inContact, Inc.
Form 10-Q
August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2014

Commission File No. 1-33762

inContact, Inc.

(Exact name of registrant as specified in its charter)

Delaware	87-0528557
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7730 S. Union Park Avenue, Suite 500, Salt Lake City, UT 84047

(Address of principal executive offices and Zip Code)

(801) 320-3200

(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.   Yes x   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 x   No ¨

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

¨ Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ 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 x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class	Outstanding as of August 4, 2014
Common Stock, $0.0001 par value	60,818,889 shares

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ITEM NUMBER AND CAPTION

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INCONTACT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS—(Unaudited)

(in thousands, except per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$32,097	$ 49,148
Restricted cash	81	81
Accounts and other receivables, net of allowance for uncollectible accounts of $2,390 and $2,203, respectively	26,424	18,682
Other current assets	5,915	4,217
Total current assets	64,517	72,128
Property and equipment, net	30,324	23,716
Intangible assets, net	26,103	3,971
Goodwill	38,118	6,563
Other assets	1,746	1,540
Total assets	$160,808	$ 107,918
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Trade accounts payable	$13,953	$ 9,696
Accrued liabilities	10,541	6,482
Accrued commissions	3,071	2,072
Current portion of deferred revenue	4,209	2,440
Current portion of debt and capital lease obligations	3,770	3,461
Total current liabilities	35,544	24,151
Long-term portion of debt and capital lease obligations	4,784	4,580
Deferred rent	62	487
Deferred tax liability	883	—
Deferred revenue	5,158	3,981
Total liabilities	46,431	33,199
Stockholders’ equity:		
Common stock, $0.0001 par value; 100,000 shares authorized; 60,809 and 55,346 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	6	6
Additional paid-in capital	204,046	167,422
Accumulated deficit	(89,675)	(92,709)
Total stockholders’ equity	114,377	74,719
Total liabilities and stockholders’ equity	$160,808	$ 107,918

See accompanying notes to condensed consolidated financial statements.

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INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS and COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net revenue:				
Software	$24,198	$16,185	$44,207	$32,357
Network connectivity	16,913	14,898	33,958	30,371
Total net revenue	41,111	31,083	78,165	62,728
Costs of revenue:				
Software	10,233	6,344	18,468	12,779
Network connectivity	10,855	9,610	21,693	19,643
Total costs of revenue	21,088	15,954	40,161	32,422
Gross profit	20,023	15,129	38,004	30,306
Operating expenses:				
Selling and marketing	13,005	9,008	23,061	17,430
Research and development	5,478	2,964	9,238	5,735
General and administrative	7,076	4,811	12,344	9,856
Total operating expenses	25,559	16,783	44,643	33,021
Loss from operations	(5,536)	(1,654)	(6,639)	(2,715)
Other income (expense):				
Interest expense	(84)	(90)	(195)	(150)
Other income (expense)	2	—	(149)	(25)
Total other expense	(82)	(90)	(344)	(175)
Loss before income taxes	(5,618)	(1,744)	(6,983)	(2,890)
Income tax benefit (expense)	10,080	(32)	10,053	(49)
Net income (loss) and comprehensive income (loss)	$4,462	$(1,776)	$3,070	$(2,939)
Net income (loss) per common share:				
Basic	$0.08	$(0.03)	$0.05	$(0.05)
Diluted	$0.07	$(0.03)	$0.05	$(0.05)
Weighted average common shares outstanding:				
Basic	58,753	54,196	57,441	53,897
Diluted	61,448	54,196	59,865	53,897

See accompanying notes to condensed consolidated financial statements.

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY—(Unaudited)

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit	Total
Balance at December 31, 2013	55,346	$ 6	$ 167,422	—	$ —	$ (92,709)	$ 74,719
Common stock issued for options exercised	411	—	1,375	—	—	—	1,375
Common stock issued under the employee stock purchase plan	45	—	345	2	—	—	345
Common stock received for settlement of taxes and forfeited restricted stock	—	—	—	(54)	(36)	—	(36)
Issuance of common stock	3,822	—	31,951	—	—	—	31,951
Issuance of restricted stock	1,185	—	—	52	36	(36)	—
Stock-based compensation	—	—	2,953	—	—	—	2,953
Net income	—	—	—	—	—	3,070	3,070
Balance at June 30, 2014	60,809	$ 6	$ 204,046	—	$ —	$ (89,675)	$ 114,377

See accompanying notes to condensed consolidated financial statements.

INCONTACT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Six months ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$ 3,070	$ (2,939)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property and equipment	3,399	2,929
Amortization of software development costs	2,823	2,312
Amortization of intangible assets	1,044	105
Amortization of note financing costs	14	9
Interest accretion	2	3
Stock-based compensation	2,953	1,511
Loss on disposal of property and equipment	544	87
Deferred income taxes	(10,053)	—
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(3,609)	(2,816)
Other current assets	(31)	(148)
Other non-current assets	(73)	(339)
Trade accounts payable	2,110	741
Accrued liabilities	(604)	(366)
Accrued commissions	252	420
Deferred rent	(66)	28
Deferred revenue	1,078	2,379
Net cash provided by operating activities	2,853	3,916
Cash flows from investing activities:		
Payments made for deposits	(31)	(11)
Acquisition of assets	—	(2,296)
Acquisition of a business, net of cash acquired	(10,164)	—
Capitalized software development costs	(5,004)	(2,880)
Purchases of property and equipment	(5,162)	(3,017)
Net cash used in investing activities	(20,361)	(8,204)
Cash flows from financing activities:		
Proceeds from exercise of options	1,375	4,849
Proceeds from sale of stock under employee stock purchase plan	345	194
Borrowings under term loan	1,000	4,000
Payment of debt financing fees	—	(43)
Principal payments under debt and capital lease obligations	(2,227)	(1,479)
Purchase of treasury stock	(36)	—
Payments under the revolving credit agreement	—	(1,000)
Net cash provided by financing activities	457	6,521
Net increase (decrease) in cash and cash equivalents	(17,051)	2,233

Cash and cash equivalents at beginning of period	49,148	48,836
Cash and cash equivalents at end of period	$ 32,097	$ 51,069
Supplemental schedule of non-cash investing and financing activities:		
Payments due for property and equipment included in trade accounts payable	$ 2,340	$ 116
Property and equipment financed through capital leases	$ 1,702	$ —
Common stock received for settlement of accounts receivable	$ —	$ 2,731
Issuance of common stock for acquisition of a business	$ 31,951	$ —
Consideration for acquisition of business included in accrued liabilities likely to be paid in cash based on the final calculation of net closing current assets	$ 3,080	$ —
Acquisitions of assets included in accounts payable	$ —	$ 450

See accompanying notes to condensed consolidated financial statements.

