

RITCHIE BROS AUCTIONEERS INC

Form 6-K

May 03, 2005

TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ITEM 2. Management's Discussion and Analysis of Financial Condition

SIGNATURES

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements do not include all information and footnotes required by Canadian or United States generally accepted accounting principles for a complete set of annual financial statements. However, in the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the relevant periods have been made. Results for the interim periods are not necessarily indicative of the results to be expected for the year or any other period. These financial statements should be read in conjunction with the summary of accounting policies and the notes to the consolidated financial statements included in the Company's Annual Report on Form 40-F for the fiscal year ended December 31, 2004, a copy of which has been filed with the Securities and Exchange Commission. These policies have been applied on a consistent basis.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Operations

(Expressed in thousands of United States dollars, except per share amounts)
(Unaudited)

	Three months ended March 31,	
	2005	2004
Auction revenues	\$ 48,578	\$ 37,670
Direct expenses	5,484	4,547
	43,094	33,123
Expenses:		
Depreciation and amortization	3,399	2,962
General and administrative	22,556	19,417
	25,955	22,379
Earnings from operations	17,139	10,744
Other income (expense):		
Interest expense	(679)	(960)
Gain on disposition of capital assets	5,448	48
Other	198	63
	4,967	(849)
Earnings before income taxes	22,106	9,895
Income taxes:		
Current	8,345	3,061
Future	86	244
	8,431	3,305
Net Earnings	\$ 13,675	\$ 6,590
Net earnings per share (in accordance with Canadian and United States GAAP) (note 5):		
Basic	\$ 0.40	\$ 0.19
Diluted	\$ 0.40	\$ 0.19

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Balance Sheets

(Expressed in thousands of United States dollars)

	March 31, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 180,016	\$ 132,632
Accounts receivable	108,332	19,281
Inventory	8,540	13,091
Advances against auction contracts	3,472	968
Funds committed for debt repayment (note 4)	6,065	1,857
Prepaid expenses and deposits	3,330	2,323
Other assets	1,013	654
Future income tax asset	386	496
	311,154	171,302
Capital assets (note 3)	224,593	226,624
Funds committed for debt repayment (note 4)	1,392	5,108
Other assets	1,709	1,876
Goodwill	37,421	37,499
	\$ 576,269	\$ 442,409
Liabilities and Shareholders' Equity		
Current liabilities:		
Auction proceeds payable	\$ 176,535	\$ 47,581
Accounts payable and accrued liabilities	36,678	45,334
Income taxes payable	11,596	6,383
Current portion of long-term debt (note 4)	40,594	35,133
	265,403	134,431
Long-term debt (note 4)	4,154	10,792
Other liabilities	1,586	1,563
Future income tax liability	6,336	6,359
Shareholders' equity:		
Share capital (note 5)	77,947	76,445
Additional paid-in capital	8,181	7,859

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 6-K

Retained earnings	193,342	183,438
Foreign currency translation adjustment	19,320	21,522
	298,790	289,264
Commitments and contingencies (note 6)		
	\$ 576,269	\$ 442,409

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Shareholders' Equity

(Expressed in thousands of United States dollars)
(Unaudited)

	Share Capital	Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustment	Total Shareholders' Equity
Balance, December 31, 2004	\$ 76,445	\$ 7,859	\$ 183,438	\$ 21,522	\$ 289,264
Exercise of stock options	1,502	(222)			1,280
Stock compensation tax adjustment		126			126
Stock compensation expense		418			418
Net earnings			13,675		13,675
Cash dividends paid			(3,771)		(3,771)
Foreign currency translation adjustment				(2,202)	(2,202)
Balance, March 31, 2005	\$ 77,947	\$ 8,181	\$ 193,342	\$ 19,320	\$ 298,790

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Consolidated Statements of Cash Flows

(Expressed in thousands of United States dollars)
(Unaudited)

	Three months ended March	
	2005	31, 2004
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 13,675	\$ 6,590
Items not involving cash:		
Depreciation	3,399	2,962
Stock compensation expense	418	396
Future income taxes	86	175
Net gain on disposition of capital assets	(5,448)	(48)
Changes in non-cash working capital:		
Accounts receivable	(89,051)	(46,679)
Inventory	4,551	3,833
Advances against auction contracts	(2,504)	(3,467)
Prepaid expenses and deposits	(1,007)	728
Income taxes payable	5,339	(507)
Auction proceeds payable	128,954	85,682
Accounts payable and accrued liabilities	(8,656)	(6,595)
Other	1,296	325
	51,052	43,395
Investing activities:		
Acquisition of business		(1,164)
Capital asset additions	(4,311)	(3,591)
Proceeds on disposition of capital assets	6,537	330
Increase in other assets	(192)	(1)
	2,034	(4,426)
Financing activities:		
Issuance of share capital	1,280	2,272
Dividends on common shares	(3,771)	(2,549)
Repayment of long-term debt	(1,059)	(628)
Increase in other liabilities	23	22
Increase in funds committed for debt repayment	(492)	(465)
	(4,019)	(1,348)
Effect of foreign currency rates on cash and cash equivalents	(1,683)	(696)

