

RITCHIE BROS AUCTIONEERS INC
Form 10-K
February 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

Commission file number: 001-13425

Ritchie Bros. Auctioneers Incorporated

(Exact Name of Registrant as Specified in its Charter)

Canada
(State or other jurisdiction of incorporation or organization)

N/A
(I.R.S. Employer Identification No.)

9500 Glenlyon Parkway
Burnaby, British Columbia, Canada V5J 0C6
(Address of Principal Executive Offices)

(778) 331-5500
(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference on Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer, accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common shares held by non-affiliates of the registrant (assuming for these purposes, but without conceding, that all executive officers and Directors are "affiliates" of the registrant) was approximately \$3,575,313,844. The number of common shares of the registrant outstanding as of February 17, 2017, was 106,822,475.

Documents Incorporated by Reference

Certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A not later than 120 days after the registrant's fiscal year ended December 31, 2016, in connection with the registrant's 2017 Annual and Special Meeting of Shareholders, are incorporated herein by reference into Part III of this Annual Report on Form 10-K.

RITCHIE BROS. AUCTIONEERS INCORPORATED

FORM 10-K

For the year ended December 31, 2016

INDEX

<u>Cautionary Note Regarding Forward-Looking Statements</u>	1
PART I	
ITEM 1: <u>Business</u>	3
ITEM 1A: <u>Risk Factors</u>	20
ITEM 1B: <u>Unresolved Staff Comments</u>	36
ITEM 2: <u>Properties</u>	36
ITEM 3: <u>Legal Proceedings</u>	39
ITEM 4: <u>Mine Safety Disclosures</u>	39
PART II	
ITEM 5: <u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	40
ITEM 6: <u>Selected Financial Data</u>	45
ITEM 7: <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	46
ITEM 7A: <u>Quantitative and Qualitative Disclosures About Market Risk</u>	89
ITEM 8: <u>Financial Statements and Supplementary Data</u>	90
ITEM 9: <u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	152
ITEM 9A: <u>Controls and Procedures</u>	152
ITEM 9B: <u>Other Information</u>	156
PART III	
ITEM 10: <u>Directors, Executive Officers and Corporate Governance</u>	156
ITEM 11: <u>Executive Compensation</u>	156
ITEM 12: <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	156
ITEM 13: <u>Certain Relationships and Related Transactions, and Director Independence</u>	156
ITEM 14: <u>Principal Accountant Fees and Services</u>	156
PART IV	
ITEM 15: <u>Exhibits, Financial Statements and Financial Statement Schedules</u>	157
ITEM 16: <u>Form 10-K Summary</u>	161

SIGNATURES

Cautionary Note Regarding Forward-Looking Statements

The information discussed in this Annual Report on Form 10-K of Ritchie Bros. Auctioneers Incorporated (“Ritchie Bros.”, the “Company”, “we” or “us”) includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”) and Canadian securities laws. These statements are based on our current expectations and estimates about our business and markets, and include, among others, statements relating to:

- our future strategy, objectives, targets, projections, performance, and key enablers;
 - our ability to drive shareholder value;
 - market opportunities;
- our ability to attract bidders and sellers from different markets to our auctions;
- our internet initiatives and the level of participation in our auctions by internet bidders, and the success of EquipmentOne and our other online marketplaces;
- our ability to grow our core auction business, including our ability to increase our market share among traditional customer groups, including those in the used equipment market, and do more business with new customer groups in new sectors;
- the impact of our initiatives, services, investments, and acquisitions on us and our customers;
 - the acquisition or disposition of properties;
 - our ability to integrate our acquisitions;
- potential future mergers and acquisitions, including the planned merger of Ritchie Bros. and IronPlanet Holdings, Inc.;
- ability for the planned merger of Ritchie Bros. and IronPlanet Holdings, Inc. to add multi-channel solutions for equipment sellers, add scale and sales volume to our core auction business, bolster the scope and offering of our business and increase our earnings and growth;
- potential future strategic alliances, including the planned alliance between Ritchie Bros., IronPlanet, Inc., and Caterpillar Inc.
- ability for the planned alliance among Ritchie Bros., IronPlanet, Inc., and Caterpillar Inc. to significantly strengthen our relationship with Caterpillar dealers;
- our ability to add new business and information solutions, including, among others, our ability to maximize and integrate technology to enhance our existing services and support additional value-added service offerings;
- the supply trend of equipment in the market and the anticipated price environment for late model equipment, as well as the resulting effect on our business and Gross Auction Proceeds (“GAP”) (as defined under “Part I, Item 1: Business” of this Annual Report on Form 10-K);
- the growth potential of Ritchie Bros. Financial Services, as well as expectations towards and significance of its service offerings and geographical expansion in the near future;
- fluctuations in our quarterly revenues and operating performance resulting from the seasonality of our business;
 - our ability to implement new performance measurement metrics to gauge our effectiveness and progress;
 - our compliance with all laws, rules regulations and requirements that affect our business;
- the relative percentage of GAP represented by straight commission or underwritten (guarantee and inventory) contracts, and its impact on revenues and profitability;
- our Revenue Rates (as described under “Part II, Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K), the sustainability of those rates, the impact of our commission rate and fee changes, and the seasonality of GAP and revenues;
 - our future capital expenditures and returns on those expenditures;

Ritchie Bros. 1

the proportion of our revenues, operating expenses, and operating income denominated in currencies other than the United States (“U.S.”) dollar or the effect of any currency exchange and interest rate fluctuations on our results of operations;
financing available to us, our ability to refinance borrowings, and the sufficiency of our working capital to meet our financial needs; and
our ability to satisfy our present operating requirements and fund future growth through existing working capital and credit facilities.

Forward-looking statements are typically identified by such words as “aim”, “anticipate”, “believe”, “could”, “continue”, “estimate”, “expect”, “intend”, “may”, “ongoing”, “plan”, “potential”, “predict”, “will”, “should”, “would”, “could”, “likely”, “period to period”, “long-term”, or the negative of these terms, and similar expressions intended to identify forward-looking statements. Our forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict.

While we have not described all potential risks related to our business and owning our common stock, the important factors listed under “Part I, Item 1A: Risk Factors” of this Annual Report on Form 10-K are among those that we consider may affect our performance materially or could cause our actual financial and operational results to differ significantly from our expectations. Except as required by applicable securities law and regulations of relevant securities exchanges, we do not intend to update publicly any forward-looking statements, even if our expectations have been affected by new information, future events or other developments. You should consider our forward-looking statements in light of the factors listed or referenced under “Risk Factors” herein and other relevant factors.

Ritchie Bros. 2

PART I

ITEM 1: BUSINESS

Company Overview

We are one of the world's largest industrial auctioneers and used equipment distributors, selling more than \$4.3 billion of used equipment and other assets during 2016. Our expertise, global reach, market insight and trusted brand provide us with a unique position in the used equipment market. We primarily sell used equipment for our customers through live unreserved auctions at 45 auction sites worldwide, which are simulcast online to reach a global bidding audience. During 2013, we added to our sales channels by launching EquipmentOne, an online-only used equipment marketplace, in order to reach a broader customer base. These two complementary used equipment brand solutions provide different value propositions to equipment owners and allow us to meet the needs and preferences of a wide spectrum of equipment sellers. In the past two years, we have also added a private brokerage service (Ritchie Bros. Private Treaty) and an online listing service (Mascus).

Through our unreserved auctions, online marketplaces, and private brokerage services, we sell a broad range of used and unused equipment, including trucks and other assets. Construction and heavy machinery comprise the majority of the equipment sold through our multiple brand solutions. Customers selling equipment through our sales channels include end users (such as construction companies), equipment dealers, and other equipment owners (such as rental companies). Our customers participate in a variety of sectors, including heavy construction, transportation, agriculture, energy, and mining.

Our Gross Auction Proceeds¹ ("GAP") represents the total proceeds from all items sold at our auctions and online marketplaces. Our GAP was \$4.3 billion for the year ended December 31, 2016, representing a 2% increase from 2015. Approximately half of what we sold during 2016, transacted online; through either online simulcast auction participation, or through EquipmentOne. In 2016, of the \$4.3 billion of all items sold by us, \$2.1 billion were sold to online buyers through these online solutions.

We operate worldwide with locations in more than 15 countries, including the United States, Canada, Australia, the United Arab Emirates, and the Netherlands, and employ more than 1,700 full time employees worldwide.

Our corporate information

Our corporate headquarters are located near Vancouver, Canada: at 9500 Glenlyon Parkway, Burnaby, British Columbia, Canada V5J 0C6, and our telephone number is (778) 331-5500. We maintain a customer website at

www.rbauction.com and an investor website at investor.ritchiebros.com. None of the information on our websites is incorporated into this Annual Report on Form 10-K by this or any other reference.

Ritchie Bros. Auctioneers Incorporated was amalgamated on December 12, 1997 under, and is governed by, the *Canada Business Corporation Act*. Our articles were amended on May 2, 2000 to permit our directors to set the number of directors on our Board of Directors (our “Board”) by resolution of the Board, subject to the limits set out in our articles, and to permit our directors to appoint one or more additional directors to our Board between shareholder meetings, provided that the total number of directors appointed does not exceed 1/3 of the number of directors elected at the previous annual general meeting. Our articles were further amended on April 19, 2004 to subdivide each of our common shares outstanding on May 4, 2004 into two common shares. On April 11, 2008 the shareholders approved a further amendment to our articles to subdivide each of our common shares outstanding on April 24, 2008 into three common shares.

¹ GAP is not a measure of financial performance, liquidity, or revenue, and is not presented in our consolidated financial statements.

Ritchie Bros. 3

Multi-channel sales solutions and complementary services

We offer a variety of sales solutions and complementary services that position us as one of the world's largest industrial auctioneers and used equipment distributors.

Our multi-channel sales solutions allow sellers to choose the method of sale best for them, based on their specific needs and preferences for control over the sales process, efficiency and surety of sale, ability to select the buyer, and equipment transportation constraints. Our vision is to position appropriate solutions at each point of the seller journey, which is illustrated as follows, and connect them with quality buyers from a global marketplace:

Each of the channels offered through our multi-channel sales solutions reaches a different segment of customers.

Integrated on site/online auctions:

Ritchie Bros. Auctioneers

Our core business, Ritchie Bros. Auctioneers, operates unreserved auctions; meaning that auction items are sold during live on site auctions without a minimum or "reserve" price. Each asset is sold to the highest bidder on auction day, regardless of what their highest bid was. In unreserved auctions, we do not allow consignors or their agents to bid on or buy back or in any way influence the selling price of their own equipment. This type of auction ensures the sale of goods on the day of the auction at the global market price. Our adherence to the unreserved auction process is one of our founding principles and we believe one of our most significant competitive advantages.

GAP, the total value of assets sold through our auction and other sales channels, is driven by four primary influences:

- *Number of lots consigned:* increasing the number of lots sold can bolster GAP.
- *Mix of categories of assets sold:* The proportion of higher-valued items sold at each auction relative to smaller goods impacts the auction proceeds generated.
- *Pricing environment:* A strong pricing environment will enhance market values of equipment sold at auctions.
- *Mix of equipment age:* Newer equipment generally has a higher market value compared to older machinery.

Our bidders participate in our auctions in person, by proxy, or through real-time online bidding. Annual online participation in our auctions has increased steadily since that option was introduced in 2002. Some online bidders still visit our auction sites prior to the auction, in order to test and inspect the equipment being sold.

Ritchie Bros. 4

Over 60% of our core auction GAP goes to buyers from outside the region of sale. Our ability to consistently draw significant numbers of local and international bidders from many different markets to our auctions, most of whom are end users rather than resellers, is appealing to sellers of used equipment and trucks and helps us to attract consignments to our auctions. Higher consignment volumes attract more bidders, which in turn attract more consignments, and so on in a self-reinforcing process that has helped us to achieve a history of significant growth and momentum in our business which is reflected in our core auction GAP growth.

Consignment volumes at our auctions are affected by a number of factors, including regular fleet upgrades and reconfigurations, financial pressure, retirements, and inventory reductions, as well as by the timing of the completion of major construction and other projects. We generally cannot influence the decision of an equipment owner whether to sell, but once they have made the decision to sell, our sales team's opportunity is to demonstrate the Ritchie Bros. Auctioneers value proposition and have the equipment contributed to one of our unreserved auctions.

Revenues from our core auction business are comprised of seller commissions earned, where we act as an agent for consignors of equipment and other assets, as well as administrative fees and fees from value-added services.

Commissions: The majority of our commissions are earned as a pre-negotiated fixed rate of the gross selling price, while other commissions are earned through underwritten transactions:

Straight commission: Consignors contract to sell their equipment through one of our unreserved auctions. We earn a pre-determined percentage of the selling price as commission.

Underwritten commission: Our underwritten commissions consist of:

Guaranteed contracts: Consignors are guaranteed a pre-determined amount for their equipment, regardless of the final selling price at the auction. A stepped commission fee is negotiated, accounting for the additional risk we assume.

Inventory contracts: We may choose to purchase equipment outright, obtaining title of the piece to sell at an upcoming auction. Net revenues from the gain on inventory sales are booked as revenue.

Administrative fees and value-added services: We also charge equipment buyers an administrative fee for purchases made at our auctions. Further, we provide additional services to assist with the sale and purchase of equipment, including appraisal services, insurance services, refurbishment and logistics services which supplement revenue generation (see "Support businesses").

Our commission and fee revenues, in thousands of U.S. dollars, over the last three years are as follows:

Year ended December 31,	2016	2015	2014
Commissions	\$424,128	\$405,308	\$379,340
Fees	142,267	110,567	101,757
	\$566,395	\$515,875	\$481,097

During 2016, Ritchie Bros. acquired *Petrowsky Auctioneers* and *Kramer Auctions*, both regional auction companies, to grow our customer reach in both the US Northeast region and the Canadian Agricultural sector. Auctions held by Petrowsky and Kramer are currently branded as such, though simulcast live on Ritchie Bros.' retail website and considered part of Ritchie Bros. Auctioneers' business segment.

Online marketplace

EquipmentOne

Ritchie Bros. launched EquipmentOne to cater to a complementary segment of the used equipment transaction market that prefers to retain control over the sales process, while potentially taking on more effort. Through EquipmentOne, equipment sellers are able to list their equipment on the online marketplace, receive and accept offers, and complete and settle their sale. This brand solution also effectively meets the needs of large fleet owners who want to transact when they want, and only if a certain price point is achieved.

Ritchie Bros. 5

EquipmentOne is a secure online marketplace that equipment sellers can navigate independently, while still leveraging our trusted brand and transaction processing. EquipmentOne facilitates the completion of sales through a settlement process managed by EquipmentOne that protects both the seller and the buyer. In February 2016, we expanded our EquipmentOne offering from the United States into Canada.

Opposite from our auction model, revenue from EquipmentOne is generated from a buyer's premium and a smaller portion of revenue is generated from equipment, listing and transaction fees from sellers.

Online listing service

Mascus

Acquired by Ritchie Bros. in 2016, Mascus is an online equipment listing service for used heavy machinery and trucks, with a global presence and a leading market position in Europe. Mascus offers subscriptions to equipment dealers, brokers, exporters and equipment manufacturers to list equipment available for sale at a listed price. Through Mascus, we provide online advertising services, business tools and solutions to many of the world's leading equipment dealerships and equipment manufacturers. Unlike other solutions provided by Ritchie Bros., Mascus does not transact sales (does not generate GAP), and instead earns revenue through listing fees for the equipment it lists on its site.

Brokerage channel for highly specialized assets

Ritchie Bros. Private Treaty

In 2015, Ritchie Bros. launched our private brokerage service, wherein we act as a private sales agent/broker, leveraging our global customer base and extensive heavy industry knowledge to conduct negotiated sales of specialized and high-value equipment items between buyers and sellers. Under this service offering, the seller sets the price and the completion timeline. To earn our commission from rendering private brokerage services, we manage the sales process in accordance with the seller's terms, including marketing the equipment to a global audience and settling the sale. With over 50 years of experience, Ritchie Bros. has the connections and expertise to identify and target the most qualified buyers from around the world for sellers' assets.

Support businesses

In addition to the multiple sales channels we offer customers, we also offer several support services to facilitate equipment transactions and auction services:

Ritchie Bros. Financial Services (“RBFS”)

RBFS originates loans for equipment buyers in the United States and Canada, including Ritchie Bros. auctions and other sales formats. This business acts as a loan originator via a brokerage model, matching loan applicants with appropriate financial lending institutions (we do not act as a lender or otherwise utilize our balance sheet for RBFS loans). The RBFS business generates revenue through both brokerage fees (the net present value of the spread between wholesale rates offered to us and the retail rates provided to customers) and administrative fees.

Xcira

In 2015, we purchased a 75% stake in Xcira, a leading online auction simulcast technology provider. Xcira had been a long-time supplier to Ritchie Bros., and the platform is an integral part of our auction services. Xcira also licenses its technology solutions and platforms to other (non-industrial) auction companies, such as Christies and Insurance Auto Auctions. Xcira’s revenue is generated through contracts for services with these and many other auction companies.

Equipment Refurbishment

Through Ritchie Bros.’ network of refurbishment facilities, located at most permanent auction sites, equipment sellers and buyers can choose to have equipment repaired and/or repainted. This work is conducted by third party suppliers contracted by Ritchie Bros., to facilitate better marketability of equipment being sold, and to refurbish used equipment purchased at our auctions. Ritchie Bros. charges a fee to conduct these services.

Ritchie Bros. 6

Ritchie Bros. Logistical Services (“RBLS”)

Currently only piloted in Europe, RBLS offers end-to-end transportation and customs clearance solutions for equipment sellers and buyers with shipping needs. Ritchie Bros. oversees the transport process, through the use of selected shipping service providers, to ease the transportation and logistical needs of customers during the equipment sales and purchase process.

History and development of our business

Ritchie Bros. was founded in 1958 in Kelowna, British Columbia, Canada. We held our first major industrial auction in 1963, selling over \$600,000 worth of construction equipment in Radium, British Columbia. While our early auction sales were held primarily in Western Canada, Ritchie Bros. expanded eastward in Canada through the 1960s.

By 1970, we had established operations in the United States and held our first American sale in Beaverton, Oregon. Throughout the 1970s and 1980s, we held auctions in additional locations across Canada and an increasing number of U.S. states. In 1987, we held our first European auctions in Liverpool, United Kingdom and Rotterdam, The Netherlands. Our first Australian auction was held in 1990, and this was followed by expansion into Asia, with subsequent sales in Japan, the Philippines, Hong Kong, Thailand and Singapore. We held our first Mexican auction in 1995 and our first auction in the Middle East in Dubai, United Arab Emirates, in 1997.

In 1994, we introduced our prototype auction facility, opening new permanent auction sites in Fort Worth, Texas and Olympia, Washington that represented significant improvements over the facilities being used at the time by other industrial equipment auctioneers. We have since constructed similar facilities in various locations in Canada, the United States, Mexico, Europe, Australia, Asia and the Middle East. We have 45 permanent and regional auction sites at the date of this Annual Report on Form 10-K.