INCONTACT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

inContact, Inc. (“inContact,” “we,” “us,” “our,” or the “Company”) is incorporated in the state of Delaware. We provide cloud contact center software solutions through our inContact® portfolio, an advanced contact handling and performance management software application. Our services provide a variety of connectivity options for carrying inbound calls to our inContact portfolio or linking agents to our inContact applications. We provide customers the ability to monitor agent effectiveness through our user survey tools and the ability to efficiently monitor their agent needs. We are also an aggregator and provider of network connectivity services (formerly telecommunications). We contract with a number of third party providers for the right to resell the various network connectivity services and products they provide, and then offer all of these services to our customers. These services and products allow customers to buy only the network connectivity services they need, combine those services in a customized enhanced contact center package, receive one bill for those services, and call a single point of contact if a service problem or billing issue arises.

Basis of Presentation

These unaudited condensed consolidated financial statements of inContact and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States and the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, so long as the statements are not misleading. In the opinion of management, these financial statements and accompanying notes contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods presented herein. These condensed consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 7, 2014. The results of operations for the three and six month periods ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014. Our significant accounting policies are set forth in Note 1 to the Consolidated Financial Statements in the 2013 Annual Report on Form 10-K and changes, if any, are included below.

Revenue Recognition

Revenue is recognized when all of the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) the fee is fixed or determinable, (3) collection is reasonably assured, and (4) delivery has occurred or services have been rendered. Determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report.

Our revenue is reported and recognized based on the type of services provided to the customer as follows:

Software Revenue. Software revenue includes two main sources of revenue:

(1) Software delivery and support of our inContact portfolio products that are provided on a monthly subscription basis and associated professional services. Because our customers purchasing software and support services on a monthly recurring basis do not have the right to take possession of the software, we consider these arrangements to be service contracts and are not within the scope of Industry Topic 985, Software. We generally bill monthly recurring subscription charges in arrears and recognize these charges in the period in which they are earned. In addition to the monthly recurring revenue, revenue is also received on a non-recurring basis for professional services or on a recurring basis related to improving a customer's contact center efficiency and effectiveness as it relates to utilization of the inContact portfolio.

For subscription service contracts with multiple elements (hosted software, training, installation and long distance services), we follow the guidance provided in Accounting Standards Codification ("ASC") 605-25, Revenue Recognition for Multiple Element Arrangements. In addition to the monthly recurring subscription revenue, we also derive revenue on a non-recurring basis for professional services included in implementing or improving a customer's inContact portfolio experience. Because our professional services, such as training and implementation, are not considered to have standalone value, we defer revenue for upfront fees received for professional services in multiple element arrangements and recognize such fees as revenue over the estimated life of the customer. Fees for network connectivity services in multiple element arrangements within the inContact portfolio on usage and recognize revenue in the same manner as fees for telecommunication services discussed in the "Network Connectivity Services Revenue" below.

(2) Perpetual product and services revenues are primarily derived from the sale of software licenses of products within our inContact portfolio. For software license arrangements that do not require significant modification or customization of the underlying software, revenue is recognized when all four criteria listed above are met.

Many of our customers purchase a combination of software, service, hardware, post contract customer support ("PCS") and hosting. For software and software related multiple element arrangements that fall within the scope of the software revenue guidance in Topic 985, Software, we allocate revenue to the delivered elements of the arrangement using the residual method, whereby revenue is allocated to the undelivered elements based on vendor-specific objective evidence of fair value ("VSOE") of the undelivered elements with the remaining arrangement fee allocated to the delivered elements and is recognized as revenue assuming all other revenue recognition criteria are met. If we are unable to establish VSOE for the undelivered elements of the arrangement, including PCS, revenue recognition is deferred for the entire arrangement until all elements of the arrangement are delivered. PCS provided to our customers includes technical software support services and unspecified software upgrades to customers on a when-and-if available basis. PCS revenue is recognized ratably over the term of the maintenance period, which is typically 15 months. When PCS is included within a multiple element arrangement, we utilize the bell-shaped curve approach to establish VSOE for the PCS. Under the bell-shaped curve approach of establishing VSOE, we perform a VSOE compliance test on a quarterly basis to ensure that a substantial majority of our actual PCS renewals are within a sufficiently narrow range.

Product revenue derived from shipments to customers who purchase our products for resale and is generally recognized when such products are shipped (on a "sell-in" basis). We have historically experienced insignificant product returns from resellers, and our payment terms for these customers are similar to those granted to our end-users. If a reseller develops a pattern of payment delinquency, or seeks payment terms longer than generally accepted, we defer the revenue until the receipt of cash. Our arrangements with resellers are periodically reviewed as our business and products change.

Software revenue also includes the quarterly minimum purchase commitments from a related party reseller (Note 12).

Network Connectivity Service Revenue. Network Connectivity Services revenue is derived from network connectivity, such as dedicated transport, switched long distance and data services. These services are provided over our network or through third party network connectivity providers. Our network is the backbone of our subscription services portfolio and allows us to provide the all-in-one inContact solution. Revenue for the network connectivity usage is derived based on customer specific rate plans and the customer's call usage and is recognized in the period the call is initiated. Customers are also billed monthly charges in arrears and revenue is recognized for such charges over the billing period. If the billing period spans more than one month, earned but unbilled revenues are recognized as revenue for incurred usage to date.

Recently Issued Accounting Standards

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." The core principle behind ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction prices to the performance obligations in the contract and recognizing revenue when (or as) the entity satisfies the performance obligations. The guidance in the ASU supersedes existing revenue recognition guidance and is effective for annual reporting periods beginning after December 15, 2016 with early application not permitted. The ASU allows two methods of adoption; a full retrospective approach where three years of financial information are presented in accordance with the new standard, and a modified retrospective approach where the ASU is applied to the most current period presented in the financial statements. We are currently evaluating the impact of adopting the new revenue standard on our consolidated financial statements.

NOTE 2. ASSET ACQUISITION

In March 2013, we acquired technology for $1.9 million in cash, which we used to add mobile and social features in our existing applications. In April and June 2013, development earnout measures were achieved resulting in additional payments totaling $800,000. The value of the assets acquired was recorded as in process technology and is included in internal use software. In December 2013, we determined that $545,000 of the acquired technology would not be utilized in the foreseeable future and therefore was disposed.

