RITCHIE BROS AUCTIONEERS INC
Form 6-K
August 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Form 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2008

Commission File Number: 001-13425
Ritchie Bros. Auctioneers Incorporated
6500 River Road
Richmond, BC, Canada
V6X 4G5
(604) 273 7564
(Address of principal executive offices)

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

Form 20-F o Form 40-F þ

indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ___

indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

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

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

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, 2007, a copy of which has been filed with the U.S. Securities and Exchange Commission. These policies have been applied on a consistent basis.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Consolidated Statements of Operations and Retained Earnings
(Expressed in thousands of United States dollars, except per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Auction revenues	$ 115,822	$ 94,054	$ 197,216	$ 162,603
Direct expenses	16,381	14,640	26,496	22,205
	99,441	79,414	170,720	140,398
Expenses:				
Depreciation and amortization	5,983	4,783	11,587	9,008
General and administrative	40,891	34,333	82,482	65,062
	46,874	39,116	94,069	74,070
Earnings from operations	52,567	40,298	76,651	66,328
Other income (expense):				
Interest expense	(144)	(380)	(514)	(706)
Interest income	1,061	2,191	2,346	3,498
Gain on disposition of capital assets	7,217	93	7,310	156
Other	434	568	677	920
	8,568	2,472	9,819	3,868
Earnings before income taxes	61,135	42,770	86,470	70,196
Income tax expense (recovery):				
Current	16,904	14,520	25,239	23,999
Future	(1,688)	1,695	(1,095)	2,083
	15,216	16,215	24,144	26,082
Net Earnings	$ 45,919	$ 26,555	$ 62,326	$ 44,114
Net earnings per share (in accordance with Canadian and United States GAAP) (note 7 (d)):				
Basic	$ 0.44	$ 0.25	$ 0.60	$ 0.42
Diluted	$ 0.43	$ 0.25	$ 0.59	$ 0.42
Retained earnings, beginning of period	$ 300,092	$ 257,625	$ 292,046	$ 247,349
Net earnings	45,919	26,555	62,326	44,114
Cash dividends paid	(8,377)	(7,297)	(16,738)	(14,580)

Retained earnings, end of period	$ 337,634	$ 276,883	$ 337,634	$ 276,883

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Consolidated Balance Sheets
(Expressed in thousands of United States dollars)

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 243,152	$ 150,315
Accounts receivable	209,441	67,716
Inventory	4,794	6,031
Advances against auction contracts	5,209	658
Prepaid expenses and deposits	12,222	5,766
Other assets	1,046	
Income taxes receivable	1,437	5,921
Future income tax asset	796	778
	478,097	237,185
Capital assets (note 4)	420,202	390,044
Other assets	2,381	2,031
Goodwill	42,281	42,612
Future income tax asset	640	1,015
	$ 943,601	$ 672,887
Liabilities and Shareholders Equity		
Current liabilities:		
Auction proceeds payable	$ 303,670	$ 80,698
Accounts payable and accrued liabilities	85,205	98,039
Short-term debt (note 5)	10,311	
Current portion of long-term debt (note 6)	120	241
	399,306	178,978
Long-term debt (note 6)	44,509	44,844
Other liabilities	60	385
Future income tax liability	12,041	13,564
	455,916	237,771
Shareholders equity:		
Share capital (note 7)	92,674	90,223
Additional paid-in capital	13,411	12,471

Retained earnings	337,634	292,046
Accumulated other comprehensive income	43,966	40,376
	487,685	435,116
	$ 943,601	$ 672,887

Commitments and contingencies (note 8)