In March 1998, we completed an initial public offering of our common shares. Our common shares trade on the New York Stock Exchange (“NYSE”) and the Toronto Stock Exchange (“TSX”) under the ticker symbol “RBA”.

On May 15, 2012, we purchased AssetNation, an online marketplace and solutions provider for surplus and salvage assets based in the United States. Leveraging AssetNation’s technology and e-commerce expertise in early 2013 we commercially launched our new online marketplace, EquipmentOne.

On November 4, 2015, we acquired a 75% interest in Xcira, a proven leader in simulcast auction technology that provides a seamless customer experience for integrated on site and online auctions. Through this acquisition, we

secured Xcira's bidding technology, which represents a significant and growing portion of all bidding conducted at our auctions.

On February 19, 2016, we acquired 100% of the equity interests in Mascus International Holding B.V. ("Mascus"). Mascus is an Amsterdam-based company that operates a global online listing service to advertise equipment and other assets for sale. Unlike other sales channels offered by Ritchie Bros., Mascus does not currently transact through its website. Sales facilitated through Mascus are conducted directly between the seller and buyer.

On July 12, 2016, Ritchie Bros. acquired the minority interest of Ritchie Bros. Financial Services – providing Ritchie Bros. with full ownership of this growing business. RBFS provides loans to equipment purchasers, as a brokerage business, through several bank relationships. RBFS does not leverage Ritchie Bros. balance sheet for the loans it originates.

On August 2, 2016, Ritchie Bros. acquired Petrowsky Auctioneers – a leading regional industrial auctioneer in the U.S. Northeast. Similar to Ritchie Bros. Auctioneers, Petrowsky Auctioneers offers live on site and simulcast live online auctions.

Ritchie Bros. 7

On August 29, 2016, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) pursuant to which Ritchie Bros. agreed to acquire a 100% interest in IronPlanet Holdings, Inc. (“IronPlanet”). IronPlanet is a leading online industrial auctioneer and marketplace, with several complementary brands and solutions catering to the needs of equipment owners. The acquisition of IronPlanet (the “Acquisition” or “Merger”) is currently under regulatory review in the United States. We expect that the U.S. Department of Justice (“DoJ”) will complete its review of the transaction by the end of the second quarter of 2017. While the closing of the transaction is subject to the DoJ review and customary closing conditions, assuming approval is provided at that time, we believe the acquisition will likely close shortly thereafter (see “Acquisition of IronPlanet”).

On August 29, 2016, we entered into a Strategic Alliance and Remarketing Agreement (the “Alliance”) with IronPlanet, Inc. (“IronPlanet subsidiary”) and Caterpillar Inc. (“Caterpillar”). The Alliance is subject to, contingent upon, and will not be effective until consummation of the IronPlanet acquisition.

On November 15, 2016, we acquired substantially all of the assets of Kramer Auctions Ltd. And Kramer Auctions — Real Estate Division Inc. (together, “Kramer”), a Canadian agricultural auction company with strong customer relationships in central Canada. Operating for more than 65 years, Kramer operates in Saskatchewan, Alberta and Manitoba as a premier agricultural auctioneer, offering both on-the-farm and on site live auctions for customers selling equipment, livestock and real-estate in the agricultural sector.

Acquisition of IronPlanet

On August 29, 2016, Ritchie Bros. entered into an agreement to acquire IronPlanet Holdings, Inc. and its subsidiaries (the “Acquisition” or the “Merger”). IronPlanet is a leading online marketplace for selling and buying used equipment and other assets in the United States and internationally. IronPlanet operates online equipment sales platforms under a number of brands, including: IronPlanet, Cat Auction Services, Kruse Energy, GovPlanet and TruckPlanet.

Over the last several years, Ritchie Bros. has undertaken a meaningful strategic transformation, through both organic and acquisitive growth initiatives, to broaden our service offerings and the value propositions we provide to different segments of the used equipment transaction market. Our stated M&A objectives were:

- (1) adding multi-channel solutions for equipment sellers;
- (2) adding scale and sales volume to our core auction business; and
- (3) securing a “needle-moving” transaction that could significantly bolster the scope and offering of our business.

We believe the IronPlanet Acquisition will accelerate this strategy and meet these objectives. Specifically, this Acquisition represents a “needle-moving” transaction and presents a unique opportunity for us to strengthen our multi-channel platform and equipment disposition solutions. It will also allow us to better serve customers globally by enabling customers with varying preferences to choose from a variety of channels and formats to meet their varying needs and preferences. We believe this Acquisition will provide us with increased earnings and growth through:

- the global expansion of IronPlanet’s unique online brand solutions;
 - the Cat Auction Services brand combined with the Caterpillar Agreement (see below)
- IronPlanet’s brand offering of multiple formats, including weekly online unreserved auctions, online reserved marketplace formats and buy-it-now formats — which appeal to a different set of sellers and buyers than our core business;
- the ability to appeal to equipment sellers who do not want to move their equipment to an auction site, and the ability to provide additional comfort to online equipment buyers through the IronClad Assurance buyer protection program;
 - increased access to sectors Ritchie Bros. has not traditionally targeted, such as government surplus and energy; and,
 - our ability to expand our financial services business (RBFS) to a broader customer base.

Ritchie Bros. 8

Related to the acquisition of IronPlanet, Ritchie Bros. has entered into an agreement with Caterpillar Inc., contingent on the acquisition closing, to become Caterpillar's preferred used equipment auction vendor. The Caterpillar Agreement provides that upon consummation of the Acquisition, Caterpillar will designate us as a "preferred" but nonexclusive provider for online and on site auctions and marketplaces (including those of IronPlanet) in the countries where we do business in exchange for preferred rates and access to certain data and information.

The Used Equipment Market Opportunity

Ritchie Bros. is one of the world's largest industrial auctioneers and used equipment distributors. Our scale is a competitive advantage, as we reach a vast audience of targeted equipment bidders and buyers. As we sell large volumes of used equipment, we attract more interested buyers. This in turn attracts more equipment sellers. This cycle continues to bolster our growth, which is demonstrated by our long history of expansion.

We recently updated our estimate of the annual global used equipment market, through a review of the construction, transportation and agricultural used equipment markets. Based on this review, we believe the global used equipment market is valued at more than \$300 billion. The market is highly fragmented and fluid between sales channels; however, we believe our multi-channel sales solutions can meet a broad range of customer preferences and needs. We compete with other sellers of used equipment on the basis of breadth, brand reputation, security, and global reach of our services, as well as in the variety of contracts and methods and channels of selling equipment.

The volume of used equipment transactions is affected by the ongoing production of new equipment and trucks, the demand for equipment, the rate of equipment utilization and the motivations of equipment owners to realign and replace their fleets. Our goal is to capture a greater proportion of the transactions through our multi-channel strategy. Most of our businesses generate revenue based on a percent of the selling price of goods sold through our sales channels. As such, influences on used equipment pricing can affect corporate performance. Factors such as regional or global economic and construction activity, the supply of good quality used equipment, availability of low-cost financing and changes to regional regulations can affect the demand for, and therefore price of, equipment sold through our auctions and our online marketplace.

Competitive Advantages

Our key strengths provide distinct competitive advantages and have enabled us to achieve significant and profitable growth over the long term. Our GAP has grown at a compound annual growth rate of 9.45% over the last 25 years, as illustrated below.

Global platform

Our business is a leader of equipment disposition services, with global reach, including 45 auction sites in more than 15 countries, including the United States, Canada, Australia, the United Arab Emirates, and the Netherlands. Our global presence ensures we generate global market pricing for our equipment sellers, as we reach international buyers and equipment demand, helping to deliver strong price realization through our sales channels. This global reach provides us and our selling customers with the ability to transcend local market conditions.

In our core auction business, Ritchie Bros. Auctioneers, we believe our network of auction sites has allowed us to achieve economies of scale by holding more frequent and larger auctions at our existing facilities, thereby taking advantage of our considerable operating capacity without incurring significant incremental costs. In addition, many of our auction sites are equipped with state-of-the-art painting and refurbishing facilities which, together with purpose-built auction theatres and equipment display yards, allow us to deliver a uniquely high level of service to our customers. Our secure yards enable our bidders to inspect, test and compare assets available for sale at our auctions, and give them confidence that the assets on which they are bidding exist and will be in the same condition when they pick them up as they were when they purchased them.

An industry leader in a highly fragmented market

We believe there is a global market opportunity in excess of \$300 billion per year, including an opportunity in the United States of over \$50 billion per year. While our business is a global market leader for the sale of used equipment, Ritchie Bros. currently has only 1.4% of the estimated global used equipment market, based on GAP during 2016. The United States represents a key area for growth with positive industrial tailwinds around infrastructure and construction.

Multi-channel product offering

Our multi-channel sales solutions provide a wide range of brand solutions for used industrial equipment, which appeal to a variety of personal preferences for sellers and buyers. We continue to build on our strong brand equity and loyal customer base by providing many value-added services to equipment sellers and buyers, including financing

and leasing solutions, appraisal services, insurance services, refurbishment and logistics services. We continue to look for even more ways to support the equipment industry and serve the various needs of equipment owners.

Technological capability

Ritchie Bros. continues to use and develop leading auction and marketplace technology, which has facilitated approximately half of our GAP through online sales during 2016. During the year, we developed and deployed our first mobile bidding app for smartphones and tablets, invested in the development of next-generation auction bidding platforms through Xcira, and enhanced Wi-Fi access at many of our auction sites.

Diverse sector coverage

Our sales solutions cater to the needs of end users, dealers and other equipment sellers across a variety of sectors, such as construction, transportation, agriculture, energy and mining. This diversity of sectors mitigates sector-specific exposure, and enables the sale of equipment with cross-sector applications regardless of sector-specific cyclicity.

Experienced management team

Our experienced management team continues to capitalize on the strength of our core on site auction offering, while expanding our online offering through multiple acquisitions to better serve our existing customers and to attract new customers. Ritchie Bros. executives have served as officers of a number of well-known global public companies, and have developed a deep understanding of the used equipment market and customer base.

Data and sector intelligence

Ritchie Bros. transacted more than 430,000 assets through its sales channels in 2016, had more than 660,000 people register to bid, and had more than 910,000 average monthly users of *www.rbauction.com* in 2016. The volume of transactions and customer interactions we have provide us with a unique, proprietary database of information. This information provides us with some of the world's best information to identify market trends and estimate used equipment values.

These competitive advantages have enabled us to hold successful auctions that are appealing to both buyers and consignors, as evidenced by the growth in the number of buyers and consignors participating in our auctions, set out in the graph below, and the resulting growth in our GAP over the last decade.

Industrial Auction Metrics: 2006 – 2016

Ritchie Bros. 11

We believe that this momentum, together with our reputation, size and financial resources, gives our customers confidence in our auction services, which should contribute to our growth over the long term.

Digital Capabilities

An increasing portion of sales transactions through Ritchie Bros.' solutions are conducted online, as illustrated in the graph below. As such, digital technologies and capabilities have become an increasingly important component of our strategy and service offering.

Internet services

Online bidding at live auctions

We believe that our extensive internet presence and the tools available on our website are valuable to buyers and sellers of equipment and represent a distinct competitive advantage for Ritchie Bros. Our online bidding service, provided by Xcira, a business under the Ritchie Bros. family of companies, has enhanced our ability to transcend local market conditions and offer international scope to equipment buyers and sellers at our auctions. It has also increased the number of bidders participating in our auctions, which we believe has led to higher selling prices.

Through the use of Xcira's online bidding technology, we launched our internet bidding service in 2002. Internet bidders and buyers at our auctions have continued to trend higher on an annual basis since 2002, with just over half of our core auction GAP in 2016 generated from online transactions. In 2016, we sold over \$1.9 billion of equipment to users of this core auction service. In 2016, customers bidding in our live industrial auctions over the internet accounted for 66% of total industrial auction registrations. Our internet bidding service gives our auction customers the choice of how they want to do business with us and access to both live and online auction participation. Our online bidding technology is available in nine languages.

The average number of registered bidders, both online and on-site, participating in our industrial auctions has increased 118% to 2,356 registered bidders in 2016 from 1,080 bidders in 2001, prior to the implementation our internet bidding service.

Online sales through a secure and trusted marketplace

In 2013, we launched our online equipment marketplace, EquipmentOne (www.equipmentone.com), which provides equipment sellers with control over the selling price and the sales process. EquipmentOne appeals to equipment sellers who want to manage the process, decide if and when to sell, and negotiate a selling price. This optionality appeals to companies and equipment owners who would prefer to sell only under certain conditions. During 2016, \$148.0 million of online transactions were completed on EquipmentOne.

Search engine optimization

In 2010 we launched our new 22-language Ritchie Bros. website, with enhanced features such as high quality zoomable photos, watch lists and other valuable features. The website (www.rbauction.com) now enables customers to interact with us more easily, as well as search for and purchase the equipment they need, and we believe it is a powerful tool for attracting new non-English speaking customers.

In 2011 we launched our detailed equipment information program, in which we provide free of charge on our website to all customers much more detailed information and photos about the equipment to be sold at our auctions. We believe this program is allowing customers to shop with greater ease and bid with more confidence, and has made our auctions more appealing to a broader range of equipment owners.

Strategy

Over the past several years our strategy has continued to evolve. At the beginning of 2015 we formalized a new strategy, that outlines the following objectives, strategic pillars and key enablers:

Ritchie Bros. 14

There are three main drivers to our strategy and roadmap to generate shareholder value:

GROW Revenue and Earnings

We are committed to pursuing growth initiatives that will further enhance our sector reach, drive geographic depth, meet a broader set of customer needs, and add scale to our operations. EquipmentOne is a key part of a full-service offering to provide our customers with a menu of options that cater to their needs at different points of their asset disposition journey. The strategy of offering EquipmentOne and other sales channels alongside our core auction service is a key step in developing a truly multi-channel offering to our market. The addition of Ritchie Bros. Private Treaty and Mascus (our listing service), as well as the acquisition of the minority interest in Ritchie Bros. Financial Services, will also contribute to revenue and earnings growth for the Company. We will also continue to focus on accelerating our strategic accounts growth and improving the overall performance and use of our underwritten contracts.

DRIVE Efficiencies and Effectiveness

We plan to take advantage of opportunities to improve the overall effectiveness of our organization by enhancing sales productivity, modernizing and integrating our legacy IT systems and optimizing business processes. We are also implementing formal performance measurement metrics to gauge our effectiveness and progress, and will better align our executive compensation plans with our new strategy and key targets. We also continue to evaluate ways to most effectively structure our organization to enhance the agility of our business, and speed up our decision making processes, to better serve our customers.

OPTIMIZE our Balance Sheet

Our business model provides us with the ability to generate strong cash flows. Cash flow represents our ability to convert revenue into cash, and provides a meaningful indication of the strength of our business. We will focus not only on profit growth but also further enhancing cash flow, reviewing contract structures and auction site returns to improve the cash flow and asset returns of our core auction segment. During 2016 we also adjusted our capital structure, taking on more debt (through a new syndicated credit facility and issuance of senior unsecured notes) to improve our average cost of capital, and continued to be prudent with our organic capital expenditures.

The announced acquisition of IronPlanet is considered a transformational transaction, and one that will increase both the scale and scope of our Company. The enhanced scale of our combined business is expected to drive further operating leverage from our unique business model, and provide new opportunities to operate more efficiently by utilizing a more digital service offering.

Segmented Information

Segmented information is disclosed in the consolidated financial statements and the notes thereto included in “Part II, Item 8: Financial Statements and Supplementary Data” presented elsewhere in this Annual Report on Form 10-K.

Operations

Transaction volume and Gross Auction Proceeds

Equipment sales are transacted through our core auction business, Ritchie Bros. Auctioneers, and our online marketplace, EquipmentOne. During 2016, \$4.2 billion, or 97% of total GAP, was generated through Ritchie Bros. Auctioneers, while \$148.0 million, or 3% of total GAP was sold through EquipmentOne.

Ritchie Bros. Auctioneers

In 2016, approximately 87% of our GAP was attributable to auctions held on one of our 45 permanent auction sites and regional auction sites, compared to 85% in 2015. Please see further discussion below under “Part II, Item 2: Properties – international network of auction sites” for a discussion of our properties. In 2016, 10% of our GAP came from “off-site” auctions, compared to 12% in 2015 and 2014. Off-site auctions are typically held on rented or consignor-owned land. The decision as to whether to hold a particular auction at one of our sites instead of at an off-site location is influenced by the nature, amount and location of the equipment to be sold. The majority of our agricultural auctions are held at off-site locations, usually on the consignor’s farm.

Ritchie Bros. 15

During 2016, the Company acquired Petrowsky Auctioneers and Kramer Auctions. Transactions from both *Petrowsky* and *Kramer* branded auctions are now allocated to GAP reported for Ritchie Bros. Auctioneers. Equipment transactions and revenue generated through Ritchie Bros. Private Treaty are also allocated to our Core Auction reportable segment.

EquipmentOne

GAP generated through EquipmentOne, also referred to as Gross Transaction Value (“GTV”) represents total proceeds from all items sold at our online marketplaces, as well as a buyers’ premium component applicable only to our online marketplace transactions.

Seasonality

Our Core Auction reportable segment GAP and associated revenues are affected by the seasonal nature of our business. Core auction GAP and revenues tend to increase during the second and fourth calendar quarters, during which time we generally conduct more business than in the first and third calendar quarters. Given the operating leverage inherent in our business model, the second and fourth quarter also tend to produce higher operating margins, given the higher volume and revenue generated in those quarters.

Some of the key elements of our auction and marketplace process include:

Attracting bidders

We believe our proprietary customer database, which contains over 610,900 customer names from approximately 190 countries, significantly enhances our ability to market our auctions effectively. We typically send tens of thousands of digital and print direct marketing materials to strategically selected customers from our database as part of our comprehensive auction marketing service. We also conduct targeted regional and industry-specific advertising and marketing campaigns and use social media to generate awareness. In addition, we present information about the majority of the consigned equipment at upcoming auctions on our website so that potential bidders can review equipment descriptions and view photographs of many of the items to be sold. We had over 549,000 bidder registrations at our industrial auctions in 2016.

Attracting equipment

We solicit equipment consignments ranging from single pieces of equipment consigned by local owner-operators to large equipment fleets offered by multi-national consortiums upon the completion of major construction projects.

For larger consignments, our service typically begins with an equipment appraisal that gives the prospective consignor a credible estimate of the value of the appraised equipment. We believe that consignors choose to sell their equipment through Ritchie Bros. sales solutions as we reach an exceptionally large audience of qualified equipment buyers, which helps equipment sellers realize higher sales prices.