NOTE 3. BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic earnings per common share is computed by dividing the net income or loss applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing the net income or loss by the sum of the weighted-average number of common shares outstanding plus the weighted average common stock equivalents, which would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding options and restricted stock. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury method. The following table sets forth the calculation of basic and diluted net income per share (in thousands, except per share amounts):

	Three months ended June 30, 2014	Six months ended June 30, 2014
Net income, as reported	$4,462	$3,070
Weighted average shares of common stock outstanding	58,753	57,441
Dilutive effect of employee stock options and restricted stock awards	2,695	2,424
Shares used to compute diluted net income per share	61,448	59,865
Basic net income per share	$0.08	$0.05
Diluted net income per share	$0.07	$0.05

As a result of incurring a net loss for the three and six months ended June 30, 2013, no potentially dilutive securities are included in the calculation of diluted earnings per share because such effect would be anti-dilutive. We had potentially dilutive securities representing approximately 3.9 million shares of common stock at June 30, 2013.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The accounting guidance for fair value measurements defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. The guidance is applicable whenever assets and liabilities are measured and included in the financial statements at fair value. The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The fair value hierarchy prioritizes the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Fair Value of Other Financial Instruments

The carrying amounts reported in the accompanying Condensed Consolidated Balance Sheets for cash and cash equivalents, accounts and other receivables, and trade accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments and are considered to be classified within Level 2 of the fair value hierarchy, except for cash and cash equivalents which is Level 1. The fair values of the promissory notes payable and term loans were computed using a discounted cash flow model using estimated market rates adjusted for our credit risk as of June 30, 2014 and 2013. We consider the input related to our credit risk to be within Level 3 of the fair value hierarchy due to the limited number of our debt holders and our inability to observe current market information. We estimated our current credit risk as of June 30, 2014 and 2013 based on recent transactions with our creditors. The carrying value and estimated fair value of our promissory notes payable and term loans are as follows (in thousands):

	June 30, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Promissory notes	$278	$ 278	$694	$ 694
Term loans	$6,556	$ 6,556	$6,223	$ 6,223

NOTE 5. ACQUISITIONS

Uptivity Acquisition

On May 6, 2014, we acquired 100% of the outstanding shares of CallCopy, Inc., a Delaware corporation doing business as Uptivity ("Uptivity"). Uptivity provides a complete mid-market workforce optimization suite of software products and services to call centers comprised of speech and desktop analytics, agent coaching, call and desktop recording, as well as quality, performance, workforce management and satisfaction surveys. inContact acquired Uptivity for an aggregate purchase price of $49.1 million of primarily cash and stock. The purchase consideration was paid with cash in the amount of $12.1 million, estimated fair market value of vested stock options converted to cash of $1.9 million, 3,821,933 shares of the Company's common stock valued at approximately $32.0 million and $3.1 million likely to be paid in cash based on the final calculation of net closing current assets. An additional 434,311 shares of restricted common stock were issued, but not included in the purchase consideration because the shares are subject to repurchase rights which will lapse as services are provided over a three year period. The acquisition of Uptivity was accounted for under the purchase method of accounting in accordance with ASC 805, Business Combinations. Under the purchase method of accounting, the total purchase price is allocated to the preliminary tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values, as determined by management. The total purchase price was allocated using the information currently available. As a result, we may continue to adjust the preliminary estimated purchase price allocation after obtaining more information regarding asset valuations, liabilities assumed, and revision of preliminary estimates. Total allocation of the estimated purchase consideration is as follows (in thousands):

	May 6, 2014
Assets acquired:	
Cash	$3,894
Accounts receivable	4,133
Other current assets	1,363
Property, plant and equipment and other assets	584
Intangible assets	23,176
Goodwill	31,556
Total assets acquired	64,706
Liabilities assumed:	
Trade accounts payable	1,124
Accrued liabilities	1,934
Current portion of deferred revenue	1,516
Long-term portion of deferred revenue	353
Deferred tax liability	10,689
Total liabilities assumed	15,616
Net assets acquired	$49,090

In connection with the acquisition, we incurred professional fees of $934,000, including transaction costs such as legal and valuation services, which were expensed as incurred. These costs are included within general and administrative expenses in the Condensed Consolidated Statements of Operations. The premium paid over the fair value of the net assets acquired in the purchase, or goodwill, represents future economic benefits expected to arise from synergies from combining operations and assembled workforce acquired. All of the goodwill was assigned to the software segment. The entire amount allocated to goodwill is not expected to be deductible for tax purposes.

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Intangible assets acquired resulting from the acquisition include customer relationships which are amortized on a double declining basis, technologies, which are amortized on a straight-line basis and in-process research and development which has an initial indefinite life and is expected to be amortized once technical feasibility is established. The fair values of the intangible assets were determined primarily using the income approach and the discount rates range from 18.5% to 22.2%. The following sets forth the intangible assets purchased as part of the Uptivity acquisition and their economic useful life at the date of acquisition (in thousands, except useful life):

	Amount	Economic Useful Life (in years)
Customer relationships	$11,280	8
Trade name and trademarks	1,895	5
Technology	7,025	7
In-process research and development	2,976	Indefinite
Total intangible assets	$23,176	

The Company recorded a deferred tax benefit of $10.2 million for the quarter ended June 30, 2014. The tax benefit related to recording a deferred tax liability upon acquisition of Uptivity related to a reduction of carrying value of deferred revenue and acquisition of intangibles for which no tax benefit will be derived. The reduction of carrying value resulted in a partial reversal of the deferred tax asset valuation allowance upon consolidation.

In the quarter ended June 30, 2014, our consolidated financial statements include approximately $2.9 million and $1.8 million of net revenue and net loss, respectively, related to the operations of Uptivity. The following table presents our unaudited pro forma results of operations of the Company and Uptivity as if the companies had been combined as of January 1, 2013, and includes pro forma adjustments related to the fair value of deferred revenue, amortization of acquired intangible assets and share-based compensation expense. Direct and incremental transaction costs are excluded from the period ended June 30, 2014 pro forma condensed combined financial information presented below, and included in the period ended June 30, 2013 pro forma condensed combined financial information presented below. The tax benefit of $10.2 million that resulted from the acquisition is recorded in the period ended June 30, 2013 pro-forma period.