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	Accumulated Other Comprehensive Income	Total Shareholders Equity
Balance, December 31, 2007	$ 90,223	$ 12,471	$ 292,046	$ 40,376	$ 435,116
Exercise of stock options	2,083	(288)			1,795
Stock compensation tax adjustment		130			130
Stock compensation expense		563			563
Cash dividends paid			(8,361)		(8,361)
Net earnings			16,407		16,407
Foreign currency translation adjustment				5,362	5,362
Recognition of previously unrealized foreign currency translation gains				(2,153)	(2,153)
Balance, March 31, 2008	92,306	12,876	300,092	43,585	448,859
Exercise of stock options	368	(70)			298
Stock compensation tax adjustment		13			13
Stock compensation expense		592			592
Cash dividends paid			(8,377)		(8,377)
Net earnings			45,919		45,919
Foreign currency translation adjustment				381	381
Balance, June 30, 2008	$ 92,674	$ 13,411	$ 337,634	$ 43,966	$ 487,685

Consolidated Statements of Comprehensive Income
(Expressed in thousands of United States dollars)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net earnings	$ 45,919	$ 26,555	$ 62,326	$ 44,114
Other comprehensive income:				
Foreign currency translation adjustment	381	5,498	5,743	7,447
Recognition of previously unrealized foreign currency translation gains			(2,153)	

Comprehensive income	$ 46,300	$ 32,053	$ 65,916	$ 51,561

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 June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 45,919	$ 26,555	$ 62,326	$ 44,114
Items not involving cash:				
Depreciation and amortization	5,983	4,783	11,587	9,008
Stock compensation expense	592	547	1,155	872
Future income taxes	(1,688)	1,695	(1,095)	2,083
Net gain on disposition of capital assets	(7,217)	(93)	(7,310)	(156)
Changes in non-cash working capital:				
Accounts receivable	(69,018)	36,315	(138,383)	(76,153)
Inventory	13,796	(453)	1,630	(9,611)
Advances against auction contracts	(4,520)	(2,882)	(4,518)	(1,664)
Prepaid expenses and deposits	(328)	3,559	(6,253)	(153)
Income taxes recoverable	(773)	(888)	4,434	2,324
Income taxes payable		(1,350)		398
Auction proceeds payable	54,219	(59,332)	221,187	93,859
Accounts payable and accrued liabilities	(9,558)	(3,642)	(14,198)	8,827
Other	(805)	(1,419)	(3,136)	(991)
	26,602	3,395	127,426	72,757
Investing activities:				
Acquisition of business				(597)
Capital asset additions	(26,068)	(18,738)	(52,710)	(32,302)
Proceeds on disposition of capital assets	19,161	1,025	19,686	3,629
Increase in other assets		(123)		(540)
	(6,907)	(17,836)	(33,024)	(29,810)
Financing activities:				
Issuance of share capital	298	2,504	2,093	2,836
Dividends on common shares	(8,377)	(7,297)	(16,738)	(14,580)
Issuance of short-term debt	33,541	11,146	34,477	21,146
Repayment of short-term debt	(24,362)	(10,000)	(24,362)	(10,000)
Repayment of long-term debt	(71)	(62)	(139)	(120)
Other	13	656	143	692
	1,042	(3,053)	(4,526)	(26)
Effect of changes in foreign currency rates on cash and cash equivalents	1,633	3,886	2,961	4,858

Increase (decrease) in cash and cash equivalents	22,370	(13,608)	92,837	47,779
Cash and cash equivalents, beginning of period	220,782	233,408	150,315	172,021
Cash and cash equivalents, end of period	$ 243,152	$ 219,800	$ 243,152	$ 219,800
Supplemental information:				
Interest paid	$ 460	$ 692	$ 826	$ 1,346
Income taxes paid	$ 16,370	$ 15,949	$ 19,428	$ 19,551

See accompanying notes to consolidated financial statements.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

1. Significant accounting policies:

(a) Basis of presentation:

These unaudited consolidated financial statements present the financial position, results of operations, comprehensive income, 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, except as described in note 2. These consolidated financial statements are not materially different from those that would be presented in accordance with United States GAAP (see note 11). The interim consolidated financial statements should be read in conjunction with the December 31, 2007 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 and other assets, but also include net profits on the sale of inventory, internet and proxy purchase fees, administrative and documentation fees on the sale of certain lots, and auction advertising fees. 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 and other assets 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 typically 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 8).

