timely manner or consistent with its current cost estimates, or to rectify deficiencies through any contingency plans, could have a material adverse effect on the Company's business, financial condition and results of operations.

## **FORWARD-LOOKING STATEMENTS**

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. These statements are based on current expectations and estimates about the Company's business. These statements include, in particular, statements relating to auction revenue rates, direct expense rates, G&A increases, income tax rates, the anticipated improvement, acquisition and development of permanent auction sites, and the financing available to the Company. Words such as "expects", "intends", "plans", "believes", "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The following important factors, among others, could affect the Company's actual results and could cause such results to differ materially from those expressed in the Company's forward-looking statements: the many factors that impact on the supply of and demand for used equipment; fluctuations in the market values of used equipment; periodic and seasonal variations in operating results or financial conditions; the timing and location of auctions; potential delays in construction or development of auction sites; actions of competitors; adverse changes in economic conditions; restrictions affecting the ability of equipment owners to transport equipment between jurisdictions; the ability of the Company to integrate the business acquired and personnel hired as a result of the Forke transaction; and other risks and uncertainties as detailed in the Company's periodic filings with the United States Securities and Exchange Commission including its Registration Statement on Form F-10 filed on June 17, 1999. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Forward-looking statements should be considered in light of these factors.

## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS

NUMBER	DESCRIPTION
*3.1	Articles of Amalgamation, as amended
*3.2	By-laws
*4.1	Form of common share certificate
4.2	Description of capital shares contained in the Articles of Amalgamation (see Exhibit 3.1)
4.3	Description of rights of securityholders contained in the By-laws (see Exhibit 3.2)
*10.1	1997 Stock Option Plan, as amended
*10.2	Form of Indemnity Agreement for directors and officers

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\*Incorporated by reference to the same exhibit number from the Registration Statement on Form F-1 filed on September 26, 1997, as amended (File No. 333-36457).

### 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.

#### RITCHIE BROS. AUCTIONEERS INCORPORATED (Registrant)

Date August 12, 1999

By: /s/ ROBERT S. ARMSTRONG

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Robert S. Armstrong  
Corporate Secretary

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