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	As Reported	Pro Forma	As Reported	Pro Forma
Net revenue	$ 41,111	$42,982	$ 78,165	$85,298
Net income (loss)	4,462	(5,117)	3,070	(7,812)

	Three months ended June 30, 2013		Six months ended June 30, 2013	
	As Reported	Pro Forma	As Reported	Pro Forma

Net revenue	$31,083	$34,964	$62,728	$69,628
Net income (loss)	(1,776)	(4,020)	(2,939)	417

The unaudited pro forma information set forth above is for informational purposes only. The pro forma information should not be considered indicative of actual results that would have been achieved had Uptivity been acquired at the beginning of 2013 or of results that may be obtained in any future period.

Transcend Acquisition

In December 2012, we entered into an agreement with Transcend Products LLC ("Transcend") pertaining to the potential acquisition of Transcend to provide enhanced functionality for our existing service offerings. The option to purchase Transcend was exercised and the purchase closed in July 2013 for $2.7 million in cash and 376,459 shares of our common stock valued at $2.9 million, which was discounted from $3.0 million in the purchase agreement for the lack of marketability. Furthermore, if the acquisition generates certain levels of revenue during the two-year period beginning in August 2013, we will pay to Transcend an additional earnout payment of $1.0 million in cash or shares of our common stock. As of the date of acquisition, this contingent liability has been recorded in accrued liabilities at its fair market value of $145,000 and was included as part of the purchase consideration. At June 30, 2014, the fair market value remained unchanged.

The purchase price allocations for our acquisition of Transcend Products were prepared by the Company's management utilizing a valuation report, which was prepared in accordance with the provisions of ASC 805 Business Combination, and other tools available to the Company, including conversations with Transcend's management and projections of revenues and expenses. The fair values of the intangible assets were determined primarily using the income approach and the discount rates range from 13.4% to 16.4%. The total purchase consideration, which includes the contingent consideration liability above, was preliminarily allocated as follows (in thousands):

	July 2, 2013
Property and equipment, net	$29
Intangible assets, net	3,249
Goodwill	2,477
Total assets acquired	$5,755

In connection with the acquisition, we incurred professional fees of $23,000, including transaction costs such as legal and valuation services, which were expensed as incurred. These costs are included within general and administrative expenses in the Condensed Consolidated Statements of Operations.

The premium paid over the fair value of the net assets acquired in the purchase, or goodwill, was primarily attributed to buyer synergies and assembled workforce. All of the goodwill was assigned to the software segment.

Intangible assets acquired resulting from the acquisition include customer relationships, patents and technology, which are amortized on a straight-line basis. The following sets forth the intangible assets purchased as part of the Transcend acquisition and their economic useful life at the date of acquisition (in thousands, except useful life):

	Intangible Assets	Economic Useful Life (in years)
Customer relationships	$ 168	3.5
Patents	2,168	10.0
Technology	913	5.0
Total intangible assets	$ 3,249	

NOTE 6. INTANGIBLE ASSETS

Intangible assets consisted of the following (in thousands):

	June 30, 2014			December 31, 2013		
	Gross Assets	Accumulated Amortization	Intangible Assets, net	Gross Assets	Accumulated Amortization	Intangible Assets, net
Customer lists and relationships	$27,943	$ (16,877)	$ 11,066	$16,663	$ (16,354)	$ 309
Technology and patents	20,337	(10,766)	9,571	13,312	(10,347)	2,965
Trade names and trade marks	3,089	(653)	2,436	1,194	(551)	643
In-process research and development	2,976	—	2,976	—	—	—
Domain name	54	—	54	54	—	54

Total intangible assets	$54,399	$ (28,296)	$ 26,103	$31,223	$ (27,252)	$ 3,971

Amortization expense was $1.0 million and $105,000 during the six months ended June, 2014 and 2013, respectively

Based on the recorded intangibles at June 30, 2014, estimated amortization expense is expected to be $2.3 million during the remainder of 2014, $4.3 million in 2015, $3.7 million in 2016, $3.0 million in 2017, $2.8 million in 2018 and $7.0 million thereafter.

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NOTE 7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	June 30, 2014		December 31, 2013			
Accrued payroll and other compensation	$4,034		$ 3,687			
Excess recovery reserve	798		1,157			
Accrued vendor charges	629		594			
Acquisition related liabilities		$ 0.56		$ 0.56	$	0%
Effective tax rate		30.7%		28.8%	n/a	7%
Gross Auction Proceeds (2),(4)	$	2,707,935	$	2,907,578	$ (199,643)	(7%)
Auction Revenue Rate(2),(5)		12.41%		11.03%	n/a	13%
Direct Expense Rate		1.36%		1.27%	n/a	7%
EBITDA Margin(2),(6)		35.8%		36.6%	n/a	(2%)

(1) to (6) Refer to *Third Quarter Performance* section above for more information by line item. For a reconciliation of net earnings to adjusted net earnings, please see below.

Year-to-Date Overview

Gross Auction Proceeds were $2.7 billion for the nine months ended September 30, 2013, a decrease of 7% compared to the same period of 2012. We believe this decline is primarily attributable to two factors:

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First, prior to 2013, the tenure of our sales force had declined for the previous 24 months due to lag in hiring new and replacement Territory Managers (TMs), which negatively impacted our productivity. Our sales force declined in 2011 with replacement TMs being hired in the second half of 2012, resulting in no change to the average number of TMs in 2011 and 2012. This was coupled with a historically high turnover rate for our TMs in 2012.

As the tenure and experience of our TMs increases, we expect their productivity to also increase as they build relationships with equipment owners. For the twelve months ended September 30, 2013, we have seen our average number of TMs increase and we believe that this factor, when combined with the increasing tenure of our TMs, will have a positive effect on our Gross Auction Proceeds going forward.

Second, the average age of items sold at our auctions has increased. This is due in part to OEM production decreases in the period 2008 to 2010, which has reduced the overall level of trading activity and increased the average age of used equipment in the marketplace. Older, less valuable equipment negatively affects our Gross Auction Proceeds. We believe that the rise in construction and transportation OEM production since 2010 will positively affect the used equipment market and our Gross Auction Proceeds.