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 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. Change in accounting policies:

On January 1, 2008, the Company adopted The Canadian Institute of Chartered Accountants Handbook Section 1535, Capital Disclosures, Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation. Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity s objectives, policies and processes for managing capital. Sections 3862 and 3863 replace Section 3861, Financial Instruments Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward its presentation requirements. Disclosure requirements pertaining to sections 1535 and 3862 are contained in notes 9 and 10, respectively. The adoption of section 3863 had no impact on the Company s presentation of financial instruments.

3. 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
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

4. Capital assets:

June 30, 2008	Cost	Accumulated depreciation	Net book value
Buildings	$ 169,434	$ 34,314	$ 135,120
Land and improvements	183,574	11,892	171,682
Land and buildings under development	57,546		57,546
Automotive equipment	18,858	7,008	11,850
Yard equipment	21,926	10,403	11,523
Office equipment	11,888	5,584	6,304
Computer equipment	11,218	5,629	5,589
Computer software	26,351	6,896	19,455
Leasehold improvements	3,278	2,145	1,133
	$ 504,073	$ 83,871	$ 420,202

December 31, 2007	Cost	Accumulated depreciation	Net book value
Buildings	$ 160,795	$ 33,247	$ 127,548
Land and improvements	161,107	9,865	151,242
Land and buildings under development	65,072		65,072
Automotive equipment	17,727	6,591	11,136
Yard equipment	19,270	9,387	9,883
Office equipment	11,549	5,922	5,627
Computer equipment	8,820	5,024	3,796
Computer software	19,549	5,137	14,412
Leasehold improvements	3,111	1,783	1,328
	$ 467,000	$ 76,956	$ 390,044

During the six months ended June 30, 2008, the Company capitalized interest of $1,205,000 (six months ended June 30, 2007 $672,000) to the cost of land and buildings under development.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

5. Short-term debt:

Short-term debt at June 30, 2008 consisted of draws on the Company s revolving credit facilities with a weighted average interest rate of 8.52% per annum. This balance was repaid subsequent to June 30, 2008.

6. Long-term debt:

	June 30, 2008	December 31, 2007
Term loan, unsecured, bearing interest at 5.61%, due in quarterly installments of interest only, with full amount of the principal due in 2011.	$ 29,919	$ 29,904
Term loan, denominated in Canadian dollars, secured by a general security agreement, bearing interest at 4.429%, due in monthly installments of interest only, with the full amount of the principal due in 2010.	14,590	14,940
Term loan, denominated in Australian dollars, secured by deeds of trust on specific property, bearing interest between the prime rate and 6.5%, due in quarterly installments of AUD75, plus interest, with final payments of AUD275 occurring in 2008.	120	241
	44,629	45,085
Current portion	(120)	(241)
Non-current portion	$ 44,509	$ 44,844

- 10 -

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

7. Share capital:

(a) Shares issued:

Common shares issued and outstanding are as follows:

Issued and outstanding, December 31, 2007	104,438,550
Issued for cash, pursuant to stock options exercised	287,620
Issued and outstanding, June 30, 2008	104,726,170

The Company s common shares were subdivided on a three-for-one basis effective April 24, 2008. Shareholders of record at the close of business on April 24, 2008 received two additional common shares for each common share held at that date. The stock split effectively tripled the number of common shares and stock options outstanding on that date. All share, stock option and per share information in these consolidated financial statements have been restated to reflect the stock split on a retroactive basis.

(b) Stock option plan:

Stock option activity for the three months ended June 30, 2008 is as follows:

	Common Shares Under Option	Weighted Average Exercise Price
Outstanding, December 31, 2007	2,474,394	$ 11.24
Granted	454,200	24.33
Cancelled	(4,200)	24.39
Exercised	(287,620)	7.28
Outstanding, June 30, 2008	2,636,774	$ 13.90
Exercisable, June 30, 2008	2,173,874	$ 11.76

The options outstanding at June 30, 2008 expire on dates ranging to February 28, 2018.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

7. Share capital (continued):

(b) Stock option plan (continued):