Our willingness to take consignment of a customer's full equipment fleet, including ancillary assets such as inventories, parts, tools, attachments and construction materials, rather than only accepting selected items, is another valuable service that we offer to consignors that sets us apart from most of our competitors.

Attractive contract options

We offer consignors several contract options to meet their individual needs and sale objectives. Through our auction offerings, options include a straight commission contract, where the consignor receives the gross proceeds from the sale less a pre-negotiated commission rate, as well as alternate arrangements including guarantee contracts (where the consignor receives a guaranteed minimum amount plus an additional amount if proceeds exceed a specified level) or inventory contracts (where we purchase the equipment temporarily for resale). We refer to guarantee and inventory contracts as underwritten contracts, which accounted for approximately 25% of our GAP in 2016, compared to 29% in 2015 and 31% in 2014.

Ritchie Bros. 16

In order to assist customers with their equipment transactions and to build our business and position ourselves in the marketplace, in a minority of cases, we will strategically present proposals to customers that include underwritten contracts. In making the decision to strategically use an underwritten proposal, we consider a multitude of factors, including, the size and the mix of the equipment in the proposal, the condition of the equipment, the timing of the contract in relation to a particular auction and its impact on attracting additional consignments, the competitive environment, the used equipment pricing environment and our relationship with the customer. We have a rigorous approach to appraising and evaluating the items included in a potential underwritten deal and have a well-developed, strict internal approval process for entering into underwritten contracts.

Further, the choice by equipment owners between straight commission, guarantee, or inventory contracts, if presented by us, depends on the owner's risk tolerance and sale objectives. We work with our customers to provide them with the contract option that best suits their needs at that point in time. As a result, the mix of contracts in a particular quarter or year fluctuates and is not necessarily indicative of the mix in future periods. The composition of our auction commissions and our Revenue Rate are affected by the mix and performance of contracts entered into with consignors in the particular period and fluctuates from period to period.

Equipment sellers with larger packages of equipment will also often be provided with a proposal to sell their assets across multiple Ritchie Bros. sales channels – including EquipmentOne and Ritchie Bros. Private Treaty. Our proposals are structured to provide sellers with the best possible outcome, given their specific and unique needs and preferences.

Value-added services

We provide a wide array of services to make the auction process convenient for buyers and sellers of equipment. Examples of these services include:

- conducting title searches, where registries are commercially available, to ensure equipment is sold free and clear of all liens and encumbrances (if we are not able to deliver clear title, we provide a full refund up to the purchase price to the buyer);
- making equipment available for inspection, testing and comparison by prospective buyers;
- displaying high-quality, zoomable photographs of equipment on our website;
- providing free detailed equipment information on our website for most equipment;
- providing financing services through RBFS, as well as insurance and powertrain warranty products;
- providing access at our auctions to transportation companies, customs brokerages and other service providers, and online through our partner, uShip, and Ritchie Bros. Logistics;
- providing facilities for on-site cleaning, painting, and refurbishment of equipment; and
- handling all pre-auction marketing, as well as collection and disbursement of proceeds.

Online bidding and equipment marketplace purchase metrics

We continue to see an increase in the use and popularity of both our online bidding system and our online equipment marketplace. During 2016, we attracted record online bidder registrations and sold approximately \$2.1 billion of equipment, trucks and other assets to online auction bidders and EquipmentOne customers. This represents an 8% increase over the \$1.9 billion of assets sold online in 2015, and an annual online sales record.

Competition

The global used industrial equipment market is highly fragmented and often fluid between sales channels. We compete for potential purchasers and sellers of industrial equipment with other companies, including non-auction competitors such as equipment manufacturers, distributors and dealers, used equipment brokers, equipment rental companies, and other online marketplaces. We also compete with private sales – often securing new business from equipment owners who had previously tried selling their equipment privately.

Ritchie Bros. 17

Governmental regulations and environmental laws

Our operations are subject to a variety of federal, provincial, state and local laws, rules and regulations throughout the world relating to, among other things, the auction business, imports and exports of equipment, worker health and safety, privacy of customer information and the use, storage, discharge and disposal of environmentally sensitive materials. In addition, our development or expansion of auction sites depends upon the receipt of required licenses, permits and other governmental authorizations, and we are subject to various local zoning requirements with regard to the location of our auction sites, which vary among jurisdictions.

Under some of the laws regulating the use, storage, discharge and disposal of environmentally sensitive materials, an owner or lessee of, or other person involved in, real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances located on or in, or emanating from, such property, as well as related costs of investigation and property damage. These laws often impose liability without regard to whether the owner or lessee or other person knew of, or was responsible for, the presence of such hazardous or toxic substances.

We typically obtain Phase I environmental assessment reports prepared by independent environmental consultants in connection with our site acquisitions and leases. A Phase I environmental assessment consists of a site visit, historical record review, interviews and reports, with the purpose of identifying potential environmental conditions associated with the subject property. There can be no assurance, however, that acquired or leased sites have been operated in compliance with environmental laws and regulations or that future uses or conditions will not result in the imposition of environmental liability upon us or expose us to third-party actions such as tort suits. Although we have insurance to protect us from such liability, there can also be no assurance that it will cover any or all potential losses.

There are restrictions in the United States and Europe that may affect the ability of equipment owners to transport certain equipment between specified jurisdictions. One example of these restrictions is environmental certification requirements in the United States, which prevent non-certified equipment from being entered into commerce in the United States. In addition, engine emission standards in some jurisdictions limit the operation of certain trucks and equipment in those markets. We expect these emission standards to be implemented in additional jurisdictions or to be strengthened in existing jurisdictions in the future.

We are committed to contributing to the protection of the natural environment by preventing and reducing adverse impacts of our operations. As part of our commitment, we aim to:

- empower our employees to identify and address environmental issues;
- consider environmental impacts as part of all business decisions;
- conduct business in compliance with applicable regulations and legislation, and where appropriate, adopt the most stringent standards as our global benchmark;

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

- use resources wisely and efficiently to minimize our environmental impact;
 - communicate transparently with our shareholders about environmental matters;
 - conduct ongoing assessments to ensure compliance and good stewardship; and
- hold management accountable for providing leadership on environmental matters, achieving targets, and providing education to employees.

We believe that by following these principles, we will be able to achieve our objective to be in compliance with applicable environmental laws and make a positive contribution to the protection of the natural environment.

Our operational and marketing activities are subject to various types of regulations, including laws relating to the protection of personal information, consumer protection and competition. For example, the Canadian Anti-Spam Law (“CASL”) came into force on July 1, 2014. CASL prohibits the transmission of commercial electronic messages to an email address without consent and it also requires certain formalities to be complied with, including the ability to unsubscribe easily from subsequent messages.

Ritchie Bros. 18

We believe that we are in compliance in all material respects with all laws, rules, regulations and requirements that affect our business, and that compliance with such laws, rules, regulations and requirements does not impose a material impediment on our ability to conduct our business.

Available Information

The information contained on or accessible through our website is not part of this Annual Report on Form 10-K. We file required reports on Form 10-K, Form 10-Q, Form 8-K, proxy materials and other filings required under the Exchange Act. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

We maintain a website at www.rbauction.com and copies of our reports on Form 10-K, Form 10-Q and Form 8-K, proxy materials and other filings required under the Exchange Act, are available on our website, free of charge, as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the SEC.

We maintain a Code of Business Conduct and Ethics for our directors, officers and employees ("Code of Conduct"). A copy of our Code of Conduct may be found on our website in the Corporate Governance section.

Additional information related to Ritchie Bros. is also available on SEDAR at www.sedar.com.

Geographical Information

Geographical information about our revenues is disclosed in "Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K, under the subsection "Results of Operations".

The distribution of our long-lived assets according to the country in which they are located, is as follows:

Outside of	United
---------------	--------

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

	Canada		Canada		States		Europe		Other	
Long-lived assets distribution										
December 31, 2016	21	%	79	%	55	%	14	%	10	%
December 31, 2015	20	%	80	%	55	%	15	%	10	%
December 31, 2014	22	%	78	%	52	%	16	%	10	%

Ritchie Bros. 19

ITEM 1A: RISK FACTORS

An investment in our common stock involves a high degree of risk. In addition to the other information included in this Annual Report on Form 10-K, you should carefully consider each of the risks described below before purchasing our common shares. The risk factors set forth below are not the only risks that may affect our business. Our business could also be affected by additional risks not currently known to us or that we currently deem to be immaterial. If any of the following risks actually occur, our business, financial condition and results of operations could materially suffer. As a result, the trading price of our common shares could decline, and you may lose all or part of your investment. Information in this section may be considered “forward-looking statements.” See “Cautionary Note Regarding Forward-Looking Statements” for a discussion of certain qualifications regarding such statements.

Damage to our reputation for fairness, transparency and integrity could harm our business.

One of our founding principles is that our core auctions are fair and transparent and we believe this is one of our most significant competitive advantages. Closely related to this is our reputation for fairness and honesty in our dealings with our customers.

Our ability to continue to develop our brand strength, attract new customers and continue to do business with existing customers could be harmed if our reputation for fairness, transparency and integrity was damaged. If we are unable to maintain our reputation, we could lose business and our financial condition and results of operations could be adversely affected.

The IronPlanet Merger is subject to conditions and may not be completed or may not be completed as described.

Although we believe that the Merger will be completed as described herein, there can be no assurances that this will be the case. The consummation of the Merger pursuant to the Merger Agreement is subject to the terms and conditions set out therein, including (i) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (ii) the absence of a material adverse change with respect to IronPlanet since the date of the Merger Agreement, as described in the Merger Agreement; and (iii) the United States Committee on Foreign Investment in the United States having provided a written notice to the effect that review of the transactions contemplated by the Merger Agreement has been concluded and has terminated all action under the Section 721 of the Defense Production Act of 1950, as amended. The Merger will not be consummated until such clearances are received and such conditions are satisfied, which may take several months or longer. Furthermore, there can be no assurance that such clearances are received and such conditions are satisfied. Alternatively, the relevant antitrust authorities may authorize clearance of the Merger but demand that we implement certain remedies, such as undertakings or divestitures as a condition to close the Merger. Any such remedies would likely make the Merger less attractive and limit the size of the business we acquire and our ability to deliver the anticipated synergies and other benefits. We cannot assure you that we will be permitted to undertake the Merger in a timely fashion, without remedies, or at all.

If the Merger is not consummated on or before October 31, 2017 or the Merger Agreement is terminated prior to such date, we will be required to redeem all of the outstanding Notes at a redemption price equal to 100% of the original offering price of the Notes, plus accrued and unpaid interest to, but excluding, the date of such mandatory redemption. Moreover, the Merger is expected to be consummated in accordance with the terms of the Merger Agreement, and the Merger Agreement may be modified, amended and waived at any time by the parties thereto, without the consent of the holders of the Notes. Furthermore, modifications and amendments made to the Merger Agreement may make the Merger less attractive. The redemption of the outstanding Notes, and/or any amendment made to the Merger Agreement may adversely affect our business, financial condition, and results of operations.

Ritchie Bros. 20

We could experience delays or impediments to executing our acquisition strategy and expanding our business due to antitrust laws.

The Merger is, and other proposed business acquisitions and dispositions may be, subject to the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, as well as potentially the obtaining of certain other antitrust clearances. The relevant regulatory and antitrust authorities focus on the effects on competition, including the structure of the relevant markets and the pro-competitive benefits of the transaction. Any delay, prohibition or modification required by regulatory and antitrust authorities could adversely affect the terms of a proposed acquisition or could require us to modify or abandon an otherwise attractive acquisition opportunity.

Significant costs have been incurred and are expected to be incurred in connection with the consummation of the Merger and the integration of IronPlanet with Ritchie Bros. into a combined company, including legal, accounting, financial advisory and other costs.

We expect to incur one-time costs in connection with integrating our operations, products and personnel with those of IronPlanet into a combined company, in addition to costs related directly to completing the Merger. We would expect similar costs to be incurred in connection with any future acquisition. These costs may include expenditures for:

reorganization or closures of facilities;
employee redeployment, relocation or severance; and
integration of operations and information systems.

In addition, we expect to incur a number of non-recurring costs associated with combining our operations with those of IronPlanet. Additional unanticipated costs may yet be incurred as we integrate our business with IronPlanet. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of our operations with IronPlanet, may offset incremental transaction and transaction-related costs over time, this net benefit may not be achieved in the near term.

We may not realize the anticipated benefits of, and synergies from, the Merger and may become responsible for certain liabilities and integration costs as a result.

Business acquisitions involve the integration of new businesses that have previously operated independently from us. The integration of our operations with those of IronPlanet is expected to result in financial and operational benefits, as well as operating synergies we expect to capture through corporate expense reduction including elimination of duplicate corporate administrative costs, auction site rationalization as a result of a larger digital footprint, and integration of operations and systems. There can be no assurance, however, regarding when or the extent to which we will be able to realize these and other benefits. Integration may also be difficult, unpredictable, and subject to delay because of possible company culture conflicts and different opinions on future business development. We may be required to integrate or, in some cases, replace, numerous systems, including those involving management

information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which may be dissimilar. Difficulties associated with the integration of acquired businesses could have a material adverse effect on our business.

Even if we are able to successfully integrate the operations of Ritchie Bros. and IronPlanet, we may not realize the full benefits that we anticipate. If we achieve the expected benefits, they may not be achieved within the anticipated time frame. Also, the benefits from the Merger may be offset by costs incurred in integrating Ritchie Bros. and IronPlanet, increases in other expenses, operating losses or problems in the business unrelated to the Merger. As a result, there can be no assurance that such synergies or other benefits will be achieved.

In addition, in connection with the Merger, we have assumed, and may assume in connection with future acquisitions, certain potential liabilities. To the extent such liabilities are not identified by us or to the extent indemnifications obtained from third parties are insufficient to cover such liabilities, these liabilities could have a material adverse effect on our business.

Ritchie Bros. 21

Additionally, we entered into the Caterpillar Agreement under which Caterpillar will designate us, upon consummation of the Merger, as a “preferred” but nonexclusive provider for online and on site auctions and marketplaces (including, those of IronPlanet) in the countries where we do business in exchange for preferred rates and access to certain data and information. If the Merger has not been consummated by June 29, 2017, subject to an extension to September 29, 2017 to satisfy certain conditions related to regulatory clearances, or the Merger is approved by any regulatory authority on the condition that Ritchie Bros. make any changes to its business (structure, process or otherwise), the Caterpillar Agreement will become null and void. If the Caterpillar Agreement becomes null and void, or is otherwise modified, it could adversely affect our anticipated benefits from the Merger.

Integrating our business with IronPlanet may divert our management’s attention away from operations.

Successful integration of IronPlanet’s operations, products and personnel with ours may place a significant burden on our management and other internal resources. The diversion of management’s attention, and any difficulties encountered in the transition and integration process, could adversely affect our business, financial condition and operating results.

IronPlanet identified material weaknesses in its internal control over financial reporting.

IronPlanet and its independent auditor identified material weaknesses in IronPlanet’s internal control over financial reporting for the years ended December 31, 2014 and 2015. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of financial statements will not be prevented or detected on a timely basis. Specifically, IronPlanet had a lack of resources to enable effective review over complex accounting areas and non-routine transactions in accordance with GAAP, and it did not perform effective reconciliations over certain accounts related to seller transactions.

IronPlanet has taken numerous steps to strengthen its internal controls, including hiring additional financial reporting personnel with technical accounting and financial reporting experience and enhancing its internal review procedures during the financial statement close process. The actions that they have taken are subject to ongoing management review as well as audit committee oversight. IronPlanet plans to complete the remediation process as quickly as possible. However, upon consummation of the Merger, we may conclude that these remedial measures were insufficient, or we may identify additional material weaknesses or significant deficiencies in IronPlanet’s internal control over financial reporting, which, in either case, may result in IronPlanet’s or our business and financial condition being adversely impacted.

We are incurring substantial indebtedness in connection with the Merger, and the degree to which we will be leveraged following the completion of the Merger may materially and adversely affect our business, financial condition and results of operations.

We are incurring substantial indebtedness in connection with the Merger. As of December 31, 2016, we have \$619.6 million of total debt outstanding, consisting of \$123.8 million under a new five-year credit agreement (the "Credit Agreement") with a syndicate of lenders entered into on October 27, 2016 (the "New Facilities"), and \$500.0 million aggregate principal amount of 5.375% senior unsecured notes issued December 21, 2016 (the "Notes"), partially reduced by \$4.2 million of unamortized debt issue costs, as well as \$863.6 million of availability under the New Facilities.

Our ability to make payments on and to refinance our indebtedness, including the debt incurred pursuant to the Merger as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We may not generate sufficient funds to service our debt and meet our business needs, such as funding working capital or the expansion of our operations. If we are not able to repay or refinance our debt as it becomes due, we may be forced to take certain actions, including reducing spending on marketing, advertising and new product innovation, reducing future financing for working capital, capital expenditures and general corporate purposes, selling assets or dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in our industry, including both the live and online auction industry, could be impaired.

The lenders who hold our debt could also accelerate amounts due in the event that we default, which could potentially trigger a default or acceleration of the maturity of our other debt.

In addition, our substantial leverage could put us at a competitive disadvantage compared to our competitors that are less leveraged. These competitors could have greater financial flexibility to pursue strategic acquisitions and secure additional financing for their operations. Our substantial leverage could also impede our ability to withstand downturns in our industry or the economy in general.

We may incur substantial additional indebtedness in the future. The terms of the Credit Agreement and the indenture governing the Notes will limit, but not prohibit, us from incurring additional indebtedness. If we incur any additional indebtedness that has the same priority as the Notes and the guarantees thereof, the holders of that indebtedness will be entitled to share rateably with the holders of the Notes and the guarantees thereof in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. Subject to restrictions in the Credit Agreement and the indenture governing the Notes, we also will have the ability to incur additional secured indebtedness that would be effectively senior to the Notes offered hereby, to the extent of the value of the assets securing such obligations. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our debt instruments will have restrictive covenants that could limit our financial flexibility.

The terms of the Credit Agreement, as well as the indenture governing the Notes, contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our ability to borrow under our New Facilities is subject to compliance with a consolidated leverage ratio covenant and a consolidated interest coverage ratio covenant.

The Credit Agreement includes other restrictions that limit our ability in certain circumstances to: incur indebtedness; grant liens; engage in mergers, consolidations and liquidations; make asset dispositions, restricted payments and investments; enter into transactions with affiliates; and amend, modify or prepay certain indebtedness. The indenture governing the Notes contains covenants that limit our ability in certain circumstances to:

- incur additional indebtedness (including guarantees thereof);
- incur or create liens on their assets securing indebtedness;
- make certain restricted payments;
- make certain investments;
- dispose of certain assets;
- allow to exist certain restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us;

engage in certain transactions with affiliates; and
consolidate, amalgamate or merge with or into other companies.

Our failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in the acceleration of substantially all of our funded debt. We do not have sufficient working capital to satisfy our debt obligations in the event of an acceleration of all or a significant portion of our outstanding indebtedness.