EquipmentOne Update

The summary results above and the following discussion includes the results of operations from EquipmentOne. The total value of items sold through our online marketplace in the first nine months of 2013 was $65.6 million, generating $9.7 million of revenue and incurring $13.5 million of operating expenses for a net negative impact to EBITDA of $3.8 million. This compares to a total value of items sold from May 2012, the date we acquired AssetNation, to September 30, 2012 of $37.4 million, generating $5.5 million of revenue and incurring $6.2 million of operating expenses, for a net negative impact to EBITDA of $0.7 million. On a year-to-date basis, EquipmentOne has had the effect of reducing the Company s EBITDA margin by 1%.

Gross Auction Proceeds

As previously discussed, Gross Auction Proceeds were $2.7 billion for the nine months ended September 30, 2013, a decrease of 7% compared to the same period in 2012.

Our at risk business represented approximately 26% of our Gross Auction Proceeds in the first nine months of 2013, compared to 33% in the first nine months of 2012. We believe that this is consistent with our strategic focus on managing the performance of our at risk business in 2013, and with our customers gaining increased confidence in entering straight commission contracts as used equipment prices remain stable.

Auction Revenues and Auction Revenue Rate

Auction revenues for the nine months ended September 30, 2013 increased 5% to $336.2 million, compared to $320.8 million for the same period in the prior year, primarily due to our increased Auction Revenue Rate as compared to the same period in 2012.

Our revenues for the nine months-ended September 30, 2013 increased by $15.4 million year-over-year and our direct expense and SG&A increased $13.6 million year over year, resulting in a 12% Revenue Flow-through Rate. Excluding the effects of EquipmentOne, the Revenue Flow-through would be $5.7 million or 51%. Revenue Flow-through is defined in the *Third Quarter Performance* section above.

Our Auction Revenue Rate for the first nine months September 30, 2013 increased to 12.41% from 11.03% for the same period in 2012. This increase was due primarily to the performance of our at risk business. As discussed previously, our strong Auction Revenue Rate is consistent with our strategic focus on managing the performance of our at risk business in 2013 and it has performed better on average in 2013 than it did in 2012.

Approximately 49% of our auction revenues in the first nine months of 2013 were earned from operations in the United States (first nine months of 2012: 50%), 28% were generated from auctions in Canada (first nine months of 2012: 27%), and the remaining 23% were earned from operations in countries other than the United States and Canada, primarily in Europe, the Middle East, Australia and Mexico (first nine months of 2012: 23%).

Direct Expense Rate

Our direct expense rate for the nine months ended September 30, 2013 increased to 1.36% compared to 1.27% for the same period in 2012. This increase is due to not realizing the same efficiencies at our industrial auctions as compared to the first nine months of 2012 due to the smaller average size of our industrial auctions in 2013. Our average industrial auction was approximately 12% smaller compared to the same period of 2012, which drove the 7% increase in our direct expense rate.

Selling, General & Administrative Expenses (SG&A)

Our SG&A expenses increased to $210.7 million in the nine months ended September 30, 2013, compared to $197.0 million, an increase of $13.7 million or 7%, in the same period of 2012.

	Nine months ended September 30,			
	2013	**2012**	**$ Change**	**% Change**
Employee compensation	$ 114,953	$ 105,797	$ 9,156	9%
Buildings and facilities	30,856	28,848	2,008	7%
Travel, advertising and promotion	15,682	14,053	1,629	12%
Other general and administrative	17,382	17,793	(411)	(2%)
	$ 178,873	$ 166,491	$ 12,382	7%
Depreciation and amortization	31,854	30,500	1,354	4%
Selling, general and administrative expenses	$ 210,727	$ 196,991	$ 13,736	7%

The primary drivers of increased SG&A in the first nine months of 2013 were the incremental costs attributable to EquipmentOne, as our 2012 results reflect only SG&A from the time of acquisition of EquipmentOne s predecessor AssetNation in May 2012, and increased employee compensation costs related to sales and sales support staff and the cost alignment plan initiated in the third quarter of 2013.

With nine months of EquipmentOne operations presented in SG&A in 2013 as compared to less than five months in the same period of 2012, EquipmentOne contributed an incremental $7.3 million in SG&A period-over-period, excluding depreciation and amortization.

Employee compensation costs increased by $9.2 million as compared to the same period in 2012. Excluding incremental employee compensation costs related to EquipmentOne of $4.5 million and severance costs of $2.3 million from the cost alignment plan executed in the third quarter of 2013, employee compensation costs increased $2.4 million year-to-date as compared to the same period in 2012, primarily as a result of our strategic investment in our sales team. The number of Territory and Regional Sales Managers has increased by net 13 since December 30, 2012.

Building and facilities costs increased by $2.0 million for the nine months ended September 30, 2013 over the same period in 2012, due to increased rents and maintenance costs for our auction sites and facilities around the world.

The increase of $1.6 million in travel, advertising and promotion expense was due primarily to travel expenses related to our sales teams, while the $0.4 million decrease in other general and administrative expense is primarily related to non-recurrence of $2.1 million in AssetNation acquisition costs realized in 2012, partially offset by incremental EquipmentOne expenses of $1.2 million.

Our depreciation and amortization increased $1.4 million for the nine months ended September 30, 2013 over the comparative period primarily as a result of the amortization of intangibles related to our acquisition of AssetNation in May 2012.

Overall, foreign exchange rates had a positive impact on SG&A in the amount of $1.4 million for the nine months ended September 30, 2013.

Effective Tax Rate

Our effective tax rate of 30.7% for the nine months ended September 30, 2013 was higher than the rate of 28.8% in the same period in 2012, due to a greater proportion of income being earned in jurisdictions with higher tax rates in 2013, particularly the United States.

Net Earnings

Our net earnings for the nine months ended September 30, 2013 increased by approximately 5% compared to the same period in 2012. As our increased revenues were essentially offset by our SG&A expenses and higher year-to-date tax rate, our earnings growth is primarily due to the impairment of a former auction site recognized in 2012 and the small gain recognized on the sale of excess land in 2013.

Our adjusted net earnings for the nine months ended September 30, 2013 decreased by less than 1% compared to the same period in 2012.

Net earnings reconciled to adjusted net earnings as follows:

	Nine months ended September 30,	
	2013	**2012**
Net earnings	$ 60,500	$ 57,443
After-tax loss (gain) on excess property [1,2]	(417)	2,708
Adjusted Net Earnings	$ 60,083	$ 60,151

(1) During the nine months ended September 30, 2013, we recognized a gain on the sale of excess land in Texas.
(2) During the nine months ended September 30, 2012, we recorded an impairment loss against the Company s former permanent auction site that was held for sale in North Carolina, and completed the sale of our former Olympia, Washington permanent auction site.