The following is a summary of stock options outstanding and exercisable at June 30, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 3.89-$4.35	240,000	3.1	$ 4.12	240,000	$ 4.12
$4.44 - $5.18	234,324	4.3	5.11	234,324	5.11
$8.82-$10.80	716,600	6.1	9.90	716,600	9.90
$14.23-$14.70	539,250	7.6	14.67	521,250	14.68
$18.67	461,700	8.7	18.67	461,700	18.67
$24.39	444,900	9.7	24.39		
	2,636,774			2,173,874	

(c) Stock-based compensation:

The Company uses the fair value based method to account for employee stock-based compensation awards. During the six-month period ended June 30, 2008, the Company recognized compensation cost of $1,155,000 (2007 $872,000) in respect of options granted in 2008 and 2007 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:

	2008	2007
Risk free interest rate	2.7%	4.5%
Dividend yield	1.31%	1.50%
Expected lives	5 years	5 years
Volatility	23.0%	21.8%

The weighted average grant date fair value of options granted during the six-month period ended June 30, 2008 was $5.27 per option (2007 $4.43). 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
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

7. **Share capital (continued):**

(d) Net earnings per share:

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

	Three months ended June 30, 2008			Six months ended June 30, 2008		
	Net earnings	Shares	Per share amount	Net earnings	Shares	Per share amount
Basic net earnings per share	$ 45,919	104,714,893	$ 0.44	$ 62,326	104,635,006	$ 0.60
Effect of dilutive securities:						
Stock options		1,057,824	(0.01)		1,095,806	$ (0.01)
Diluted net earnings per share	$ 45,919	105,772,717	$ 0.43	$ 62,326	105,730,812	$ 0.59

	Three months ended June 30, 2007			Six months ended June 30, 2007		
	Net earnings	Shares	Per share amount	Net earnings	Shares	Per share amount
Basic net earnings per share	$ 26,555	104,206,839	$ 0.25	$ 44,114	104,123,157	$ 0.42
Effect of dilutive securities:						
Stock options		1,007,154			909,012	
Diluted net earnings per share	$ 26,555	105,213,993	$ 0.25	$ 44,114	105,032,169	$ 0.42

8. **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 its 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 June 30, 2008, outstanding guarantees under contract for industrial equipment to be sold prior to the end of the third quarter of

2008 totaled $17,291,000 (December 31, 2007 $29,134,000 to be sold prior to the end of the second quarter of 2008). The Company also had guarantees under contract totaling $4,556,000 relating to agricultural auctions to be held prior to the end of the fourth quarter of 2008 (December 31, 2007 - $26,559,000 to be sold prior to the end of the second quarter of 2008). All amounts are undiscounted and do not reflect estimated proceeds from sale at auction. No liability has been recorded with respect to these guarantee contracts.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

9. Capital risk management:

The Company s objectives when managing its capital are to maintain a financial position suitable for supporting the Company s growth strategies, and to provide an adequate return to shareholders. The Company s invested capital is defined as the sum of shareholders equity and long-term debt.

The Company does not have any externally imposed capital requirements, and has not made any changes with respect to its overall capital management strategy during the six months ended June 30, 2008.

10. Financial Instruments:

(a) Fair value

Carrying amounts of certain of the Company s financial instruments, including accounts receivable, income taxes receivable, auction proceeds payable, accounts payable and accrued liabilities, and short-term debt, approximate their fair values due to their short terms to maturity. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of its long-term debt approximates fair value.

(b) Financial risk management

The Company is exposed to a variety of financial risks by virtue of its activities, including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the oversight of the Company s risk management.

Foreign exchange risk

The Company operates internationally and is exposed to currency risk, primarily on the Canadian and U.S. dollars, and the Euro, arising from sales, purchases and loans that are denominated in currencies other than the respective functional currencies of the Company s foreign and domestic operations. The Company also has various investments in non-U.S. dollar self-sustaining operations, whose net assets are exposed to foreign currency translation risk. We have elected not to actively manage this exposure at this time. Refer to further discussion in the section titled Quantitative and Qualitative Disclosure about Market Risk contained in the Company s Management Discussion and Analysis.