Competition in our core markets could result in reductions in our future revenues and profitability.

The global used equipment market, including the auction segment of that market, is highly fragmented. We compete for potential purchasers and sellers of equipment with other auction companies and with non-auction competitors such as equipment manufacturers, distributors and dealers, equipment rental companies, and other online marketplaces. When sourcing equipment to sell at our auctions or other marketplaces, we compete with other on site and online auction companies, Original Equipment Manufacturer (“OEM”) and independent dealers, equipment brokers, other third parties, and equipment owners that have traditionally disposed of equipment in private sales.

Some of our competitors have significantly greater financial and marketing resources and name recognition than we do. New competitors with greater financial and other resources may enter the equipment auction market in the future. Additionally, existing or future competitors may succeed in entering and establishing successful operations in new geographic markets prior to our entry into those markets. They may also compete against us through internet-based services and other combined service offerings.

If commission rates decline, or if our strategy to compete against our many competitors is not effective, our revenues, market share, financial condition and results of operations may be adversely impacted. We may be susceptible to loss of business if competing models become more appealing to customers. If our selling model becomes undesirable or we are not successful in adding services complementary to our existing selling model and business, we may not be successful increasing market penetration over the long-term, which could prevent us from achieving our long-term earnings growth targets.

Decreases in the supply of, demand for, or market values of used equipment, could harm our business.

Our revenues could decrease if there was significant erosion in the supply of, demand for, or market values of used equipment, which could adversely affect our financial condition and results of operations. We have no control over any of the factors that affect the supply of, and demand for, used equipment, and the circumstances that cause market values for equipment to fluctuate — including, among other things, economic uncertainty, disruptions to credit and financial markets, lower commodity prices, and our customers' restricted access to capital — are beyond our control. Recent economic conditions have caused fluctuations in the supply, mix and market values of used equipment available for sale, which has a direct impact on our revenues.

In addition, price competition and the availability of equipment directly affect the supply of, demand for, and market value of used equipment. Climate change initiatives, including significant changes to engine emission standards applicable to equipment, may also adversely affect the supply of, demand for or market values of equipment.

We may incur losses as a result of our guarantee and inventory contracts and advances to consignors.

Our most common type of auction contract is a straight commission contract, under which we earn a pre-negotiated, fixed commission rate on the gross sales price of the consigned equipment at auction. Straight commission contracts are used by us when we act as agent for consignors. In recent years, a majority of our annual business has been conducted on a straight commission basis. In certain other situations, we will enter into underwritten transactions and either offer to:

guarantee a minimum level of sale proceeds to the consignor, regardless of the ultimate selling price of the consignment at the auction; or

purchase the equipment outright from the seller for sale in a particular auction.

We determine the level of guaranteed proceeds or inventory purchase price based on appraisals performed on equipment by our internal personnel. Inaccurate appraisals could result in guarantees or inventory values that exceed the realizable auction proceeds. In addition, a change in market values could also result in guarantee or inventory values exceeding the realizable auction proceeds. If auction proceeds are less than the guaranteed amount, our commission will be reduced and we could potentially incur a loss, and, if auction proceeds are less than the purchase price we paid for equipment that we take into inventory temporarily, we will incur a loss. Because a majority of our auctions are unreserved, there is no way for us to protect against these types of losses by bidding on or acquiring any of the items at such auctions. In addition, we do not hold inventory indefinitely waiting for market conditions to improve. If our exposure to underwritten contracts increases, this risk would be compounded.

Occasionally, we advance to consignors a portion of the estimated auction proceeds prior to the auction. We generally make these advances only after taking possession of the assets to be auctioned and upon receipt of a security interest in the assets to secure the obligation. If we were unable to auction the assets or if auction proceeds were less than amounts advanced, we could incur a loss.

Ritchie Bros. 24

We are pursuing a long-term growth strategy that includes acquisitions and developing and enhancing an appropriate sales strategy, which requires upfront investment with no guarantee of long-term returns.

We continue to pursue a long-term growth strategy, including developing and enhancing an appropriate sales strategy, that contemplates upfront investments, including (i) investments in emerging markets that may not generate profitable growth in the near term, (ii) adding new business and information solutions, and (iii) developing our people. Planning for future growth requires investments to be made now in anticipation of growth that may not materialize, and if our strategies do not successfully address the needs of current and potential customers we may not be successful in maintaining or growing our GAP and our financial condition and results of operations may be adversely impacted. We may also not be able to improve our systems and controls as a result of increased costs, technological challenges, or lack of qualified employees. A large component of our selling, general and administrative expenses is considered fixed costs that we will incur regardless of any GAP growth. There can be no assurances that our GAP and revenues will be maintained or grow at a more rapid rate than our fixed costs.

Part of our growth strategy includes growth through acquisitions, such as the Merger, which poses a number of risks. We may not be successful in identifying appropriate acquisition candidates, consummating acquisitions on satisfactory terms or integrating any newly acquired or expanded business with our current operations. Additionally, significant costs may be incurred in connection with any acquisition and our integration of such businesses with our business, including legal, accounting, financial advisory and other costs. We may also not realize the anticipated benefits of, and synergies from, such acquisition. We cannot guarantee that any future business acquisitions will be pursued, that any acquisitions that are pursued will be consummated, or that we will achieve the anticipated benefits of completed acquisitions.

Our business is subject to risks relating to our ability to safeguard our information systems, including the security and privacy of our customers' confidential information.

We rely on information technology to manage our business, including maintaining proprietary databases containing sensitive and confidential information about our customers, suppliers, counterparties and employees (which may include personally identifiable information and credit information). An increasing number of websites have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks on portions of their websites or infrastructure. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems, change frequently, we may not be able to anticipate these techniques or to implement adequate preventative measures. Unauthorized parties may also attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving our employees or contractors. A party that is able to circumvent our security measures could misappropriate our or our customers' confidential information, cause interruption to our operations, damage our computing infrastructure or otherwise damage our reputation. Although we maintain information security measures, there can be no assurance that we will be immune from these security risks, and any breach of our information security may have a material adverse impact on our business and results of operations.

Under credit card payment rules and our contracts with credit card processors, if there is a breach of payment card information that we store, we could be liable to the payment card issuing banks for their cost of issuing new cards and related expenses. We may also be held liable for certain fraudulent credit card transactions and other payment disputes with customers. If we were unable to accept payment cards, our results of operations would be materially and adversely affected.

Security breaches could damage our reputation, cause a loss of confidence in the security of our services and expose us to a risk of loss or litigation and possible liability for damages. We may be required to make significant expenditures to protect against security breaches or to alleviate problems caused by any breaches. These issues are likely to become costlier as we expand. Our insurance policies may not be adequate to reimburse us for losses caused by security breaches, and we may not be able to fully collect, if at all, under these insurance policies.

Ritchie Bros. 25

The availability and performance of our technology infrastructure, including our websites, is critical to our business.

The satisfactory performance, reliability and availability of our websites, enterprise resource planning system, processing systems and network infrastructure are important to our reputation and our business. Our systems may experience service interruptions or degradation because of hardware or software defects or malfunctions, computer denial of service, human error and natural events beyond our control. Some of our systems are not fully redundant, and our recovery planning may not be sufficient for all possible disruptions.

Further, we will need to continue to expand and upgrade our technology, transaction processing systems and network infrastructure both to meet increased usage of our online bidding service and other services offered on our websites, to implement new features and functions and as a result of the Merger. Our business and results of operations could be harmed if we were unable to expand and upgrade in a timely manner our systems and infrastructure to accommodate any increases in the use of our internet services, or if we were to lose access to or the functionality of our internet systems for any reason, especially if such loss of service prevented internet bidders from effectively participating in one of our auctions. Frequent, persistent or ill-timed interruptions to our internet services could cause current or potential customers to believe that our systems are unreliable, which could lead to the loss of customers and harm our reputation.

We use both internally developed and licensed systems for transaction processing and accounting, including billings and collections processing. We continually upgrade and improve these systems to accommodate growth in our business. If we are unsuccessful in continuing to upgrade our technology, transaction processing systems or network infrastructure to accommodate increased transaction volumes, it could harm our operations and interfere with our ability to expand our business.

If the mobile solutions available to consumers are not effective, the use of our technology platform could decline.

Visits and purchases made on mobile devices by consumers have increased in recent years. The smaller screen size and reduced functionality associated with some mobile devices may make the use of a technology platform more difficult or less appealing to customers. Visits to our marketplaces on mobile devices may not convert into purchases as often as visits made through personal computers, which could result in less revenue for us.

Further, although we strive to provide engaging mobile experiences for customers who visit our mobile websites using a browser on their mobile device, as new mobile devices and mobile platforms are released, we may encounter problems in developing or supporting applications for them. In addition, supporting new devices and mobile device operating systems may require substantial time and resources. The success of our mobile applications could also be harmed by factors outside our control, such as:

- actions taken by providers of mobile operating systems or mobile application, or app, download stores; unfavorable treatment received by our mobile apps, especially as compared to competing apps, such as the placement of our mobile apps in a mobile app download store;
- increased costs to distribute or have customers use our mobile apps; or
- changes in mobile operating systems, such as iOS and Android, that degrade the functionality of our mobile websites or mobile apps or that give preferential treatment to competitive products.

If customers encounter difficulty accessing or using our technology platform on their mobile devices, or if sellers and buyers choose not to use our technology platform on their mobile devices, our growth prospects and our business may be adversely affected.

A deterioration of general macroeconomic conditions could materially and adversely affect our business.

Our performance is subject to macroeconomic conditions and their impact on customer spending. Adverse macroeconomic conditions typically result in a general tightening in credit markets, lower levels of liquidity, increased default and bankruptcy rates, and depressed levels of activity and investment.

Ritchie Bros. 26

Challenging macroeconomic conditions may have a negative impact on the operations, financial condition and liquidity of many customers and, as a result, may negatively impact the volume of equipment listed for sale and the prices of equipment sold in our marketplace, thereby having a negative impact on our revenue and ability to grow our business. If sellers choose not to sell their assets as a result of adverse economic conditions, buyers are unable to purchase equipment based on their inability to obtain sufficient financing or are unwilling to do so given the market climate, or if customers are in general financial distress, our operations may be negatively affected and revenue from our marketplace may decrease.

Our ability to provide a high quality customer experience may depend on third parties and external factors over which we may have little or no control.

Our ability to provide a high quality and efficient customer experience is also dependent on external factors over which we may have little or no control, including, without limitation, the reliability and performance of the equipment sold in our marketplaces and the performance of third-party carriers who transport purchased equipment on behalf of buyers. If our customers are dissatisfied with the accuracy of our appraisals and inspections, the quality of the business insights provided by our other value-added services, or do not receive the equipment they purchased in a timely manner or in the condition that they expect, customers may stop using us to purchase equipment. Failure to provide customers with high quality and efficient customer experiences could substantially harm our reputation and adversely impact our efforts to develop customer and industry trust in our brands.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes in this or other regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as certain federal, provincial, state and local laws, rules and regulations, including those governing the internet and e-commerce. Existing and future laws and regulations may impede the growth of the internet, e-commerce or other services, and increase the cost of doing business, including providing online auction services. These regulations and laws may cover taxation, tariffs, user privacy, data protection, pricing, content, copyrights, distribution, electronic contracts, and other communications, consumer protection, broadband residential Internet access and the characteristics and quality of services. It is not clear how existing laws governing issues such as property ownership, sales, use and other taxes, libel, and personal privacy apply to the Internet and e-commerce. Changes to regulations and unfavorable resolution of these issues may harm our business and results of operations.

Our future expenses may increase significantly and our operations and ability to expand may be limited as a result of environmental and other regulations.

A variety of federal, provincial, state and local laws, rules and regulations throughout the world, including local tax and accounting rules, apply to our business. These relate to, among other things, the auction business, imports and exports of equipment, property ownership laws, licensing, worker safety, privacy of customer information, land use and the use, storage, discharge and disposal of environmentally sensitive materials. Complying with revisions to laws, rules and regulations could result in an increase in expenses and a deterioration of our financial performance. Failure

to comply with applicable laws, rules and regulations could result in substantial liability to us, suspension or cessation of some or all of our operations, restrictions on our ability to expand at present locations or into new locations, requirements for the acquisition of additional equipment or other significant expenses or restrictions.

The development or expansion of auction sites depends upon receipt of required licenses, permits and other governmental authorizations. Our inability to obtain these required items could harm our business. Additionally, changes or concessions required by regulatory authorities could result in significant delays in, or prevent completion of, such development or expansion.

Under some environmental laws, an owner or lessee of, or other person involved in, real estate may be liable for the costs of removal or remediation of hazardous or toxic substances located on or in, or emanating from, the real estate, and related costs of investigation and property damage. These laws often impose liability without regard to whether the owner, lessee or other person knew of, or was responsible for, the presence of the hazardous or toxic substances.

Ritchie Bros. 27

Environmental contamination may exist at our owned or leased auction sites, or at other sites on which we may conduct auctions, or properties that we may be selling by auction, from prior activities at these locations or from neighboring properties.

In addition, auction sites that we acquire or lease in the future may be contaminated, and future use of or conditions on any of our properties or sites could result in contamination. The costs related to claims arising from environmental contamination of any of these properties could harm our financial condition and results of operations.

There are restrictions in the United States, Canada and Europe and other jurisdictions in which we do business that may affect the ability of equipment owners to transport certain equipment between specified jurisdictions or the saleability of older equipment. One example of these restrictions is environmental certification requirements in the United States, which prevent non-certified equipment from entering into commerce in the United States. In addition, engine emission standards in some jurisdictions limit the operation of certain trucks and equipment in those markets.

These restrictions, or changes to environmental laws, including laws in response to climate change, could inhibit materially the ability of customers to ship equipment to or from our auction sites, reducing our GAP and harming our business, financial condition and results of operations.

International bidders and consignors could be deterred from participating in our auctions if governmental bodies impose additional export or import regulations or additional duties, taxes or other charges on exports or imports. Reduced participation by international bidders and consignors could reduce GAP and harm our business, financial condition and results of operations.

Our substantial international operations expose us to foreign exchange rate fluctuations that could harm our results of operations.

We conduct business in many countries around the world and intend to continue to expand our presence in international markets, including emerging markets. Fluctuating currency exchange rates may negatively affect our business in international markets and our related results of operations.

Although we report our financial results in U.S. dollars, a significant portion of our revenues and expenses are generated outside the United States, primarily in currencies other than the U.S. dollar. In particular, a significant portion of our revenues are earned, and expenses incurred, in the Canadian dollar and the Euro. As a result, our financial results are impacted by fluctuations in foreign currency exchange rates. We do not currently engage in foreign currency hedging arrangements, and, consequently, foreign currency fluctuations may adversely affect our

results of operations.

The results of operations of our foreign subsidiaries are translated from local currency into U.S. dollars for financial reporting purposes. If the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated revenues or expenses will result in increased U.S. dollar denominated revenues and expenses. Similarly, if the U.S. dollar strengthens against foreign currencies, particularly the Canadian dollar and the Euro, our translation of foreign currency denominated revenues or expenses will result in lower U.S. dollar denominated revenues and expenses. For the years ended December 31, 2016, 2015, and 2014, foreign currency movements relative to the U.S. dollar negatively impacted revenues by \$6.8 million, \$40.5 million, and \$12.7 million, respectively.

In addition, currency exchange rate fluctuations between the different countries in which we conduct our operations impact the purchasing power of buyers, the motivation of consignors, asset values and asset flows between various countries, including those in which we do not have operations. These factors and other global economic conditions may harm our business and our results of operations.

Our business is subject to the risks of operating in foreign jurisdictions.

We operate in a large number of international jurisdictions. There are risks inherent in doing business internationally, including, but not limited to:

Ritchie Bros. 28

trade barriers, trade regulations, currency controls, import or export regulations, and other restrictions on doing business freely;

local labor, environmental, tax, and other laws and regulations, and uncertainty or adverse changes in such laws and regulations or the interpretations thereof;

- difficulties in staffing and managing foreign operations;
- economic, political, social or labor instability or unrest, or changes in conditions;
- terrorism, war, hostage-taking, or military repression;
- corruption;
- expropriation and nationalization;
- high rates of inflation; and
- uncertainty as to litigation in foreign jurisdictions and enforcement of local laws.

If we violate the complex foreign and U.S. laws and regulations that apply to our international operations, we may face fines, criminal actions or sanctions, prohibitions on the conduct of our business and damage to our reputation. These risks inherent in our international operations increase our costs of doing business internationally and may result in a material adverse effect on our operations or profitability.

Our business operations may be subject to a number of federal and local laws, rules and regulations including export control regulations.

Our business operations may be subject to a number of federal and local laws, rules and regulations, including the Export Administration Regulations, or EAR, maintained by the U.S. Department of Commerce, the International Traffic in Arms Regulations, or ITAR, maintained by the U.S. Department of State, economic sanctions regulations maintained by the U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, and similar regulations in Canada and the European Union ("EU"). We have implemented procedures regarding compliance with these laws, including monitoring, on an automatic and manual basis, the potential sellers and buyers in our marketplace and restricting business from certain countries. We can offer no assurances that these procedures will always be effective.

We have implemented certain processes and procedures to prevent sellers and buyers that are located in a prohibited jurisdiction or are prohibited persons from participating in our marketplaces. Such processes and procedures are designed so that our business is in compliance with OFAC-administered sanctions regulations and other applicable sanction regulations, including those in Canada and the E.U.

If we were to violate applicable export control or sanctions regulations, we could be subject to administrative or criminal penalties which, in certain circumstances, could be material. We could be subject to damages, financial penalties, denial of export privileges, incarceration of our employees, other restrictions on our operations, and reputational harm. Further, any action on the part of the U.S. Department of State, the U.S. Department of Commerce, OFAC or other applicable regulator against the company or any of our employees for potential violations of these laws could have a negative impact on our reputation and business, which might decrease stockholder value.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the Corruption of Foreign Public Officials Act, or the CFPOA, and similar laws associated with our activities outside of the United States could subject us to penalties and other adverse consequences.

We are subject to the FCPA, the CFPOA, the U.S. domestic bribery statute contained in 18 U.S.C. §201, the U.S. Travel Act, the USA PATRIOT Act, the United Kingdom Bribery Act of 2010, or the U.K. Bribery Act, and possibly other anti-corruption, anti-bribery and anti-money laundering laws in countries in which we conduct activities or facilitate the buying and selling of equipment.

Ritchie Bros. 29

We face significant risks if we fail to comply with the FCPA, the CFPOA and other anti-corruption and anti-bribery laws that prohibit companies and their employees and third-party intermediaries from authorizing, offering or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties or candidates, employees of public international organizations, and private-sector recipients for the corrupt purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA, the CFPOA or other applicable laws and regulations. In addition, we leverage various third parties to sell our solutions and conduct our business abroad. We, our channel partners, and our other third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We may be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. Our Code of Business Conduct and Ethics and other corporate policies mandate compliance with these anti-bribery laws, which often carry substantial penalties.