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Strategy Update

Our mission is to provide compelling business solutions that enable the world s builders to easily and confidently exchange equipment. We are pursuing the following three strategic pillars, which are designed to help us achieve our mission and our targets.

GROW our core auction business

We believe unreserved public auctions offer significant benefits over other sales channels, including certainty, fairness and transparency. We continue to focus on increasing our market share with our traditional customer groups, while simultaneously seeking to do more business with new customer groups and in new markets.

During the first nine months of 2013, we have continued to focus our attention on our at risk business performance which we believe has resulted in our record high Auction Revenue Rate for the third quarter and year-to-date. Additionally, earlier in the year, we held the grand openings at our new auction sites in Melbourne, Australia, and Beijing, China, and broke ground on a new regional auction site in the U.S., in Manchester, New Hampshire.

During the third quarter of 2013, we held our first ever auction in Finland.

ADD new business and information solutions

We intend to add new business and information solutions that will assist the world s builders to easily and confidently exchange equipment.

In the first half of 2013 we formally launched Ritchie Bros. EquipmentOne. This online equipment marketplace enables us to expand our addressable market and help us meet the diverse and evolving preferences of a segment of the equipment market that we have not traditionally reached with our unreserved auctions. While we believe the opportunity is significant we expect that it will take several years to have a material impact on our overall business results.

Since EquipmentOne s launch earlier this year, we have continued to implement changes to EquipmentOne to improve overall user experience and increase transaction yields.

Additionally, we continue to focus on improvements to our core auction online bidding platform. We achieved $1 billion in online auction sales for 2013 on October 2, 2013, the earliest point in the calendar year in which we have achieved this level.

PERFORM by building an inspired high-performance, customer-focused Ritchie Bros. team

To maintain our high standards of customer service, we employ people who we believe embody our core values, especially the value of putting our customers first. In order to grow our business we believe that we must continue to build a high performance customer focused team, particularly our sales team.

The year-to-date growth in our headcount is largely the result of our ongoing recruiting efforts to expand our sales team, including TMs, Regional Sales Managers (RSMs), and sales support staff. Our headcount statistics are presented below.

	September 30, 2013	**December 31, 2012**
Full-time employees	1,402	1,414
Territory Managers & Regional Sales Managers	320	307

We have made the growth and development of our sales team a strategic focus in 2013, as we believe the previous high turnover in our sales personnel contributed to the stagnation of Gross Auction Proceeds and auction revenues in recent periods.

Since December 31, 2012, we have increased the number of TMs and RSMs by net 13 for a total of 320 in our sales force as at September 30, 2013. This growth in the number of TMs represents approximately a 5% increase over the number of TMs as at December 31, 2012. In addition, we have added 20 people who directly support our TMs and RSMs, and additionally act in a sales capacity, since December 31, 2012.

We believe that our increased number of TMs, in conjunction with appropriate training and placement in appropriate markets, will lead to improved performance from our sales team and an increase in Gross Auction Proceeds and auction revenues in future periods.

Operations Update

During the first nine months of 2013, we conducted 166 unreserved industrial auctions at locations in North America, Central America, Europe, the Middle East, and Australia (2012: 160 unreserved industrial auctions). Although our auctions vary in size, our nine-month average industrial auction results were as follows:

Average per industrial auction	**Nine months ended September 30,**	
	2013	**2012**
Gross Auction Proceeds	$ 14.9 million	$ 17.0 million
Bidder registrations	1,780	1,772
Consignments	189	196
Lots	1,304	1,338

During the first nine months of 2013 and 2012, 89% of our Gross Auction Proceeds were attributable to auctions held at our permanent auction sites and regional auction sites.

Key industrial auction metrics

Our key industrial auction metrics for the first nine months of 2013 and 2012 were:

Key industrial auction metrics	**Nine months ended September 30,**	
	2013	**2012**
Consignments	31,350	29,850
Bidder registrations	295,500	268,500
Buyers	74,300	68,900
Lots	216,500	194,500

For a breakdown of these key industrial auction metrics by month, please refer to our website www.rbauction.com. None of the information in our website is incorporated by reference into this document by this or any other reference.

Online bidding statistics

We sold over $987 million of equipment, trucks and other assets to online bidders through our online auction bidding technology during the nine months ended September 30, 2013, representing a 4% increase compared to over $952 million in the same period in 2012. Online participation at our auctions continues to grow as buyers become more comfortable with our bidding technology and utilize the online tools and services we provide.

Website statistics

The increase in our online presence was also demonstrated by a 15% increase in unique visitors to our website www.rbauction.com during the first nine months of 2013 compared to the same period in 2012.

Total unique rbauction.com visitors	**Nine months ended September 30,**	
	2013	**2012**

Unique visitors	4.7 million	4.1 million

Summary of Quarterly Results (Unaudited)

	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Gross Auction Proceeds(2),(4)	$ 789,640	$ 1,072,942	$ 845,353	$ 1,000,413
Auction revenues	$ 105,800	$ 128,322	$ 102,058	$ 117,140
Net earnings	16,426	30,028	14,046	22,103
Adjusted net earnings(2),(3)	16,009	30,028	14,046	22,399
Net earnings per share, basic	$ 0.15	$ 0.28	$ 0.13	$ 0.21
Net earnings per share, diluted	0.15	0.28	0.13	0.21
Adjusted Net Earnings per share, diluted(2),(3)	0.15	0.28	0.13	0.21

	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Gross Auction Proceeds(2),(4)	$ 848,536	$ 1,194,536	$ 864,506	$ 1,039,790
Auction revenues	$ 92,326	$ 127,213	$ 101,276	$ 113,403
Net earnings	8,171	31,303	17,969	26,767
Adjusted net earnings(2),(3)	9,682	32,500	17,969	26,767
Net earnings per share, basic	$ 0.08	$ 0.29	$ 0.17	$ 0.25
Net earnings per share, diluted	0.08	0.29	0.17	0.25
Adjusted Net Earnings per share, diluted(2),(3)	0.09	0.30	0.17	0.25

(2) to (4) Refer to *Third Quarter Performance* section above for more information by line item.
Gross Auction Proceeds and auction revenues are affected on a period-to-period basis by the timing of major auctions. Also, in newer markets where we are developing our business, the number and size of auctions and, as a result, our Gross Auction Proceeds and auction revenues, are likely to vary more dramatically from period to period compared to our established markets, where the number, size and frequency of our auctions are more consistent.