Edgar Filing: RITCHIE BROS AUCTIONEERS INC - Form 6-K

Increase in cash and cash equivalents	47,384	36,925
Cash and cash equivalents, beginning of period	132,632	119,009
Cash and cash equivalents, end of period	\$ 180,016	\$ 155,934
Supplemental information:		
Interest paid	\$ 622	\$ 859
Income taxes paid	\$ 2,751	\$ 4,280

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

1. Significant accounting policies:

(a) Basis of presentation:

These unaudited consolidated financial statements present the financial position, results of operations, changes in shareholders' equity and cash flows of Ritchie Bros. Auctioneers Incorporated (the Company) and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) applicable to interim financial information and are based on accounting principles and practices consistent with those used in the preparation of the annual consolidated financial statements. These consolidated financial statements are not materially different from those that would be presented in accordance with United States GAAP. The interim consolidated financial statements should be read in conjunction with the December 31, 2004 audited consolidated financial statements.

(b) Revenue recognition:

Auction revenues are comprised mostly of auction commissions, which are earned by the Company acting as an agent for consignors of equipment, but also include net profits on the sale of inventory, incidental interest income, Internet and proxy purchase fees, and handling fees on the sale of certain lots. All revenue is recognized when the auction sale is complete and the Company has determined that the auction proceeds are collectible.

Auction commissions represent the percentage earned by the Company on the gross proceeds from equipment sold at auction. The majority of auction commissions is earned as a pre-negotiated fixed rate of the gross selling price. Other commissions are earned when the Company guarantees a certain level of proceeds to a consignor. This type of commission includes a pre-negotiated percentage of the guaranteed gross proceeds plus a percentage of proceeds in excess of the guaranteed amount. If actual auction proceeds are less than the guaranteed amount, commission is reduced; if proceeds are sufficiently lower, the Company can incur a loss on the sale. Losses, if any, resulting from guarantee contracts are recorded in the period in which the relevant auction is completed. If a loss relating to a guarantee contract to be sold after a period end is known at the financial statement reporting date, the loss is accrued in the financial statements for that period. The Company's exposure from these guarantee contracts fluctuates over time (see note 6).

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

1. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Auction revenues also include net profit on the sale of inventory items. In some cases, incidental to its regular commission business, the Company temporarily acquires title to items for a short time prior to a particular auction sale. The auction revenue recorded is the net gain or loss on the sale of the items.

(c) Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

2. Seasonality of operations:

The Company's operations are both seasonal and event driven. Auction revenues tend to be highest during the second and fourth calendar quarters. The Company generally conducts more auctions during these quarters than during the first and third calendar quarters. Mid-December through mid-February and July through August are traditionally less active periods.

In addition, the Company's revenue is dependent upon the timing of such events as fleet upgrades and realignments, contractor retirements, and the completion of major projects, among other things. These events are not predictable and are usually unrelated to fiscal quarters, making quarter-to-quarter comparability difficult.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

3. Capital assets:

March 31, 2005	Cost	Accumulated depreciation	Net book value
Buildings	\$ 120,657	\$ 19,285	\$ 101,372
Land and improvements	104,976	4,235	100,741
Land and buildings under development	856		856
Automotive equipment	11,842	4,335	7,507
Yard equipment	9,593	4,862	4,731
Office equipment	6,245	3,840	2,405
Computer equipment	5,489	2,805	2,684
Computer software	11,488	9,412	2,076
Leasehold improvements	3,204	983	2,221
	\$ 274,350	\$ 49,757	\$ 224,593

December 31, 2004	Cost	Accumulated depreciation	Net book value
Buildings	\$ 113,742	\$ 18,588	\$ 95,154
Land and improvements	100,154	4,125	96,029
Land and buildings under development	13,538		13,538
Automotive equipment	11,389	4,272	7,117
Yard equipment	9,540	4,685	4,855
Office equipment	6,169	3,799	2,370
Computer equipment	5,784	2,940	2,844
Computer software	11,114	8,766	2,348
Leasehold improvements	3,321	952	2,369
	\$ 274,751	\$ 48,127	\$ 226,624

During the three months ended March 31, 2005, the Company capitalized interest of \$26,000 (three months ended March 31, 2004 \$47,000) to the cost of land and buildings under development.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

4. Long-term debt:

	March 31, 2005	December 31, 2004
Term loans, unsecured, bearing interest between 5.95% and 7.91%, due in minimum annual installments of \$2.9 million (\$1.0 million towards principal, \$1.9 million towards a sinking fund), with final payments occurring in 2005 and 2006.	\$ 16,000	\$ 17,000
Revolving loans, denominated in Canadian dollars, unsecured, bearing interest at the Canadian Prime Rate plus 0.25%, due in monthly installments of interest only, with the full amount of the principal due in 2005.	12,397	12,505
Revolving loans, unsecured, bearing interest at 3.475%, due in monthly installments of interest only, with the full amount of the principal due in 2005.	15,500	15,500
Term loan, denominated in Australian dollars, secured by deeds of trust on specific property, bearing interest between the Australian prime rate and 6.5%, due in quarterly installments of AUD75,000, plus interest, with final payment occurring in 2008.	851	920
	44,748	45,925
Current portion	(40,594)	(35,133)
Non-current portion	\$ 4,154	\$ 10,792