Any violation of the FCPA, other applicable anti-bribery, anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, which could have a material and adverse effect on our reputation, business, operating results and prospects. In addition, responding to any enforcement action may result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

Income and commodity tax amounts, including tax expense, may be materially different than expected.

Our global operations are subject to tax interpretations, regulations, and legislation in the numerous jurisdictions in which we operate, all of which are subject to continual change.

We accrue and pay income taxes and have significant income tax assets, liabilities, and expense that are estimates based primarily on the application of those interpretations, regulations and legislation, and the amount and timing of future taxable income. Accordingly, we cannot be certain that our estimates and reserves are sufficient. The timing concerning the monetization of deferred income tax amounts is uncertain, as they are dependent on our future earnings and other events. Our deferred income tax amounts are valued based upon substantively enacted income tax rates in effect at the time, which can be changed by governments in the future.

The audit and review activities of tax authorities affect the ultimate determination of the actual amounts of commodity taxes payable or receivable, income taxes payable or receivable, deferred income tax assets and liabilities, and income tax expense.

There is no assurance that taxes will be payable as anticipated or that the amount or timing of receipt or use of the tax-related assets will be as currently expected. Our experience indicates that taxation authorities are increasing the frequency and depth of audits and reviews and, while our approach to accounting for tax positions has generally been deemed appropriate through recent audits by taxation authorities, future tax authority determinations could have a material impact to our financial position.

Losing the services of one or more key personnel could materially affect our business and require us to incur substantial additional costs to recruit replacement personnel.

The growth and performance of our business depends to a significant extent on the efforts and abilities of our executive officers and senior managers. Many of our key executives have extensive experience with our business. These officers have knowledge and an understanding of our company and industry that cannot be readily duplicated. The loss of any member of our senior management team could impair our ability to execute our business plan and growth strategy, cause us to lose customers and reduce our revenues.

Ritchie Bros. 30

Our business could be harmed if we lost the services of any of these individuals. We do not maintain key person insurance on the lives of any of our executive officers. As a result, we would have no way to cover the financial loss if we were to lose the services of members of our senior management team. Additionally, as a result of the Merger, our current and prospective employees could experience uncertainty about their future roles. This uncertainty may adversely affect our ability to attract and retain key employees.

If any of our key personnel or those of IronPlanet were to join a competitor or form a competing company, existing and potential customers could choose to form business relationships with that competitor instead of us. There can be no assurance that confidentiality, non-solicitation, non-competition or similar agreements signed by former directors, officers, employees or stockholders of us, IronPlanet or our transactional counterparties will be effective in preventing a loss of business.

Our future success largely depends on our ability to attract, develop and retain skilled employees in all areas of our business, as well as to design an appropriate organization structure and plan effectively for succession. Although we actively manage our human resource risks, there can be no assurance that we will be successful in our efforts. If we fail to attract, develop and retain skilled employees in all areas of our business, our financial condition and results of operations may be adversely affected and we may not achieve our growth or performance objectives.

We are regularly subject to general litigation and other claims, which could have an adverse effect on our business and results of operations.

We are subject to general litigation and other claims that arise in the ordinary course of our business. The outcome and impact of such litigation cannot be predicted with certainty, but regardless of the outcome, these proceedings can have an adverse impact on us because of legal costs, diversion of management resources and other factors. While the results of these claims have not historically had a material effect on our business, financial condition or results of operations, we may not be able to defend ourselves adequately against these claims in the future, and these proceedings may have a material adverse impact on our financial condition or results of operations.

In addition to other legal proceedings, we may also be subject to intellectual property claims, which are extremely costly to defend, could require us to pay significant damages, and could limit our ability to use certain technologies in the future. Companies in the Internet and technology industries are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. We periodically receive notices that claim we have infringed, misappropriated, or misused other parties' intellectual property rights. To the extent we gain greater public recognition, we may face a higher risk of being the subject of intellectual property claims. Third-party intellectual property rights may cover significant aspects of our technologies or business methods or block us from expanding our offerings. Any intellectual property claim against us, with or without merit, could be time consuming and expensive to settle or litigate and could divert the attention of our management. Litigation regarding intellectual property rights is inherently uncertain due to the complex issues involved, and we may not be successful in defending ourselves in such matters.

Many potential litigants, including some patent holding companies, have the ability to dedicate substantial resources to enforcing their intellectual property rights. Any claims successfully brought against us could subject us to significant liability for damages, and we may be required to stop using technology or other intellectual property alleged to be in violation of a third party's rights. We also might be required to seek a license for third-party intellectual property. Even if a license is available, we could be required to pay significant royalties or submit to unreasonable terms, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant time and expense. If we cannot license or develop technology for any allegedly infringing aspect of our business, we would be forced to limit our service and may be unable to compete effectively. Any of these results could harm our business.

Ritchie Bros. 31

We may be unable to adequately protect or enforce our intellectual property rights, which could harm our reputation and adversely affect our growth prospects.

We regard our proprietary technologies and intellectual property as integral to our success. We protect our proprietary technology through a combination of trade secrets, third-party confidentiality and nondisclosure agreements, additional contractual restrictions on disclosure and use, and patent, copyright, and trademark laws.

We currently are the registered owners of many Internet domain names internationally. As we seek to protect our domain names in an increasing number of jurisdictions, we may not be successful in doing so in certain jurisdictions. Our competitors may adopt trade names or domain names similar to ours, thereby impeding our ability to promote our marketplace and possibly leading to customer confusion. In addition, we could face trade name or trademark or service mark infringement claims brought by owners of other registered or unregistered trademarks or service marks, including trademarks or service marks that may incorporate variations of our brand names. The legal means we use to protect our proprietary technology and intellectual property do not afford complete protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. We cannot guarantee that any of our present or future intellectual property rights will not lapse or be invalidated, circumvented, challenged or abandoned; our intellectual property rights will provide competitive advantages to us; our ability to assert our intellectual property rights against potential competitors or to settle current or future disputes will not be limited by our agreements with third parties; any of our pending or future patent applications will be issued or have the coverage originally sought; or our intellectual property rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak.

We also may allow certain of our registered intellectual property rights, or our pending applications or registrations for intellectual property rights, to lapse or to become abandoned if we determine that obtaining or maintaining the applicable registered intellectual property rights is not worthwhile.

Further, although it is our practice to enter into confidentiality agreements and intellectual property assignment agreements with our employees and contractors, these agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy, reverse engineer, or otherwise obtain and use our products or technology. We cannot be certain that we will be able to prevent unauthorized use of our technology or infringement or misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights. Effective patent, copyright, trademark, service mark, trade secret, and domain name protection is time-consuming and expensive to maintain. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of our resources. In addition, our efforts may be met with defenses and counterclaims challenging the validity and enforceability of our intellectual

property rights or may result in a court determining that our intellectual property rights are unenforceable. If we are unable to cost-effectively protect our intellectual property rights, then our business could be harmed. If competitors are able to use our technology or develop proprietary technology similar to ours or competing technologies, our ability to compete effectively and our growth prospects could be adversely affected.

We are subject to the terms of open source licenses because our technology platform incorporates open source software.

Some of the software powering our marketplace incorporates software covered by open source licenses. The terms of many open source licenses have not been interpreted by U.S. courts and there is a risk that the licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to operate our marketplace. Under certain open source licenses, we could be required to publicly release the source code of our software or to make our software available under open source licenses. To avoid the public release of the affected portions of our source code, we could be required to expend substantial time and resources to re-engineer some or all of our software which could significantly interrupt our operations.

Ritchie Bros. 32

In addition, use of open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Use of open source software may also present additional security risks because the public availability of this software may make it easier for hackers and other third parties to determine how to compromise our technology platform. Any of these risks could be difficult to eliminate or manage and, if not addressed, could adversely affect our business, financial condition and results of operations.

Our business continuity plan may not operate effectively in the event of a significant interruption of our business.

We depend on our information and other systems and processes for the continuity and effective operation of our business. We have implemented a formal business continuity plan covering most significant aspects of our business that would take effect in the event of a significant interruption to our business, or the loss of key systems as a result of a natural or other disaster. Although we have tested our business continuity plan as part of the implementation, there can be no assurance that it will operate effectively or that our business, results of operations and financial condition will not be materially affected in the event of a significant interruption of our business.

If we were subject to a disaster or serious security breach, it could materially damage our business, financial condition and results of operations.

Our insurance may be insufficient to cover losses that may occur as a result of our operations.

We maintain property and general liability insurance. This insurance may not remain available to us at commercially reasonable rates, and the amount of our coverage may not be adequate to cover all liabilities that we may incur. Our auctions generally involve the operation of large equipment close to a large number of people, and despite our focus on safe work practices, an accident could damage our facilities or injure auction attendees. Any major accident could harm our reputation and our business. In addition, if we were held liable for amounts exceeding the limits of our insurance coverage or for claims outside the scope of our coverage, the resulting costs could harm our financial condition and results of operations.

Certain global conditions may affect our ability to conduct successful events.

Like most businesses with global operations, we are subject to the risk of certain global conditions, such as pandemics or other disease outbreaks or natural disasters that could hinder our ability to conduct our scheduled auctions, restrict our customers' travel patterns or their desire to attend auctions or impact our online operations, including disrupting the Internet or mobile networks or one or more of our service providers. If this situation were to occur, we may not be able to generate sufficient equipment consignments to sustain our business or to attract enough bidders to our auctions to achieve world fair market values for the items we sell. This could harm our financial condition and results of operations.

Our operating results are subject to quarterly variations.

Historically, our revenues and operating results have fluctuated from quarter to quarter. We expect to continue to experience these fluctuations as a result of the following factors, among others:

- the size, timing and frequency of our auctions;
- the seasonal nature of the auction business in general, with peak activity typically occurring in the second and fourth calendar quarters, mainly as a result of the seasonal nature of the construction and natural resources industries;
- the performance of our underwritten (guarantee and outright purchase) contracts;
- general economic conditions in the geographical regions in which we operate; and
- the timing of acquisitions and development of auction facilities and related costs.

In addition, we may incur substantial costs when entering new geographies and the profitability of operations at new locations is uncertain as a result of the increased variability in the number and size of auctions at new sites. These and other factors may cause our future results to fall short of investor expectations or not to compare favorably to our past

results. Further, as our results generally fluctuate from quarter to quarter, period-to-period comparisons of our results of operations may not be meaningful indicators of future performance.

New regulation in the areas of consumer privacy and commercial electronic messages may restrict or increase costs of our marketing efforts.

Our operation and marketing activities are subject to various types of regulations, including laws relating to the protection of personal information, consumer protection and competition. User data protection and communication-based laws may be interpreted and applied inconsistently from country to country, and these laws continue to develop in ways we cannot predict and that may adversely affect our business. Complying with these varying national requirements could cause us to incur substantial costs or require us to change our business practices in a manner with adverse effects on our business, and violations of privacy-related laws can result in significant penalties. See “— We process, store, and use personal information and other data, which subjects us to a variety of evolving governmental regulation, industry standards and self-regulatory schemes, contractual obligations, and other legal obligations related to privacy and data protection, which may increase our costs, decrease adoption and use of our products and services and expose us to liability.” A determination that there have been violations of laws relating to our marketing practices under communications-based laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business.

One example of such a law is Canada’s Anti-Spam Law, or CASL, which came into force on July 1, 2014. CASL prohibits the transmission of electronic messages for commercial purposes to an electronic address, which includes an electronic mail account, an instant messaging account, a telephone account, or any similar account, unless the recipient has consented to receiving the message and the message complies with the requirements under CASL. CASL also requires commercial electronic messages to comply with certain formality requirements, including the implementation of an unsubscribe mechanism. CASL further imposes certain restrictions on a service provider’s ability to automatically install or cause to be installed computer software (including software updates) on a person’s device without the person’s consent. CASL, in its current form, may impose additional costs and processes with respect to communicating with existing and prospective customers and may limit cross-selling opportunities for affiliated companies, depending on whether the appropriate consents have been obtained. Penalties for non-compliance with CASL are considerable, including administrative monetary penalties of up to \$10 million. The provisions of CASL providing a private right of action will come into force on July 1, 2017, and they will allow any persons to bring claims for contravention of CASL’s terms. The private right of action may lead to increased risk of class action suits. The Canadian Radio-television and Telecommunications Commission has also begun actively enforcing CASL and penalizing non-compliant organizations.

We process, store, and use personal information and other data, which subjects us to a variety of evolving governmental regulation, industry standards and self-regulatory schemes, contractual obligations, and other legal obligations related to privacy and data protection, which may increase our costs, decrease adoption and use of our products and services and expose us to liability.

There are a number of federal, provincial, state, local laws, rules and regulations, as well as contractual obligations and industry standards, that provide for certain obligations and restrictions with respect to data privacy and security, and the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure and protection of personal information and other customer data. The scope of these obligations and restrictions is changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules, and their status remains uncertain.

Within the EU, strict laws, including EU Directive 95/46/EC, already apply in connection with the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure and protection of personal information and other customer data. The EU model has been replicated substantially or in part in various jurisdictions outside the United States. Data protection regulators within the EU and other jurisdictions have the power to fine non-compliant organizations significant amounts and seek injunctive relief, including the cessation of certain data processing activities. If personal data transfers to us and by us from the EU are considered illegitimate under EU Directive 95/46/EC and applicable member states' implementations thereof, we may face a risk of enforcement actions taken by EU data protection authorities.

Ritchie Bros. 34

Additionally, the text of a new General Data Protection Regulation (“GDPR”) has been approved, which strengthens the existing data protection regulations in the EU. The GDPR is set to enter into full force during 2018 and its provisions increasing the maximum level of fines that EU regulators may impose to the greater of €100 million or 4% of worldwide annual sales. Such fines would be in addition to the rights of individuals to sue for damages in respect of any data privacy breach which causes them to suffer loss.

As Internet commerce and related technologies continue to evolve, thereby increasing a service provider’s capacity to collect, store, retain, protect, use, process and transmit large volumes of personal information, increasingly restrictive regulation by federal, provincial, state or foreign agencies becomes more likely. We believe that the adoption of increasingly restrictive regulation in the field of data privacy and security is likely in both the United States and in other jurisdictions, possibly as restrictive as the EU model. Obligations and restrictions imposed by current and future applicable laws, regulations, contracts and industry standards may affect our ability to provide all the current features of our products and services, and could require us to change our business practices in a manner adverse to our business.

In 2015, Canada’s federal privacy legislation was amended to implement mandatory data breach notification requirements and fines of up to \$100,000 per occurrence for organizations that fail to keep a log of breaches or notify the Office of the Privacy Commissioner or affected individuals. The amendments are not yet in force pending approval of related regulations, which is expected sometime in 2017. Such obligations and restrictions may limit our ability to collect, store, process, use, transmit and share data with our affiliated entities and third party partners. Compliance with, and other burdens imposed by, such obligations and restrictions could increase the cost of our operations. Failure to comply with obligations and restrictions related to data privacy and security could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity and other losses that could harm our business.

In addition to government activity, privacy advocacy groups and industry groups have adopted and are considering the adoption of various self-regulatory standards and codes of conduct that, if applied to our business or current practices may place additional burdens on us, which may increase the costs of our products and services further reducing demand and harming our business.

Our customers may also accidentally disclose their passwords or store them on a mobile device that is lost or stolen, creating the perception that our systems are not secure against third-party access. Additionally, our third-party contractors may have access to customer data. If these or other third-party vendors violate applicable laws or our policies, such violations may also put our customers’ information at risk and could in turn have a material and adverse effect on our business. Any failure by us to protect our customers’ privacy and data, including as a result of our systems being compromised by hacking or other malicious or surreptitious activity, could result in a loss of customer confidence and ultimately in a loss of customers, which could materially and adversely affect our business.

Our articles, by-laws, shareholder rights plan and Canadian legislation contain provisions that may have the effect of delaying or preventing a change in control.

Certain provisions of our articles of amalgamation, and by-laws, as well as certain provisions of the Canada Business Corporations Act (the “CBCA”) and applicable Canadian securities law, could discourage potential acquisition proposals, delay or prevent a change in control or materially adversely impact the price that certain investors might be willing to pay for our common shares. Our articles of amalgamation authorize our board of directors to determine the designations, rights and restrictions to be attached to, and to issue an unlimited number of, junior preferred shares and senior preferred shares.

Our by-laws contain provisions establishing that shareholders must give advance notice to us in circumstances where nominations of persons for election to our board of directors are made by our shareholders other than pursuant to either a requisition of a meeting made in accordance with the provisions of the CBCA or a shareholder proposal made in accordance with the provisions of the CBCA.

Ritchie Bros. 35

Among other things, these advance notice provisions set a deadline by which shareholders must notify us in writing of an intention to nominate directors for election to the board of directors prior to any shareholder meeting at which directors are to be elected and set forth the information required in this notice for it to be valid.

Our board of directors has adopted a shareholder rights plan (the “Rights Plan”), pursuant to which we issued one right in respect of each common share outstanding. Under the Rights Plan, following a transaction in which any person becomes an “acquiring person” as defined in the Rights Plan, each right will entitle the holder to receive a number of common shares provided in the Rights Plan. The purposes of the Rights Plan are (i) to provide our board of directors time to consider value-enhancing alternatives to a take-over bid and to allow competing bids to emerge; (ii) to ensure that shareholders are provided equal treatment under a take-over bid; and (iii) to give adequate time for shareholders to properly assess a take-over bid without undue pressure. The Rights Plan can potentially impose a significant penalty on any person commencing a takeover bid that would result in the offeror becoming the beneficial owner of 20% or more of our outstanding common shares.

Any of these provisions, as well as certain provisions of the CBCA and applicable Canadian securities law, may discourage a potential acquirer from proposing or completing a transaction that may have otherwise presented a premium to our shareholders.

U.S. civil liabilities may not be enforceable against us, our directors, or our officers

We are governed by the CBCA and our principal place of business is in Canada. Many of our directors and officers reside outside of the United States, and all or a substantial portion of their assets, as well as a substantial portion of our assets, are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us and such directors and officers or to enforce judgments obtained against us or such persons, in U.S. courts, in any action, including actions predicated upon the civil liability provisions of U.S. federal securities laws or any other laws of the United States. Additionally, rights predicated solely upon civil liability provisions of U.S. federal securities laws or any other laws of the United States may not be enforceable in original actions, or actions to enforce judgments obtained in U.S. courts, brought in Canadian courts, including courts in the Province of British Columbia.

We are governed by the corporate laws of Canada which in some cases have a different effect on shareholders than the corporate laws of Delaware.

We are governed by the CBCA and other relevant laws, which may affect the rights of shareholders differently than those of a company governed by the laws of a U.S. jurisdiction, and may, together with our charter documents, have the effect of delaying, deferring or discouraging another party from acquiring control of our company by means of a tender offer, a proxy contest or otherwise, or may affect the price an acquiring party would be willing to offer in such an instance.