Because of these seasonal and period-to-period variations, we believe that our Gross Auction Proceeds, auction revenues and net earnings are best compared on an annual basis or a year-over-year basis.

Outstanding Share Data

We are a public company and our common shares are listed under the symbol RBA on the New York and Toronto Stock Exchanges. On November 1, 2013 we had 106,851,200 common shares issued and outstanding and stock options outstanding to purchase a total of 3,980,605 common shares.

Liquidity and Capital Resources

	September 30, 2013	December 31, 2012	% Change
Working capital	$ 85,380	$ 96,053	(11%)

Our cash position can fluctuate significantly from period to period, largely as a result of differences in the timing, size and number of auctions, the timing of the receipt of auction proceeds from buyers, and the timing of the payment of net amounts due to consignors. We believe that working capital, including cash, is a more meaningful measure of our liquidity than cash alone. Our working capital decreased during the first nine months of 2013 primarily as a result of having reclassified approximately $30 million in long-term debt to current borrowings from non-current borrowings, having repaid $15 million in long-term debt, and the repayment of approximately net $20 million of current borrowings.

At September 30, 2013, we had $68 million of short-term debt, which consisted of borrowings under our revolving credit facilities with a weighted-average annual interest rate of 2.2%. The remaining available borrowings under our revolving credit facilities totalled $397 million, including a $104 million three-year uncommitted, non-revolving credit facility expiring in November 2014, and a $131 million five-year committed credit facility expiring in May 2018. We renegotiated terms on two credit facilities in the third quarter of 2013, increasing the combined availability of borrowings related to those facilities from $54 million to $118 million.

We believe our existing working capital and availability under our credit facilities are sufficient to satisfy our present operating requirements, as well as to fund future growth, such as property acquisitions and development and the launch of complementary business solutions.

Cash Flows

	Nine months ended September 30,		
Cash provided by (used in):	**2013**	**2012**	**% Change**
Operating activities	$ 114,319	$ 156,871	(27%)
Investing activities	(37,852)	(100,241)	62%
Financing activities	(52,637)	61,299	(186%)
Effect of changes in foreign currency rates	*(3,957)*	*1,444*	*(374%)*
Net increase in cash and cash equivalents	$ 19,873	$ 119,373	(83%)

The significantly lower increase in cash during the nine months ended September 30, 2013 as compared to the same period of 2012 is due to the timing of auctions, reduced investing activities and the repayment of long-term and short-term debt in 2013.

Our cash provided by operations can fluctuate significantly from period to period, due to factors such as differences in the timing, size and number of auctions during the period, the timing of the receipt of auction proceeds from buyers, and the timing of the payment of net amounts due to consignors.

Cash used in investing activities decreased during the first nine months of 2013 as compared to the same period in 2012, primarily as a result of the $56 million investment in AssetNation we made in 2012. Property, plant and equipment and intangible asset additions were $40.9 million for the first nine months of 2013, a decrease compared to $49.6 million in the same period in 2012. We anticipate our capital expenditures to be in the range of $60 million to $70 million for 2013.

Our capital expenditures for the first nine months of 2013 related primarily to the development of our auction sites in Melbourne, Australia and Beijing, China, maintenance capital expenditures at our existing sites, and our information system enhancements.

Cash used in financing activities decreased primarily as a result of our repayment of $15 million in long-term debt in the period as opposed to our borrowing of $63 million long-term relating to our acquisition of AssetNation and other short-term borrowings made during the same period in 2012.

We have declared, but not yet paid, dividends of $0.1300 per share for the quarter ended September 30, 2013. We declared and paid regular cash dividends of $0.1300 for the quarter ended June 30, 2013. We declared and paid regular cash dividends of $0.1225 for each of the quarters ended December 31, 2012 and March 31, 2013.

Total dividend payments during the first nine months of 2013 were $40.0 million compared to total dividend payments of $37.0 million during the equivalent period in 2012. All dividends we pay are eligible dividends for Canadian income tax purposes unless indicated otherwise.

Long-term Debt and Credit Facilities

Our credit facilities are with financial institutions in the United States, Canada, the Netherlands and the United Kingdom. Certain of the facilities include commitment fees applicable to the unused credit amounts. As at September 30, 2013, we had outstanding fixed rate and floating rate long-term debt bearing annual interest rates ranging from 2.2% to 6.4% (with a weighted-average annual interest rate of 4.5%). As at September 30, 2013, we were in compliance with all financial and other covenants applicable to our credit facilities.

Future scheduled interest payments over the next five years relating to our long term debt outstanding as at September 30, 2013 were as follows:

	Scheduled interest payments					
	3 months in 2013	**In 2014**	**In 2015**	**In 2016**	**In 2017**	**Thereafter**
Interest payments on long-term debt	$ 1,714	$ 6,856	$ 6,856	$ 4,419	$ 3,139	$ 11,094

Quantitative and Qualitative Disclosure about Market Risk

We conduct operations in local currencies in countries around the world, but we use the US dollar as our reporting currency. As a result we are exposed to currency fluctuations and exchange rate risk. We cannot accurately predict the future effects of foreign currency fluctuations on our financial condition or results of operations, or quantify their effects on the macroeconomic environment. The proportion of revenues denominated in currencies other than the U.S. dollar in a given period will differ from the annual proportion depending on the size and location of auctions held during the period. However, on an annual basis, we expect these amounts to largely offset and generally act as a natural hedge against exposure to fluctuations in the value of the U.S. dollar. We have not adopted a long-term hedging strategy to protect against foreign currency fluctuations associated with our operations denominated in currencies other than the U.S. dollar, but we may consider hedging specific transactions if we deem it appropriate in the future. For the nine months ended September 30, 2013, the proportion of revenues earned and operating costs denominated in currencies other than the US dollar did not change significantly compared to previous reporting periods.

We have not experienced significant interest rate exposure historically, as our long-term debt generally bears fixed rates of interest. However, borrowings under our global revolving credit facility are available at both fixed and floating rates of interest. If we determine our exposure to short-term interest rates is too high, we may consider fixing a larger portion of our portfolio. As at September 30, 2013, we had a total of $29.7 million (December 31, 2012: $31.2 million) in revolving loans bearing floating rates of interest.

Although we cannot accurately anticipate the future effect of inflation on our financial condition or results of operations, inflation historically has not had a material impact on our operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, financial performance, liquidity, capital expenditures or capital resources.