As at June 30, 2008, with other variables unchanged, a $0.01 strengthening or weakening of the U.S. dollar against the Canadian dollar and Euro would have no significant impact on the Company s net earnings. However, a $0.01 strengthening (weakening) of the U.S. dollar would have resulted in an approximately $10,000,000 decrease (increase) in other comprehensive income.

RITCHIE BROS. AUCTIONEERS INCORPORATED
Notes to Consolidated Financial Statements
Six months ended June 30, 2008 and 2007
(Tabular dollar amounts expressed in thousands of United States dollars, except share and per share amounts)
(Information as at June 30, 2008 and for the six-month periods ended June 30, 2008 and 2007 is unaudited)

10. Financial Instruments (continued):

(b) Financial risk management (continued):

Interest rate risk

Our interest rate management policy is generally to borrow at fixed rates. In some circumstances, floating rate funding may be used for short-term borrowings. Cash and cash equivalents earn interest based on market interest rates. As at June 30, 2008, the Company is not exposed to significant interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. The Company is not exposed to any significant credit risk because it does not extend credit to buyers at its auctions. In addition, items purchased at the Company s auctions are not normally released to the buyers until they are paid in full. The Company s maximum exposure to credit risk at the reporting date is the carrying value of its receivables, less receivables relating to items that have not been released to the buyers.

The Company s credit risk exposure on liquid financial assets is limited since it maintains its cash and cash equivalents in high-quality financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by maintaining adequate cash and cash equivalent balances, generally by releasing payments to consignors only after receivables from buyers have been collected. The Company also utilizes its established lines of credit for short-term borrowings on an as-needed basis. The Company continuously monitors and reviews both actual and forecast cash flows to ensure there is sufficient working capital to satisfy its operating requirements.

11. 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 six months ended June 30, 2008 and 2007, net earnings in accordance with Canadian GAAP were not significantly different from net earnings had they been presented in accordance with United States GAAP. There were also no significant differences under Canadian GAAP as compared to United States GAAP in the presented balance sheets as at June 30, 2008 and December 31, 2007.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion summarizes significant factors affecting the consolidated operating results and financial condition of Ritchie Bros. Auctioneers Incorporated (Ritchie Bros. , the Company , we or us) for the three- and six-month periods ended June 30, 2008 compared to the three- and six-month periods ended June 30, 2007. This discussion should be read in conjunction with our unaudited interim consolidated financial statements and notes thereto for the period ended June 30, 2008, and with the disclosures below regarding forward-looking statements and risk factors. You should also consider our audited consolidated financial statements and notes thereto and our Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007, which are included in our 2007 Annual Report on Form 40-F.

The date of this discussion is as of August 5, 2008. Additional information relating to our company, including our Annual Information Form, is available by accessing the SEDAR website at www.sedar.com. Our Annual Report on Form 40-F is available on the SEC s EDGAR system at www.sec.gov. None of the information on the SEDAR or EDGAR websites is incorporated by reference into this document by this or any other reference.

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in Canada, or Canadian GAAP. There are no material measurement differences between those financial statements and the financial position and results of operations that would be reported under generally accepted accounting principles in the United States, or U.S. GAAP. Amounts discussed below are based on our consolidated financial statements prepared in accordance with Canadian GAAP and are presented in United States dollars. Unless indicated otherwise, all tabular dollar amounts presented below are expressed in thousands of dollars, except per share amounts.

Ritchie Bros. is the world s largest auctioneer of industrial equipment. Our world headquarters are located in Richmond, British Columbia, Canada, and as of the date of this discussion, we operated from over 110 locations, including 38 auction sites, in 27 countries around the world. We sell, through unreserved public auctions, a broad range of industrial assets, including equipment, trucks and other assets used in the construction, transportation, mining, forestry, petroleum, material handling, marine, real estate and agricultural industries. Our purpose is to use unreserved auctions to create a global marketplace for our customers.