ITEM 1B: UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2: PROPERTIES

We own and lease various properties in Canada, the United States and 10 other countries around the world. We use the properties as auction sites and executive and administrative offices. Our corporate headquarters are located in Burnaby, Canada and are held through a lease that expires in May 2030. We also lease administrative offices in Breda, Netherlands and Chicago, United States. We own an administrative office in Lincoln, United States.

Ritchie Bros. 36

International network of auction sites

We generally attempt to establish our auction sites in industrial areas close to major cities. Although we lease some auction sites, we have historically preferred to purchase land and construct purpose-built facilities once we have established a base of business and determined that a region can generate sufficient financial returns to justify the investment.

We generally do not construct a permanent auction site in a particular region until we have conducted a number of offsite sales in the area, and often we will operate from a regional auction site for several years before considering a more permanent investment. This process allows us to establish our business and evaluate the market potential before we make a significant investment. We will not invest in a permanent auction site unless we believe there is an opportunity for significant, profitable growth in a particular region. Our average expenditure on a permanent auction site has been in the range of \$20 to \$25 million in recent years, including land, improvements and buildings.

We currently have 45 locations in our auction site network. A permanent auction site includes locations that we own and on which we have constructed an auction theatre and other facilities (e.g. refurbishment), and that we lease with an original term longer than three years and on which we have built permanent structures with an investment of more than \$1.5 million. We have 39 permanent auction sites as of the date of this Annual Report on Form 10-K.

A regional auction site is a location that we lease on a term longer than one year, have limited investment in facilities (i.e. less than \$1.5 million) and on which we average more than two auctions per year on a rolling two-year basis and have at least two full time staff. This category also includes sites located on land that we own with limited investment in facilities. We have six regional auction sites as of the date of this Annual Report on Form 10-K.

Our auction site network as of the date of this discussion is as follows:

	Number of acres			Excess	Year placed into service	Lease Nature	Lease expiry date
	Total	Developed	Developable				
Permanent auction sites							
Canada:							
Edmonton, Alberta	267	175	92	-	2002	Owned	
Grande Prairie, Alberta	153	68	68	17	2009	Owned	
Prince George, British Columbia	114	60	50	4	2003	Owned	
Montreal, Quebec	91	68	-	23	2000	Owned	
Toronto, Ontario	65	65	-	-	1998	Owned	
Saskatoon, Saskatchewan	60	38	13	9	2006	Owned	
Regina, Saskatchewan	47	17	30	-	2007	Owned	

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

Halifax, Nova Scotia	28	28	-	-	1997	Owned
Chilliwack, British Columbia	24	24	-	-	2010	Owned

Ritchie Bros. 37

	Number of acres			Excess	Year placed into service	Nature	Lease expiry date
	Total	Developed	Developable				
Permanent auction sites (continued)							
United States:							
Orlando, Florida	227	189	27	11	2002	Owned	
Chehalis, Washington	204	131	40	33	2012	Owned	
North East, Maryland	193	80	28	85	2001	Owned	
Denver, Colorado	143	70	72	1	2007	Owned	
Kansas City, Missouri	140	40	60	40	2008	Owned	
Columbus, Ohio	135	95	30	10	2007	Owned	
Houston, Texas	128	116	-	12	2009	Owned	
Minneapolis, Minnesota	122	70	52	-	2009	Owned	
Raleigh-Durham, North Carolina	113	45	56	12	2012	Owned	
Fort Worth, Texas	109	109	-	-	1994	Owned	
Atlanta, Georgia	94	62	7	25	1996	Owned	
Chicago, Illinois	91	71	20	-	2000	Owned	
Sacramento, California	90	90	-	-	2005	Owned	
Nashville, Tennessee	81	70	11	-	2006	Owned	
Las Vegas, Nevada	77	77	-	-	2012	Leased	31-May-33
St Louis, Missouri	67	63	4	-	2010	Owned	
Los Angeles, California	65	63	2	-	2000	Owned	
Phoenix, Arizona	48	48	-	-	2002	Owned	
Salt Lake City, Utah	37	37	-	-	2010	Leased	28-Feb-24
Albuquerque, New Mexico	11	11	-	-	1999	Owned	
Albuquerque, New Mexico	4	1	2	-	2010	Leased	30-Jun-28
Other:							
Mexico City (Polotitlan), Mexico	324	82	207	35	2008	Owned	
Madrid (Ocaña), Spain	85	65	20	-	2010	Owned	
Moerdijk, The Netherlands	62	62	-	-	1999	Owned	
Milan (Caorso), Italy	62	42	10	10	2010	Owned	
Paris (St. Aubin sur Gaillon), France	50	50	-	-	2008	Owned	
Dubai, United Arab Emirates	44	44	-	-	1999	Leased	1-Jul-19
Brisbane, Australia	42	42	-	-	1999	Owned	
Meppen, Germany	41	41	-	-	2010	Leased	31-Oct-19
Melbourne (Geelong), Australia	40	40	-	-	2013	Owned	
Tokyo (Narita), Japan	17	17	-	-	2010	Owned	

	Number of acres			Excess	Year placed into service	Lease Nature	Lease expiry date
	Total	Developed	Developable				
Regional auction sites							
Tipton, United States	60	60	-	-	2010	Leased	30-Jun-21
Manchester, United States	54	25	10	19	2013	Leased	1-Oct-18
North Franklin, United States	23	23	-	-	2017	Leased	31-Jul-21
North Battleford, Canada	21	11	10	-	2017	Leased	14-Nov-19
Lethbridge, Canada	17	13	4	-	2011	Leased	31-Dec-17
Donington Park, United Kingdom	11	11	-	-	2012	Leased	31-Dec-20

We also own the following developable properties that are not currently under development but are available for future auction site expansion:

	Number of acres	Year acquired
Casa Grande, United States	125	2010
Tulare, United States	99	2011

We believe that our administrative offices and developed auction sites are adequate and suitable for the conduct of our operations. Further, we believe that our properties that are being developed to expand our existing auction sites are sufficient to support the growth of our core auction business.

We are currently evaluating the returns generated at each of the permanent and regional auction sites we operate, to ensure each site (and related site capital investments) are generating returns that meet predetermined targets. As a result of the analysis completed to date, it was determined that both the Beijing and Panama sites would be closed. The lease for the Beijing site was early-terminated in November 2016. We are currently negotiating exiting our lease for our Panama site, though no future auctions are expected to be held there. In China, we will continue to offer offsite auctions and other equipment sales channels through our sales team based there. In Panama, we will consider holding offsite auctions as opportunities arise.

We established a fully owned site in Narita, Japan, in 2010 to run live auctions. Unfortunately, we have had limited success running our traditional live, unreserved auction model in this country due to both cultural factors and market dynamics. Over the last two years, we have studied the market comprehensively, built strong local relationships and tested different business models. We have come to the conclusion that our biggest opportunity in Japan is to position it as a 'source' market for high quality used equipment that can be exported throughout the Asia Pacific region and the Middle East. We also believe the most efficient way to serve the domestic market is primarily through digital channels while leveraging key OEM relationships. Consequently, we will commence an exploration of exiting our existing auction site at an appropriate time to maximize value.

ITEM 3: LEGAL PROCEEDINGS

We have no material legal proceedings pending, other than ordinary routine litigation incidental to the business, and we do not know of any material proceedings contemplated by governmental authorities.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

Ritchie Bros. 39

PART II**ITEM MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS,
5: AND ISSUER PURCHASES OF EQUITY SECURITIES****Outstanding Share Data**

We are a public company and our common shares are listed under the ticker symbol “RBA” on the NYSE and TSX. On February 17, 2017, we had 106,822,475 common shares issued and outstanding, 555,028 share units awarded under our senior executive and employee performance share unit (“PSU”) plans, and stock options outstanding to purchase a total of 3,364,903 common shares. No preferred shares have been issued or are outstanding. The outstanding stock options had a weighted average exercise price of \$24.02 per share and a weighted average remaining term of 7.4 years. In respect of PSUs awarded under the senior executive and employee PSU plans, performance and market conditions, depending on their outcome at the end of the contingency period, can reduce the number of vested awards to nil or to a maximum of 200% of the number of outstanding PSUs. Certain of our PSUs are only cash-settled, whereas others may be settled, at our discretion, in cash or through the issuance of shares, by open market purchases of shares.

Market Information

Our common shares, without par value, are issued in registered form. The transfer agent for the shares is Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1. Our common shares trade on the NYSE and on the TSX under the symbol “RBA”. On February 17, 2017, there were 289 holders of record of our common shares that do not include the shareholders for whom shares are held in a nominee or street name.

The following table sets forth the high and low prices of our common shares by quarter for 2016 and 2015:

Quarter ended	NYSE		TSX (Canadian dollars)	
	High	Low	High	Low
December 31, 2016	\$39.96	\$33.50	\$52.88	\$45.47
September 30, 2016	\$36.79	\$27.13	\$48.29	\$34.80
June 30, 2016	\$34.69	\$26.41	\$44.20	\$34.58
March 31, 2016	\$27.59	\$21.03	\$35.75	\$29.73
December 31, 2015	\$27.66	\$23.12	\$36.76	\$31.79
September 30, 2015	\$30.57	\$25.36	\$39.94	\$33.39
June 30, 2015	\$30.85	\$24.43	\$37.87	\$29.49

March 31, 2015 \$27.23 \$24.14 \$33.68 \$29.70

Dividend Policy

We currently pay a regular quarterly cash dividend of \$0.17 per common share. We currently intend to continue to declare and pay a regular quarterly cash dividend on our common shares; however, any decision to declare and pay dividends in the future will be made at the discretion of our Board, after taking into account our operating results, financial condition, cash requirements, financing agreement restrictions and any other factors our Board may deem relevant. In 2016, we paid total cash dividends of \$0.66 per common share, compared to \$0.60 per common share in 2015, and \$0.54 per common share in 2014.

Because Ritchie Bros. Auctioneers Incorporated is a holding company with no material assets other than the shares of its subsidiaries, our ability to pay dividends on our common shares depends on the income and cash flow of our subsidiaries. No financing agreements to which our subsidiaries are party currently restrict those subsidiaries from paying dividends.

Ritchie Bros. 40

Pursuant to income tax legislation, Canadian resident individuals who receive “eligible dividends” in 2006 and subsequent years will be entitled to an enhanced gross-up and dividend tax credit on such dividends. All dividends that we pay are “eligible dividends” unless indicated otherwise.

Comparison of Cumulative Return

The following graph compares the cumulative return on a \$100 investment in our common shares over the last five fiscal years beginning January 1, 2011 through December 31, 2016, to that of the cumulative return on a \$100 investment in the Russell Global Index (“Russell 2000”), the S&P / TSX Composite Index (“S&P/TSX”) and the Dow Jones Industrial Average Index (“DJIA”) for the same period. In calculating the cumulative return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purpose only. This graph is not “soliciting material,” is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Comparison of Cumulative Five-Year Total Return

Company / index	2011	2012	2013	2014	2015	2016
RBA (NYSE)	\$100.00	\$96.74	\$106.14	\$124.23	\$111.91	\$156.97
Russell 2000	\$100.00	\$114.63	\$157.05	\$162.59	\$153.31	\$183.17
S&P/TSX	\$100.00	\$104.00	\$113.94	\$122.39	\$108.82	\$127.88
DJIA	\$100.00	\$107.26	\$135.68	\$145.88	\$142.62	\$161.76

Ritchie Bros. 41

Securities Authorized for Issuance under Equity Compensation Plans

The following table is as of December 31, 2016:

Plan Category	Number of securities to be issued upon exercise of options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	3,366,714	(1) \$ 24.02	5,202,631
Equity compensation plans not approved by security holders	-	-	-
Total	3,366,714	\$ 24.02	5,202,631

(1)

Reflects our stock option plan.

(2) Includes 1,000,000 common shares that we may elect to issue upon settlement of our PSUs granted under the Senior Executive Performance Share Unit Plan (March 2015) and the Employee Performance Share Unit Plan (March 2015) (together, the “2015 PSU Plans”). Under the 2015 PSU Plans, the number of PSUs that vest is conditional upon specified market, service, and performance vesting conditions being met. The market vesting condition is based on the relative performance of our share price in comparison to the performance of a pre-determined portfolio of other companies’ share prices. The non-market vesting conditions are based on the achievement of specific performance measures and can result in participants earning between 0% and 200% of the target number of PSUs granted.

Issuer Purchases of Equity Securities**Share repurchase program**

On January 12, 2015, we announced that our Board of Directors had authorized a share repurchase program for the repurchase of up to \$100 million worth of our common shares (subject to TSX approval) over the next three years. On

February 26, 2015, we received approval from the TSX to proceed with a Normal Course Issuer Bid (“NCIB”). This initial NCIB approved by the TSX (the “initial NCIB”) was for a one-year period from March 3, 2015 through March 2, 2016.

In March 2015, we executed share repurchases at a total cost of \$47.5 million. All repurchased shares were cancelled on March 26, 2015. No further share purchases were made under the initial NCIB, or by any other means, during 2015 or the first quarter of 2016, and the initial NCIB expired in accordance with its terms on March 2, 2016.

On February 25, 2016, we announced our intention to renew our NCIB on the expiry of the initial NCIB. On March 1, 2016, the TSX approved a new NCIB (the “new NCIB”) for a one-year period from March 3, 2016 to March 2, 2017. Repurchases under the new NCIB during the month of March 2016 began on March 8, 2016 and ended on March 15, 2016. All repurchased shares were cancelled on March 15, 2016. No further share repurchases were made pursuant to the new NCIB, or by any other means, during 2016.

For further details of the March 2016 share repurchases, refer to “Part II, Item 7: Management’s Discussion and Analysis of Financial Conditions and Results of Operations” presented elsewhere in this Annual Report on Form 10-K.

Exchange Controls

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to U.S. Resident Holders (as defined below) of our common shares, except as discussed in “Certain Canadian Federal Income Tax Considerations for U.S. Residents” below.

There are no limitations under the laws of Canada or in our organizational documents on the right of foreigners to hold or vote our common shares, except that the *Investment Canada Act* may require review and approval by the Minister of Industry (Canada) of certain acquisitions of control of Ritchie Bros. by a “non-Canadian”. “Non-Canadian” generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

Certain Canadian Federal Income Tax Considerations for U.S. Residents

The following summarizes certain Canadian federal income tax consequences generally applicable under the Income Tax Act (Canada) and the regulations enacted thereunder (collectively, the “Canadian Tax Act”) and the Canada-United States Income Tax Convention (1980) (the “Convention”) to the holding and disposition of common shares.

This comment is restricted to holders of common shares each of whom, at all material times for the purposes of the Canadian Tax Act and the Convention, (i) is resident solely in the United States, (ii) is entitled to the full benefits of the Convention, (iii) holds all common shares as capital property, (iii) holds no common shares that are “taxable Canadian property” (within the meaning of the Canadian Tax Act) of the holder, (iv) deals at arm’s length with and is not affiliated with Ritchie Bros., (v) does not and is not deemed to use or hold any common shares in a business carried on in Canada, and (vi) is not an insurer that carries on business in Canada and elsewhere (each such holder, a “U.S. Resident Holder”).

Certain U.S.-resident entities that are fiscally transparent for United States federal income tax purposes (including limited liability companies) may not be regarded by the Canada Revenue Agency (“CRA”) as entitled to the benefits of the Convention. Members of or holders of an interest in such an entity that holds common shares should consult their own tax advisers regarding the extent, if any, to which the CRA will extend the benefits of the Convention to the entity in respect of its common shares.

Generally, a U.S. Resident Holder’s common shares will be considered to be capital property of a U.S. Resident Holder provided that the U.S. Resident Holder acquired the common shares as a long-term investment; is not a trader or dealer in securities; did not acquire, hold or dispose of the common shares in one or more transactions considered to

be an adventure or concern in the nature of trade (i.e. speculation); and does not hold the common shares as inventory in the course of carrying on a business.

This summary is based on the current provisions of the Canadian Tax Act and the Convention in effect on the date hereof, all specific proposals to amend the Canadian Tax Act and Convention publicly announced by or on behalf of the Minister of Finance (Canada) on or before the date hereof, and the current published administrative and assessing policies of the CRA. It is assumed that all such amendments will be enacted as currently proposed, and that there will be no other material change to any applicable law or administrative or assessing practice, whether by judicial, legislative, governmental or administrative decision or action, although no assurance can be given in these respects. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign tax considerations, which may differ materially from those set out herein.

This summary is of a general nature only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder of common shares, and no representation with respect to Canadian federal income tax consequences to any holder of common shares is made herein. Accordingly, holders of common shares should consult their own tax advisers with respect to their individual circumstances.

Ritchie Bros. 43

Disposition of common shares

A U.S. Resident Holder will not be subject to tax under the Canadian Tax Act in respect of any capital gain realized by such U.S. Resident Holder on a disposition of common shares unless the common shares constitute “taxable Canadian property” (within the meaning of the Canadian Tax Act) of the U.S. Resident Holder at the time of disposition and the U.S. Resident Holder is not entitled to relief under the Convention.

Generally, a U.S. Resident Holder’s common shares will not constitute “taxable Canadian property” of the U.S. Resident Holder at a particular time at which the common shares are listed on a “designated stock exchange” (which currently includes the TSX and NYSE) unless at any time during the 60-month period immediately preceding a disposition both of the following conditions are true:

Adjustments to reconcile net income to cash provided by operating activities:

Depreciation and amortization

314 320 251

Bad debt expense

258

Stock-based compensation expense

66

Deferred compensation expense

110

Deferred income taxes, net

136 (193) (152)

Loss in unconsolidated affiliate

46

Working capital items:

Accounts receivable and unbilled receivables

1,946 1,904 1,351

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

Employee advances

(10) 6

Prepaid and other current assets

(146) 705 (17)

Accounts payable

(419) 429 11

Accrued payroll and related costs

(910) (1,831) (909)

Accrued income taxes

145

Other accrued liabilities

39 (1,208) 1,092

Deferred revenue

10 11 (54)

Net cash flows provided by operating activities

5,007 5,567 8,629

INVESTING ACTIVITIES:

Additions to equipment, software and leasehold improvements, net

(124) (126) (303)

Investments in unconsolidated affiliates

(25) (62)

Net cash flows (used in) investing activities

(149) (188) (303)

FINANCING ACTIVITIES:

Transfers to Parent

(2,021) (9,233) (7,400)

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

Net cash flows (used in) financing activities

(2,021) (9,233) (7,400)

Net change in cash and cash equivalents

2,837 (3,854) 926

Cash and cash equivalents, beginning of year

1,524 5,378 4,452

Cash and cash equivalents, end of year

\$4,361 \$1,524 \$5,378

SUPPLEMENTAL DISCLOSURE:

Cash payments for interest expense

\$4 \$ \$11

Cash payments for income taxes

\$980 \$1,075 \$521

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

MASTECH HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation:

Spin-Off: The spin-off of Mastech Holdings, Inc. (Mastech or the Company) by iGATE Corporation (iGATE or the Former Parent) became effective on September 30, 2008 through a Distribution of 100% of the common stock of the Company to the common shareholders of iGATE (the Distribution). The Distribution was effected pursuant to the separation and distribution agreement by which iGATE contributed to the Company the subsidiaries that operated its Professional Services business, which includes the entities described below.