Legal and Other Proceedings

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business. Such claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us or on our financial condition or results of operations or that involve a claim for damages, excluding interest and costs that could be material.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates since our Management s Discussion and Analysis of Financial Condition and Results of Operations as at and for the year ended December 31, 2012, which is included in our 2012 Annual Report.

Changes in Accounting Policies

On January 1, 2013, we adopted the following new and revised applicable International Financial Reporting Standards, along with related amendments. These changes were made in accordance with the applicable transitional provisions.

IFRS 10, *Consolidated financial statements*

IFRS 11, *Joint arrangements*

IFRS 12, *Disclosure of interest in other entities*

IFRS 13, *Fair value measurement*

Amendments to IFRS 7, *Financial instruments: disclosures*

Amendments to IAS 1, *Presentation of financial statements*

Amendments to IAS 27, *Separate financial statements*

Amendments to IAS 28, *Investments in associates and joint ventures*

Our adoption of these standards, excluding amendments to IAS 1, did not result in any change to our accounting or disclosure. IAS 1 was amended to revise the presentation of other comprehensive income, requiring entities to group items presented in other comprehensive income based on whether they are potentially re-classifiable to profit or loss subsequently. As a result of adopting this standard, we recognized a presentation change in our Condensed Consolidated Statement of Comprehensive Income. This change did not result in any adjustments to other comprehensive income or comprehensive income.

Other than our adoption of the standards and amendments described above, there have been no significant changes in our accounting policies during the nine months ended September 30, 2013.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. There has been no change in our internal control over financial reporting during the nine months ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Risk Factors

Our business is subject to a number of risks and uncertainties, and our past performance is no guarantee of our performance in future periods. The risks and uncertainties described below are a partial summary of the key risks we face. Holders of our common shares should consider these risks in addition to the more extensive list of risks and uncertainties we face that is included in our Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2012, which is included in our 2012 Annual Report on Form 40-F, and also in our AIF for the year-ended December 31, 2012, which are filed on SEDAR at www.sedar.com or on EDGAR at www.edgar.com.

Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also adversely affect our financial condition or impair our business or results of operations. If any of these risks actually occur, our business, results of operations and financial condition would suffer.

We may have difficulties sustaining and managing our growth.

One of the main elements of our strategy is to continue to grow our core auction business, primarily by increasing our presence in markets in which we already operate and by expanding into new geographic markets and market segments in which we have not had a significant presence in the past. As part of this strategy, we may from time to time acquire additional assets or businesses from third parties. We may not be successful in growing our business or in managing this growth.

For us to grow our business successfully, we need to accomplish a number of objectives, including:

- recruiting and retaining suitable sales and managerial personnel;
- developing and enhancing an appropriate sales strategy;
- identifying and developing new geographic markets and market sectors;
- expanding awareness of our brand, including value proposition and competitive advantages, in existing and new markets;
- successfully executing the realignment of our sales and operations teams;

identifying and acquiring, on terms favourable to us, suitable land on which to build new auction facilities and, potentially, businesses that might be appropriate acquisition targets;

obtaining necessary financing on terms favourable to us, and securing the availability of our credit facilities to fund our growth initiatives;

receiving necessary authorizations and approvals from governments for proposed development or expansion;

integrating successfully new facilities and any acquired businesses into our existing operations;

achieving acceptance of the auction process in general by potential consignors, bidders and buyers;

establishing and maintaining favourable relationships with and meeting the needs of consignors, bidders and buyers in new markets and market sectors, and maintaining these relationships in our existing markets;

capturing relevant market data and utilizing it to generate insight and understanding of key company and industry drivers and market trends;

developing appropriate responses based on data collected to meet the needs of existing and potential customers to achieve customer retention targets;

succeeding against local and regional competitors in existing and new geographic markets;

capitalizing on changes in the supply of and demand for industrial assets, and understanding and responding to changing market dynamics, in our existing and new markets; and

designing and implementing business processes and operating systems that are able to support profitable growth.

We will likely need to hire additional employees to manage our growth. In addition, our growth may increase the geographic scope of our operations and increase demands on both our operating and financial systems. These factors will increase our operating complexity and the level of responsibility of existing and new management personnel. It may be difficult for us to attract and retain qualified sales personnel, managers and employees, and our existing operating and financial systems and controls may not be adequate to support our growth. We may not be able to improve our systems and controls as a result of increased costs, technological challenges, or lack of qualified employees. Our past results and growth may not be indicative of our future prospects or our ability to expand into new markets, many of which may have different competitive conditions and demographic characteristics than our existing markets.

We are pursuing a long-term growth strategy that requires upfront investment, with no guarantee of long-term returns.

In our auction business, we continue to pursue a long-term growth strategy that contemplates investments, including investments in frontier markets that may not generate profitable growth in the near term, adding new business and information solutions, and 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 Gross Auction Proceeds and our earnings may be adversely impacted. A large component of our SG&A expenses is considered fixed costs that we will incur regardless of any Gross Auction Proceeds growth. There can be no assurances that our Gross Auction Proceeds and auction revenues will be maintained or grow at a more rapid rate than our fixed costs. If we proceed with an acquisition we may not be able to appropriately integrate that business into our existing business.

We are investing in an ecommerce marketplace, EquipmentOne, with no guarantee of long-term returns.

In 2012 we acquired an ecommerce marketplace through the acquisition of AssetNation LLC and its subsidiaries. We are utilizing the expertise and technology of AssetNation to develop Ritchie Bros. EquipmentOne, a new marketplace that involves technology and ecommerce. Success in this marketplace is dependent on our ability to attract, retain and engage buyers and sellers of used equipment; the volume of transactions; the volume and price of equipment listed; customer service; and brand recognition. Because this is a new business it may take us longer than expected to realize the anticipated benefits, and those benefits may ultimately be lesser than anticipated or may not be realized at all, which could adversely affect our business and operating results.

Our business could be harmed if we lost the services of one or more key 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. 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.

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.

As a result of the current Chief Executive Officer s (CEO) intention to step down at our next Annual General Meeting, we are actively seeking his successor. In order to ensure an orderly transition and mitigate risks, our Board of Directors has convened a CEO search committee to hire our future CEO and assist in the new CEO s transition.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RITCHIE BROS. AUCTIONEERS INCORPORATED
(Registrant)

Date: November 5, 2013

By: */S/ DARREN WATT*
Darren Watt,

Corporate Secretary