The Company expects to refinance certain of its long-term debt in 2005. If this occurs, the funds committed for debt repayment recorded in current assets on the balance sheet, in excess of any amounts used to repay debt, will become cash and cash equivalents and available for general purposes.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

5. Share capital:

(a) Shares issued:

Common shares issued and outstanding are as follows:

Issued and outstanding, December 31, 2004	34,262,300
Issued for cash, pursuant to stock options exercised	70,100
Issued and outstanding, March 31, 2005	34,332,400

The Company's common shares were split on a two-for-one basis on May 4, 2004. All share, per share and stock option information in the consolidated financial statements gives effect to the stock split on a retroactive basis.

(b) Stock option plan:

Stock option activity for the three months ended March 31, 2005 is as follows:

	Common Shares Under Option		Weighted Average Exercise Price
Outstanding, December 31, 2004	808,998	\$	18.38
Granted	201,800		32.41
Exercised	(70,100)		18.26
Expired	(9,900)		32.41
Outstanding, March 31, 2005	930,798	\$	21.28
Exercisable, March 31, 2005	728,898	\$	18.43

The options outstanding at March 31, 2005 expire on dates ranging to February 23, 2015.

The following is a summary of stock options outstanding and exercisable at March 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$11.675 - \$13.050	202,400	6.3	\$ 12.32	194,400	\$ 12.32
\$13.344 - \$15.525	270,198	6.9	14.96	270,198	14.96
\$26.460 - \$32.410	458,200	9.3	28.96	264,300	26.46
	930,798			728,898	

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

5. Share capital (continued):

(c) Stock-based compensation:

The Company uses the fair value based method to account for employee stock-based compensation awards. During the three month period ended March 31, 2005, the Company recognized compensation cost of \$418,000 (2004 \$396,000) in respect of options granted in 2004 and 2005 under its stock option plan.

For the purposes described above, the fair value of the stock option grants was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2005	2004
Risk free interest rate	3.7%	3.0%
Dividend yield	1.39%	1.15%
Expected lives	5years	5years
Volatility	20.0%	19.6%

The weighted average grant date fair value of options granted during the period ended March 31, 2005 was \$6.83 per option (2004 \$5.34). The fair value method requires that this amount be amortized over the relevant vesting periods of the underlying options.

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

5. Share capital (continued):

(d) Net earnings per share:

The computations for basic and diluted earnings per share are as follows:

	Three months ended March 31, 2005		
	Net earnings	Shares	Per share amount
Basic net earnings per share	\$ 13,675	34,287,108	\$ 0.40
Effect of dilutive securities:			
Stock options		330,115	
Diluted net earnings per share	\$ 13,675	34,617,223	\$ 0.40

	Three months ended March 31, 2004		
	Net earnings	Shares	Per share amount
Basic net earnings per share	\$ 6,590	34,024,340	\$ 0.19
Effect of dilutive securities:			
Stock options		381,976	
Diluted net earnings per share	\$ 6,590	34,406,316	\$ 0.19

6. Commitments and contingencies:

The Company is subject to legal and other claims that arise in the ordinary course of its business. The Company does not believe that the results of these claims will have a material effect on the Company's financial position or results of operations.

In the normal course of its business, the Company will in certain situations guarantee to a consignor a minimum level of proceeds in connection with the sale at auction of that consignor's equipment. At March 31, 2005 the Company had outstanding guarantees under contract totaling \$25,413,000 (undiscounted and before estimated proceeds from sale at auction) for industrial equipment to be sold prior to May 31, 2005 (December 31, 2004 \$6,202,000). The Company also had guarantees under contract totaling \$31,915,000 relating to agricultural auctions to be held prior to June 18, 2005 (December 31, 2004 \$14,726,000). The Company has not recorded a liability with respect to these guarantee contracts.

-13-

RITCHIE BROS. AUCTIONEERS INCORPORATED

Notes to Consolidated Financial Statements

Three months ended March 31, 2005 and 2004

(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)

(Information as at March 31, 2005 and for the three-month periods ended March 31, 2005 and 2004 is unaudited)

7. United States generally accepted accounting principles:

The consolidated financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in Canada which differ, in certain respects, from accounting practices generally accepted in the United States and from requirements promulgated by the Securities and Exchange Commission. However, for the three months ended March 31, 2005 and 2004, net earnings in accordance with Canadian GAAP were not significantly different from net earnings had they been presented in accordance with United States GAAP.

US GAAP requires the preparation of a statement of comprehensive income. Comprehensive income is defined as the change in equity of a business enterprise during the period