Description of Business: The Company conducts its staffing services business through three operating subsidiaries. However, in accordance with SFAS-131 Disclosures about Segments of an Enterprise and Related Information , the Company categorizes all of its operations as a single reportable segment.

Mastech, Inc. provides domestic information technology staffing and consulting services to large and medium-size organizations. Mastech, Inc. combines deep technical expertise with comprehensive business process experience to deliver a board range of services within business intelligence / data warehousing; service oriented architecture; web services; enterprise resource planning & customer resource management; and e-business solutions.

Global Financial Services of Nevada provides operational staffing services to the U.S. brokerage industry. Global Financial Services consultants provide value-added services related to securities operations, such as trade reconciliation, general ledger balancing, and operational procedures and documentation.

RPO Worldwide, Inc. provides recruitment and sourcing services to other staffing-industry clients. These service offerings capitalize on the RPO s low-cost offshore recruitment centers by providing staffing-industry clients a cost effective way of supplementing their existing recruiting capabilities.

Basis of Presentation: The Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The financial statements present the consolidated position of the Company, as a separate, stand-alone entity subsequent to the Distribution, along with the historical financial statements of the staffing services businesses, on a combined basis, which were operated as part of iGATE before the Distribution. These historical financial statements were prepared on a carve-out basis from iGATE s Consolidated Financial Statements using the historical results of operations, assets and liabilities attributable to iGATE s Professional Services business, including allocations of operating and income tax expenses from iGATE. Accordingly, the Company s combined results of operations and cash flows for the periods before the Distribution may not be indicative of its future performance and do not necessarily reflect what its results of operations and cash flows would have been had the Company operated as a separate stand-alone entity during the periods presented.

iGATE historically provided certain corporate functions to the Company and the cost associated with these functions have been allocated to the Company as disclosed herein in Note 10, Transactions with Former Parent . These functions included telecommunications, insurance, benefit management, corporate finance and treasury, information technology, taxes and regulatory compliance. The cost of such services allocated to the Company, based on methodologies deemed to be reasonable by management, may not be indicative of the actual expenses that would have been incurred had the Company been operating as a stand-alone entity for the periods presented prior to the Distribution.

Additionally, prior to the Distribution, the Company s operating results have been included in iGATE s consolidated U.S. federal income tax return. Historically, the Company derived certain tax benefits as a result of being included in this consolidated federal tax return. As disclosed herein in Note 8 Income Taxes , the

Table of Contents

Company would not have access to such benefits as a stand-alone entity and accordingly, its tax expense would have been greater than the amounts reported in the Consolidated Statements of Operation for periods prior to the Distribution.

For all periods before the Distribution, iGATE's investment in the staffing services business is shown as Former Parent's Net Investment in the Consolidated Statements of Shareholders' Equity. On September 30, 2008, iGATE completed a distribution of one share of the Company's common stock, with a par value of \$0.01, for every fifteen shares of iGATE common stock. After the separation, the Company had 3.6 million shares of common stock outstanding. Upon completion of this Distribution, the remaining Former Parent's net investment balance was transferred to additional paid-in capital.

2. Summary of Significant Accounting Policies

A. Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company utilizes the equity method of accounting, as prescribed by Accounting Principles Board Opinion No. 18 *The Equity Method of Accounting for Investments in Common Stock*, when it is able to exercise significant management influence over the entity's operations, which generally occurs when Mastech has an ownership interest of between 20% and 50% in an entity. Investments in which the Company does not exercise significant management influence, generally when Mastech has an ownership interest of less than 20%, the Company utilizes the cost method of accounting.

B. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from the estimates.

C. Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and highly liquid debt investments with maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates market value.

D. Accounts Receivable and Unbilled Receivables

The Company extends credit to clients based upon management's assessment of their creditworthiness. A substantial portion of the Company's revenue, and the resulting accounts receivable, are from Fortune 1000 companies, major systems integrators and other staffing organizations.

Unbilled receivables represent amounts recognized as revenues for the periods presented based on services performed and, in accordance with the terms of the client contract, will be invoiced in subsequent periods.

E. Allowance for Uncollectible Accounts

Accounts receivable are reviewed periodically to determine the probability of loss. The Company records an allowance for uncollectible accounts when it is probable that the related receivable balance will not be collected based on historical collection experience, client-specific collection issues, and other matters the Company identifies in its collection monitoring. The Allowance for Uncollectible Accounts was \$515,000 and \$331,000 at December 31, 2008 and 2007, respectively. Bad debt expense, reflected in the Consolidated Statements of

Table of Contents

Operations for the year end December 31, 2008 totaled \$258,000. There were no bad debt expense charges for the years ended December 31, 2007 and 2006.

F. Employee Advances

In unique situations, employees can be advanced up to \$3,000 at the discretion of the Company. Normally, advances are based upon financial need at date of hire. Advances are generally deducted from the employee's salary over a short period of time until paid in full.

G. Equipment, Enterprise Software and Leasehold Improvements

Equipment, enterprise software and leasehold improvements are stated at historical cost. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of (a) the remaining term of the lease or (b) the estimated useful life of the improvements. Repairs and maintenance, which do not extend the useful life of the respective assets, are charged to expense as incurred. Upon disposal, assets and related accumulated depreciation are removed from the Company's accounts and the resulting gains or losses are reflected in the Company's Consolidated Statement of Operations.

The estimated useful lives of depreciable assets are primarily as follows:

Laptop Computers	18 months
Equipment	3-5 years
Enterprise Software	3 years

Depreciation and amortization expense related to fixed assets totaled \$314,000, \$320,000 and \$251,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

H. Income Taxes

We determine our income tax provision using the asset and liability method. Under this method, deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. We measure deferred tax assets and liabilities using enacted tax rates in effect for the year in which we expect to recover or settle the temporary differences. The effect of a change in tax rates on deferred taxes is recognized in the period that the change is enacted. The Company evaluates its deferred tax assets and records a valuation allowance when, in management's opinion, it is more likely than not that some portion or all of the deferred tax assets will not be realized. For the periods presented, no valuation allowance has been provided, except as described below.

The Company accounts for uncertain tax positions in accordance with the Financial Accounting Standards Board's Interpretation No. 48, Accounting for Uncertainty in Income Taxes. Accordingly, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in a tax return. As of December 31, 2008, the Company provided a liability of \$28,000 for unrecognized tax benefits, including interest and penalties, related to various federal and state income tax matters applicable to the periods subsequent to the Distribution.

I. Fair Value of Financial Instruments

The recorded amounts for cash and cash equivalents, accounts receivable, other current assets, and accounts payable and other current liabilities approximate fair value due to the short-term nature of these financial instruments. The fair value of any outstanding borrowings under our revolving credit facility would approximate

Table of Contents

their book values in all material respects due to the variable nature of the interest rate provisions associated with such borrowings.

J. Software Implementation Costs

The Company accounts for costs incurred for its own information systems upgrades in accordance with Statement of Position 98-1 (SOP 98-1) *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. SOP 98-1 requires that both internal and external costs incurred during the preliminary project stage should be expensed as incurred. Such cost incurred during the application development stage should be capitalized; training costs incurred in this stage, however, should be expensed. Costs of upgrades and enhancements should be capitalized (but only during the application development stage) if it is probable that the expenditures will result in added functionality for the software. During the post-implementation/operation stage, training costs (both internal and external) should be expensed.

K. Revenue Recognition

The Company recognizes revenue on time-and-material contracts as services are performed and expenses are incurred. Time-and-material contracts typically bill at an agreed upon hourly rate, plus out-of-pocket expense reimbursement. Out-of-pocket expense reimbursement amounts vary by assignment, but on average represent approximately 4% of total revenues. Revenue is earned when the Company's consultants are working on projects. Revenue recognition is negatively impacted by holidays and consultant vacation and sick days.

In certain situations related to client direct hire assignments, where the Company's fee is contingent upon the hired resources' continued employment with the client, revenue recognition is deferred until such employment conditions are satisfied.

L. Stock Based Compensation

The Company has a stock-based compensation plan that provides for the granting of Mastech stock options, stock appreciation rights, performance shares, or restricted stock awards to directors, executive management and key employees. Prior to the Distribution, certain employees of Mastech participated in iGATE's stock-based compensation plans.

Effective January 1, 2006, iGATE adopted the provisions of SFAS No. 123R *Share-based Payments*, using the modified prospective transition method. SFAS No. 123R requires all stock-based compensation to employees be measured at fair value and expensed over the requisite service period and also requires an estimate of forfeitures when calculating such compensation expense. Compensation expense is recognized on awards ratably over the requisite service period. In accordance with iGATE's chosen method of adoption, compensation expense recognized beginning as of January 1, 2006, included compensation expense for (i) all share-based payments granted prior to, but not yet vested as of January 1, 2006 based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (ii) all share-based payments granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Periods prior to January 1, 2006 have not been adjusted.

Subsequent to the Distribution, the Company continues to account for stock-based compensation in accordance with SFAS No. 123R as more fully described in Note 7 to the Financial Statements.

M. Foreign Exchange Gains and Losses and Other Comprehensive Income (Loss)

Gains and losses from foreign currency transactions are included in other income (expense) net, for the periods presented. The Company had no Other Comprehensive Income (Loss) during the periods presented.

Table of Contents**N. Earnings Per Share**

Basic earnings per share are computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of common shares outstanding during the period, plus the incremental shares outstanding assuming the exercise of dilutive stock options, calculated using the treasury stock method.

O. Recently Issued Accounting Standards

In September 2008, the Financial Accounting Standards Board (FASB) issued FSP No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* (the FSP). The FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives. It amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* , to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The FSP also amends FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others* , to require an additional disclosure about the status of the payment/performance risk of a guarantee. The FSP is effective for reporting periods (annual or interim) ending after November 15, 2008. The Company does not expect that adoption of this accounting standard will have a significant impact on its Consolidated Financial Statements.

In June 2008, FASB issued FSP No. EITF 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP 03-6-1). FSP 03-6-1 requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be treated as participating securities as defined in EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* , and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share* . The FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years, with early adoption prohibited. Upon adoption, all previously reported EPS data (including interim financial statements, summaries of earnings, and selected financial data) should be adjusted retrospectively to conform with the requirements of the FSP 03-6-1. The Company is evaluating the impact that the adoption of FSP 03-6-1 will have on its Consolidated Financial Statements.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts* . SFAS No. 163 clarifies how SFAS No. 60, *Accounting and Reporting by Insurance Enterprises* , applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. The Company does not expect that adoption of this accounting standard will have a significant impact on its Consolidated Financial Statements.

In May 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* , SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. SFAS No. 162 becomes effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* . We do not expect that the adoption of SFAS No. 162 will have a material impact on our financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* . FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension

Table of Contents

assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. We are required to adopt FSP No. FAS 142-3 for fiscal years beginning after December 15, 2008. We do not expect that the adoption of SFAS No. 142-3 will have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows, SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We do not expect that the adoption of SFAS No. 161 will have a material impact on our financial statements.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* which defers the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The Company is currently evaluating the impact of SFAS No. 157 on non-financial assets and non-financial liabilities, but does not expect the adoption of SFAS No. 157 to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations*. The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. SFAS No. 141(R) will become effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact of the adoption of SFAS No. 141(R) on its Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. The standard changes the accounting for noncontrolling (minority) interests in Consolidated Financial Statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS No. 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We do not expect that the adoption of SFAS No. 160 will have a material impact on our financial statements.

2. Cash and Cash Equivalents

The Company has cash and cash equivalents consisting of cash balances on hand and money market funds that totaled \$4.4 million at December 31, 2008 and \$1.5 million at December 31, 2007. There were no restrictions on the Company's cash balances during the periods presented.

3. Investments in Unconsolidated Affiliate

In late 2007, the Company acquired 50% ownership in a joint venture with another large staffing service organization. The joint venture is accounted for under the equity method of accounting. The Company

Table of Contents

recognized a loss of \$46,000 in 2008, which is included in the other income (expense) category in the Company's Consolidated Statements of Operations.

In early in 2009, the decision was made to discontinue the joint venture's operations and distribute any remaining capital to the principals. Accordingly, we are expecting a distribution during the first quarter of 2009.

4. Credit Facility

On October 15, 2008, the Company entered into a revolving credit facility with PNC Bank, N.A. (PNC). This three-year facility provides for a maximum loan amount of \$10 million. The facility is secured by pledges of and first priority perfected security interest in substantially all on the Company's assets. Advances under the facility are limited to a borrowing base that consists of the sum of 85% of eligible accounts receivable, plus 50% of eligible unbilled accounts. Interest on borrowings will be charged at a rate equal to, at the Company's election, either (a) the higher of the prime rate or the federal funds rate plus 50%, plus an applicable margin; or (b) LIBOR plus an applicable margin. The applicable margin equals 125 basis points for the first third of the facility; 150 basis points for the second third of the facility; and 175 basis points for the last third of the facility. A 20 basis point per annum commitment fee on the unused portion of the facility is charged and due quarterly in arrears. At December 31, 2008, our borrowing base totaled \$8.0 million and no borrowings were outstanding.

The credit agreement contains standard covenants, including but not limited to, covenants related to minimum tangible net worth; total debt to EBITDA; EBIT to interest expense; and limitations on liens, indebtedness, guarantees, contingent liabilities loans and investments, distributions, leases, asset sales, and mergers and acquisitions. As of December 31, 2008, the Company was in compliance with all provisions under the facility.

5. Commitments and Contingencies*Lease Commitments*

The Company rents certain office facilities and equipment under noncancelable operating leases, which provide for the following future minimum rental payments as of December 31, 2008:

	Total Amount (Dollars in thousands)
Period ending December 31,	
2009	\$ 277
2010	125
2011	8
2012	
2013	
Thereafter	
Total	\$ 410

Rental expense for the years ended December 31, 2008, 2007 and 2006, total is \$581,000; \$431,000 and \$383,000, respectively.

Contingencies

In the ordinary course of our business, the Company is involved in a number of lawsuits and administrative proceedings. While uncertainties are inherent in the final outcome of these matters, management believes, after consultation with legal counsel, that the disposition of these proceedings should not have a material adverse effect on our financial position, results of operations or cash flows.

Table of Contents**6. Employee Benefit Plan**

The Company's employees participate in an Employee Retirement Savings Plan (the Retirement Plan) under Section 401(k) of the Internal Revenue Code that covers substantially all U.S. based salaried employees. Eligible employees may contribute up to 15% of eligible compensation, subject to limits in the Internal Revenue Code. The Retirement Plan does not provide for any Company matching contributions.

7. Stock Based Compensation

Effective October 1, 2008, the Company adopted a Stock Incentive Plan (the Plan). The Plan provides that up to 800,000 shares of the Company's common stock shall be allocated for issuance to directors, executive management and key personnel. Grants under the Plan can be made in the form of stock options, stock appreciation rights, performance shares or stock awards. As of December 31, 2008, the Company has issued 400,000 stock options under the Plan. This total includes 189,000 stock options that were issued in connection with the Distribution from iGATE as further described below and 215,000 stock options granted on October 15, 2008. No stock appreciation rights, performance shares or stock awards have been granted under the Plan as of December 31, 2008. The Plan expires by its terms on September 30, 2018.

Prior to the Distribution, certain employees of Mastech participated in iGATE's stock-based compensation plans. At the time of the Distribution, each vested iGATE stock option held by a person who was an employee of the Company immediately after the Distribution received substituted options to purchase Mastech common stock with the same term date, vesting schedule, intrinsic value and ratio of exercise price to share price that existed with respect to such iGATE stock options at the Distribution date. These substituted options constituted a modification of stock options related to an equity restructuring, in accordance with the provisions of SFAS No. 123R. However, no incremental stock-based compensation expense was required, as the fair value of the iGATE stock option immediately before the Distribution was greater than the fair value of the Mastech stock option immediately after the Distribution. Accordingly, Mastech continues to recognize stock-based compensation expenses on these substituted options over the requisite service period, based on the original fair value calculation made by iGATE at the grant date.

A summary of Mastech stock option activity for the year ended December 31, 2008 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1,		
Granted substitution options	189,000	\$ 5.05
Granted	215,000	\$ 1.15
Exercised		
Cancelled / forfeited	(4,000)	\$ 6.41
Outstanding at December 31,	400,000	\$ 2.97

As of December 31, 2008, the Company's outstanding in the money stock options using the year-end share price of \$2.38 had an aggregate intrinsic value of \$265,000. As of December 31, 2008, the intrinsic value of vested and expected to vest stock options totaled \$258,000. No vested options had an intrinsic value at year-end 2008.

Table of Contents

The table below summarizes information regarding the Company's outstanding and exercisable stock options as of December 31, 2008:

Range of Exercise Prices:	Options Outstanding	Weighted Average	Weighted Average
		Remaining Contractual Life	Exercise Price
\$0.01 to \$2.00	215,000	9.79	\$ 1.15
\$2.01 to \$4.00	106,000	6.04	\$ 3.22
\$4.01 to \$6.00			
\$6.01 to \$8.00	79,000	8.56	\$ 7.52
	400,000	8.63	\$ 2.96

Range of Exercise Prices:	Options Exercisable	Weighted Average	Weighted
		Remaining Contractual Life	Average Exercise Price
\$0.01 to \$2.00			
\$2.01 to \$4.00	12,000	6.07	\$ 3.26
\$4.01 to \$6.00			
\$6.01 to \$8.00	12,000	8.76	\$ 7.79
	24,000	8.63	\$ 5.49

Stock-based compensation expense of \$235,000, \$697,000, and \$645,000 was recognized in the Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006, respectively. Stock-based compensation expense related to 2008 was impacted by the expense reversal related to (a) performance shares granted by iGATE in which the performance goals were not met; and (b) the cancellation of all outstanding performance shares as of September 30, 2008, in accordance with our separation with iGATE. The Company has recognized related tax benefits associated with its share-based compensation arrangements for the years ended December 31, 2008, 2007 and 2006 of \$67,000, \$327,000 and \$266,000, respectively.

As of December 31, 2008, the total remaining unrecognized compensation expense related to non-vested stock options amounted to \$540,000, which will be amortized over the weighted-average remaining requisite service period of 2.3 years.

The Company used the following assumptions for the Black-Scholes option pricing model for Mastech options issued during 2008 (post-spin) and for iGATE options issued to Mastech employees prior to the Distribution.

	Years Ended December 31,		
	2008	2007	2006
Stock option grants (post-spin):			
Weighted-average risk-free interest rate	2.90%		
Weighted-average dividend yield	0.00%		
Expected volatility	55.70%		
Expected term (in years)	4.5		
Weighted-average fair value	\$ 0.55		
Stock option grants (pre-spin):			
Weighted-average risk-free interest rate		4.34%	4.65%
Weighted-average dividend yield		0.0%	0.0%
Expected volatility		61.0%	66.5%
Expected term (in years)		4.5	4.5
Weighted-average fair value		\$ 4.79	\$ 3.17

Table of Contents

For periods presented prior to the Distribution date of September 30, 2008, all stock-based compensation awards were made by iGATE and accordingly stock-based compensation expense was determined using iGATE's assumptions with respect to volatility, dividend yield, expected term and risk-free interest rate. Mastech assumptions, which are described in the paragraphs below, were utilized for grants made on October 15, 2008.

Risk-free interest rate The risk-free rate for stock options granted during the period was determined by using a U.S. Treasury rate for the period that coincided with the expected term of the options.

Expected dividend yield The Company currently is not contemplating a dividend program. Accordingly, the dividend yield assumption used was 0.0%.

Expected volatility Mastech's expected volatility of 55.7% was determined based on the calculated historical peer group volatility for companies within our industry, since there is not sufficient historical volatility data for Mastech common stock.

Expected term Mastech's expected term is 4.5 years for stock option grants. The Company's expected term was based on the exercise history of iGATE awards to our employees and the vesting term of Mastech stock options.

The assumptions used to calculate the fair value of stock options will be evaluated and revised, as necessary, to reflect market conditions and the Company's historical experience and future expectations. As more historical data is available to calculate the volatility of Mastech stock and the actual terms Mastech employees hold options, expected volatility and expected term assumptions may change, which could significantly change the grant-date fair value of future stock option awards.

8. Income Taxes

Prior to the Distribution, the Company's taxable income was included in iGATE's U.S. federal income tax return. Historically, we have derived certain tax benefits as a result of being included in iGATE's consolidated U.S. tax return, which would not have been available to us as a stand-alone company. The impact of these allocated benefits was to reduce the effective rate of our income tax provision as disclosed in the U.S. statutory rate reconciliation below.

The tax sharing agreement between the Company and iGATE sets forth the rights and obligations of iGATE and us with respect to (i) taxes imposed on our respective businesses both prior to and after the Distribution; and (ii) taxes and liabilities that could be imposed as a result of a final determination that is inconsistent with the anticipated tax-free treatment of the Distribution under the Internal Revenue Code.

In accordance with the provisions of the tax sharing agreement, we assume financial responsibility with respect to all tax filings related to our business, both prior to and after the Distribution. Accordingly, iGATE assumes financial responsibility with respect to all tax filings related to their remaining businesses, both prior to and after the Distribution. To the extent that a pre-Distribution tax adjustment is not identifiable to a specific party, but the liability for payment of such tax is the result of an adjustment that will benefit a particular party in the future, the party who will benefit from such adjustment in the future shall be solely responsible for such liability. Should no future benefit exist with such adjustment, each party shall be responsible for a proportionate share of such tax liability. However, if a pre-Distribution liability pertains to a Mastech tax matter in which a FIN 48 reserve has been created by iGATE prior to the Distribution, iGATE will be responsible to satisfy such liability to the extent of its FIN 48 reserve balance.

If the Distribution were to fail to qualify as tax-free for U.S. federal income tax purposes, iGATE may be subject to U.S. federal income taxes. Prior to the Distribution, an opinion of Reed Smith, LLP, tax counsel to iGATE, provided an opinion substantially to the effect that the Distribution should qualify as a tax-free Distribution within the meaning of Section 355 (a) of the Internal Revenue Code. However, the Reed Smith opinion is not binding on the Internal Revenue Service and they could assert a position contrary to the opinion. The opinion was based on, among other things, certain assumptions and representations as to factual matters made by iGATE and us

Table of Contents

which, if incorrect or inaccurate in any material respect, would jeopardize the conclusions reached by counsel in its opinion. Pursuant to the terms of the Tax Sharing agreement, in the event the Distribution were to fail to qualify as a tax-free transaction, and such failure was not the result of actions taken after the Distribution by iGATE or any of its subsidiaries or shareholders, Mastech would be responsible for all taxes imposed on iGATE (net of all tax credits available to iGATE which would reduce such required cash outlay).

The components of income before income taxes, as shown in the accompanying Consolidated Statement of Operations, consisted of the following for the years ended December 31, 2008, 2007 and 2006:

	Years Ended December 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Income before income taxes:			
Domestic	\$ 4,160	\$ 6,141	\$ 7,602
Foreign			
Income before income taxes	\$ 4,160	\$ 6,141	\$ 7,602

The provision for income taxes, as shown in the accompanying Consolidated Financial Statements, consisted of the following for the years ended December 31, 2008, 2007 and 2006:

	Years Ended December 31,		
	2008	2007	2006
	(Dollars in Thousands)		
Current provision (benefit) :			
Federal	\$ 292	\$ (274)	\$ 516
State	173	601	286
Total current provision (benefit)	465	327	802
Deferred provision (benefit) :			
Federal	124	326	(122)
State	49	48	(18)
Total deferred provision (benefit)	173	374	(140)
Total provision for income taxes	\$ 638	\$ 701	\$ 662

The reconciliation of income taxes computed using the statutory U.S. income tax rate and the provision for income taxes for the years ended December 31, 2008, 2007 and 2006 were as follows:

	December 31,		December 31,		December 31,	
	2008		2007		2006	
Income taxes computed at the federal statutory rate	\$ 1,456	35.0%	\$ 2,149	35.0%	\$ 2,661	35.0%
State income taxes, net of federal tax benefit	122	2.9	565	9.2	178	2.3
Parent expense allocations*	(964)	(23.2)	(2,118)	(34.5)	(2,229)	(29.3)
Other net	24	0.6	105	1.7	52	0.7
	\$ 638	15.3%	\$ 701	11.4%	\$ 662	8.7%

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

* Represents income tax benefits related to Former Parent expenses allocated to the Company for tax purposes, which are in excess of the expense allocations, included in our Consolidated Statement of Operations, herein.

Table of Contents

The components of the deferred tax assets and liabilities were as follows:

	At December 31,	
	2008	2007
	(Dollars in Thousands)	
Deferred tax assets:		
Allowance for doubtful accounts and employee advances	\$ 202	\$ 133
Accrued vacation and bonuses	169	211
Depreciation		29
123R compensation	231	301
Other		3
	602	677
Less valuation allowance	(28)	
Total deferred tax assets	574	677
Deferred tax liabilities:		
Prepaid expenses	119	61
Depreciation	11	
Total deferred tax liabilities	130	61
Net deferred tax asset	444	616
Less: current deferred tax asset	253	289
Total long-term deferred tax asset	\$ 191	\$ 327

9. Revenue Concentration:

The Company's top three clients represented 14.9%, 12.7% and 10.7% of 2008 total revenues. These same three clients represented 14.5%, 12.5% and 6.3% in 2007, and 14.2%, 12.8% and 8.2% in 2006, of total revenues for those respective years. The Company's top ten clients represented approximately 66%, 62% and 63% of total revenues in 2008, 2007 and 2006, respectively.

10. Transactions with Former Parent

Prior to the Distribution, the Company transacted with its former parent and its former parent's affiliates (collectively referred to as Former Parent or iGATE), as indicated below. Additionally, the Company entered into a transition services agreement with iGATE to provide for an orderly transition to being an independent company. Among the principal services to be provided to us under this agreement were: (a) continued participation in iGATE's benefit program through December 31, 2008; (b) short-term use of certain software products; (c) telecommunication services; and (d) financial reporting consultation and assistance. Subsequent to December 31, 2008, the only services that will still be provided under the agreement are telecommunication services. The Company has executed an agreement in early 2009 with a major telecommunication company to provide these services on a stand-alone basis.

Cash Transfers between the Company and the Former Parent

The Company transferred excess funds to and received required funds from iGATE, on an ongoing basis. During 2008, prior to the Distribution, and for the full years 2007 and 2006, net cash transferred to iGATE totaled \$2.0 million, \$9.2 million, \$7.4 million, respectively.

Sublease with the Former Parent

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

The Company leases office space from iGATE under a sublease arrangement that expires on April 30, 2009. The Company paid rent under this sublease arrangement totaling \$284,000 in 2008, \$284,000 in 2007 and \$217,000 in 2006.

Table of Contents

Shared Services with the Former Parent

The Company's employees participated in several of iGATE's benefit plans, including Healthcare, 401K and Stock Compensation Plans. The cost of services provided to the Company's employees is included in the Consolidated Statement of Operations and totaled \$2.9 million in 2008, \$3.0 million in 2007, \$3.4 million in 2006. Approximately \$850,000 related to year 2008 pertained to services performed after the Distribution, in accordance with the transition agreement.

In addition to charges related to specific coverage's under the Former Parent Plans, the Company was charged an allocation related to the Former Parent's general and administrative expenses. These allocations totaled \$800,000 in 2008, prior to the Distribution, and \$1.6 million and \$1.8 million for the full years 2007 and 2006, respectively and are included in the Consolidated Statement of Operations.

Tax Allocations Made by the Former Parent

The Company filed its federal income taxes as part of iGATE's Consolidated U.S. federal income tax return. Accordingly, the Company's tax liability was paid to iGATE through the Distribution date and totaled \$766,000 in 2008, \$1.1 million in 2007 and \$521,000 in 2006.

Transactions with the Former Parent's Affiliates

iGATE Global Solutions, provides the Company offshore contractors, IT support services, telecommunication services, and office space in Fremont, California. These services are provided under negotiated agreements between the parties. In 2008, 2007 and 2006, the Company paid iGATE Global Solutions \$2.9 million, \$3.1 million and \$1.8 million, respectively, for services provided. The 2008 payments included \$437,000 related to services provided subsequent to the Distribution.

The Company provides iGATE Global Solutions with IT consultants from time-to-time on a negotiated basis. In 2008, 2007 and 2006, the Company recognized revenues from these services of \$118,000, \$484,000 and, \$83,000, respectively.

Accounts Receivable and Accounts Payable with the Former Parent

At December 31, 2008 and 2007, the Company had included in its Accounts Receivable balance \$10,000 and \$83,000, due from its Former Parent, respectively. At December 31, 2008 and 2007, the Company had included in its Accounts Payable balance \$895,000 and \$828,000 owed to its Former Parent, respectively.

11. Earnings per Share

The computation of basic earnings per share (EPS) is based on the Company's net income divided by the basic weighted average number of common shares outstanding. On September 30, 2008, the separation from iGATE was completed in a tax-free Distribution of one share of the Company's common stock for every fifteen shares of iGATE common stock held by iGATE shareholders of record. As a result, on September 30, 2008 the Company had 3.6 million shares of common stock outstanding, and this share amount is being utilized for the calculation of basic earnings per share for all periods presented prior to the Distribution. For all periods prior to the Distribution, the same number of shares is being used for diluted earnings per share, as no Mastech equity awards were outstanding for these periods. Diluted earnings per share subsequent to the Distribution, reflects the potential dilution that could occur if outstanding stock options were exercised. The dilutive effect of stock options were calculated using the treasury stock method.

As of December 31, 2008, the computation of diluted earnings per share does not include 185,000 stock options as the effect of their inclusion would have been anti-dilutive.

Table of Contents

The following table sets forth the denominators of the basic and diluted EPS computations:

	Years Ended December 31,		
	2008	2007	2006
Weighted-average shares outstanding:			
Basic	3,607	3,607	3,607
Common stock equivalents (existing after the Distribution)	4		
Diluted	3,611	3,607	3,607

The following table sets forth the computation of basic EPS utilizing net income and the Company's weighted-average common stock outstanding:

	Years Ended December 31,		
	2008	2007	2006
Net income	\$ 3,522	\$ 5,440	\$ 6,940
Basic weighted-average shares outstanding	3,607	3,607	3,607
Basic EPS	\$ 0.98	\$ 1.51	\$ 1.92

The following table sets forth the computation of diluted EPS utilizing net income and the Company's weighted-average common stock outstanding plus the weighted-average of common stock equivalents outstanding:

	Years Ended December 31,		
	2008	2007	2006
Net income	\$ 3,522	\$ 5,440	\$ 6,940
Diluted weighted-average shares outstanding	3,611	3,607	3,607
Diluted EPS	\$ 0.98	\$ 1.51	\$ 1.92

12. Quarterly Financial Information (Unaudited):

Year Ended December 31, 2008	Revenues	Gross Profit	Net Income	Earnings Per Share	
				Basic	Diluted
First quarter	\$ 24,974	\$ 4,933	\$ 972	\$.27	\$.27
Second quarter	24,450	4,765	1,099	.31	.31
Third quarter	24,140	4,518	1,162	.32	.32
Fourth quarter	23,086	4,106	289	.08	.08
Annual	\$ 96,650	\$ 18,322	\$ 3,522	\$.98	\$.98

Year Ended December 31, 2007	Revenues	Gross Profit	Net Income	Earnings Per Share	
				Basic	Diluted
First quarter	\$ 26,729	\$ 5,971	\$ 1,466	\$.40	\$.40

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 10-K

Second quarter	26,595	5,719	1,437	.40	.40
Third quarter	25,609	5,430	1,392	.39	.39
Fourth quarter	25,760	4,955	1,145	.32	.32
Annual	\$ 104,693	\$ 22,075	\$ 5,440	\$ 1.51	\$ 1.51

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of Company management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(b) and 15d-15(b). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. The results of management's assessment were reviewed with the Company's Audit Committee.

The certification required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.01 and 31.02, respectively, to this Annual Report on Form 10-K.

Management's Report on Internal Controls Over Financial Reporting

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Changes in Internal Control over Financial Reporting

There has been no change in Mastech's internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting as of December 31, 2008.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item, not set forth below, is incorporated herein by reference from the Company's definitive proxy statement relating to the Annual Meeting of Shareholders scheduled for May 14, 2009, which will be filed with the Commission within 120 days after the close of the Company's fiscal year ended December 31, 2008 (the Proxy Statement).

We have adopted a code of ethics applicable to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer entitled Code of Business Conduct & Ethics. This Code is posted on the Company's website, www.mastech.com (under the Corporate Governance caption of the Investor Relations page). The Company intends to satisfy the disclosure requirement regarding certain amendments to, or waivers from, provisions of its code of ethics by posting such information on the Company's website.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this item hereby is incorporated by reference from the section entitled Stock Ownership by Directors and Executive Officers and Equity Compensation Plan of the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is hereby incorporated by reference from the sections entitled Additional Information Concerning the Board of Directors of the Company, Committee of the Board and Certain Business Relationships and Transactions of the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by the item is hereby incorporated by reference from the section entitled Fees Paid to UHY LLP of the Proxy Statement.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. *Financial Statements*

The following Consolidated Financial Statements of the registrant and its subsidiaries are included on pages 34 to 51 and the report of its Independent Registered Public Accounting Firm is included on page 33 in this Form 10-K.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets December 31, 2008 and 2007.

Consolidated Statements of Operations Years ended December 31, 2008, 2007 and 2006.

Consolidated Statements of Shareholders Equity Years ended December 31, 2008, 2007 and 2006.

Consolidated Statements of Cash Flows Years ended December 31, 2008, 2007 and 2006.

Notes to Consolidated Financial Statements

2. *Consolidated Financial Statement Schedule*

The following Consolidated Financial Statement Schedule shown below should be read in conjunction with the Consolidated Financial Statements on pages 34 to 51 in this Form 10-K. All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

The following items appear immediately following the signature pages:

Financial Statement Schedule:

Schedule II Valuation and Qualifying Accounts for the three years ended December 31, 2008, 2007 and 2006, respectively.

3. *Exhibits*

Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference.

Table of Contents**MASTECH HOLDINGS, INC.****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (Dollars in thousands)**

	Balance at beginning of period	(Credited) charged to expense	Deductions	Balance at end of period
Allowance for Doubtful Accounts:				
Year ended December 31, 2008	\$ 331	\$ 258	\$ (74)	\$ 515
Year ended December 31, 2007	331			331
Year ended December 31, 2006	331			331

Table of Contents

Exhibit	Index Description of Exhibit
2.1	Separation and Distribution Agreement by and between iGATE Corporation and Mastech Holdings, Inc., dated September 30, 2008 filed as Exhibit 2.1 to Mastech's Form 8-K, filed on October 1, 2008.
3.1	Articles of Incorporation of the Company are incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10, File No. 001-34099, filed on July 23, 2008.
3.2	Amended and Restated Bylaws of the Company are incorporated by reference to Exhibit 3.1. to Mastech's Form 8-K, dated October 1, 2008.
10.1	Stock Incentive Plan is incorporated by reference to Exhibit 10.4 to Mastech's Form 8-K, File 001-34099, filed on October 1, 2008.
10.2	Loan Agreement by and between PNC Bank, N.A. and Mastech Holdings, Inc., dated October 15, 2008 filed as Exhibit 10.1 to Mastech's Form 8-K, filed on October 21, 2008.
10.3	Employee Matters Agreement by and between iGATE Corporation and Mastech Holdings, Inc., dated September 30, 2008 filed as Exhibit 10.2 to Mastech's Form 8-K, filed on October 1, 2008.
10.4	Transition Services Agreement by and between iGATE Corporation and Mastech Holdings, Inc., dated September 30, 2008 filed as Exhibit 10.1 to Mastech's Form 8-K, filed on October 1, 2008.
10.5	Tax Sharing Agreement by and between iGATE Corporation and Mastech Holdings, Inc., dated September 30, 2008 filed as Exhibit 10.3 to Mastech's Form 8-K, filed on October 1, 2008.
21.0	Subsidiaries of the Registrant is filed herewith.
23.1	Consent of UHY LLP, Independent Registered Public Accounting Firm is filed herewith.
31.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer is filed herewith.
31.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer is filed herewith.
32.01	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer is filed herewith.
32.02	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer is filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 19th day of March, 2009.

MASTECH HOLDINGS, INC.

March 19, 2009

/s/ STEVEN J. SHANGOLD
Steven J. Shangold

President, Chief Executive Officer and Director

/s/ JOHN J. CRONIN, JR.
John J. Cronin, Jr.

Chief Financial Officer

/s/ SUNIL WADHWANI
Sunil Wadhvani

Co-Chairman of the Board of Directors, and Director

/s/ ASHOK TRIVEDI
Ashok Trivedi

Co-Chairman of the Board of Directors, and Director

/s/ GERHARD WATZINGER
Gerhard Watzinger

Director

/s/ JOHN AUSURA
John Ausura

Director

/s/ BRENDA RHODES
Brenda Rhodes

Director

/s/ D. KEVIN HORNER
D. Kevin Horner

Director