We operate mainly in the auction segment of the global industrial equipment marketplace. Our primary target markets within that marketplace are the used truck and equipment sectors, which are large and fragmented. The world market for used trucks and equipment continues to grow, primarily as a result of the increasing, cumulative supply of used trucks and equipment, which is driven by the ongoing production of new trucks and equipment. Industry analysts estimate that the world-wide value of used equipment transactions, of the type of equipment we sell at our auctions, is approximately $100 billion per year. Although we sell more used equipment than any other company in the world, our share of this fragmented market is in the range of 3%.

In recent periods, approximately 80% of the buyers at our auctions have been end users of equipment (retail buyers), such as contractors, with the remainder being primarily truck and equipment dealers and brokers (wholesale buyers). Consignors to our auctions represent a broad mix of equipment owners, the majority being end users of equipment, with the balance being finance companies, truck and equipment dealers and equipment rental companies, among others. 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 compete directly for potential purchasers of industrial assets with other auction companies. Our indirect competitors include truck and equipment manufacturers, distributors and dealers that sell new or used industrial assets, and equipment rental companies that offer an alternative to purchasing. When sourcing equipment to sell at our auctions, we compete with other auction companies, truck and equipment dealers and brokers, and equipment owners that have traditionally disposed of equipment through private sales.

We have several key strengths that we believe provide distinct competitive advantages and will enable us to grow and make our auctions more appealing to both buyers and sellers of industrial assets. Some of our principal strengths include:

- Our reputation for conducting only unreserved auctions and our widely recognized commitment to honesty and fair dealing.

- Our ability to transcend local market conditions and create a global marketplace for industrial assets by attracting diverse audiences of end-user bidders from around the world to our auctions.

- Our size and financial strength, the international scope of our operations, our extensive network of auction sites, and our marketing skills.

- Our ability to enhance our live auctions with technology using our rbauctionBid-Live internet bidding service.

- Our in-depth experience in the marketplace, including our equipment valuation expertise and proprietary customer and equipment databases.

- Our dedicated and experienced workforce, which allows us to, among other things, enter new geographic markets, structure deals to meet our customers needs and provide high quality and consistent service to consignors and bidders.

Strict adherence to the unreserved auction process is one of our founding principles and, we believe, one of our most significant competitive advantages. When we say unreserved we mean that there are no minimum or reserve prices on anything sold at a Ritchie Bros. auction each item sells to the highest bidder on sale day, regardless of the price. In addition, consignors (or their agents) are not allowed to bid on, buy back or in any way influence the selling price of their own equipment. We maintain this commitment to the unreserved auction process because we believe that an unreserved auction is a fair auction.

We attract a broad base of bidders from around the world to our auctions. Our worldwide marketing efforts help to attract bidders, and they are willing to travel long distances or participate online in part because of our reputation for conducting fair auctions. These multinational bidding audiences provide a global marketplace that allows our auctions to transcend local market conditions, which we believe is a significant competitive advantage. Evidence of this is the fact that in recent periods an average of over 60% of the value of equipment sold at any particular auction has left the region of the sale, which is higher than the proportion that left the region of sale in prior years.

We believe that our ability to consistently draw significant numbers of local and international bidders to our auctions, most of whom are end users rather than resellers, is appealing to sellers of used trucks and equipment 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 achieve substantial momentum in our business. During the six months ended June 30, 2008, we had almost 140,000 bidder registrations at our industrial auctions, compared to over 129,000 in the first half of 2007. We received in excess of 18,000 industrial asset consignments (typically comprised of multiple lots) in the six months ended June 30, 2008, compared to over 17,000 during the same period in 2007.

Growth Strategies

Our long-term mission is to be the world s largest marketplace for commercial and industrial assets. Our principal goals are to grow our earnings per share at a manageable pace while maintaining a reasonable return on invested capital over the long term and to maintain the Ritchie Bros. culture. Our preference is to pursue sustainable growth with a consistently high level of customer service, rather than targeting aggressive growth and risking erosion of the strong customer relationships and high level of customer service that we believe differentiate us from our competitors. To grow our business, we are focusing simultaneously on three different fronts, and we believe these three key components of our strategy work in unison.

1. Our people

   One of our key strategies is to build the team that will help us achieve our goals. This includes recruiting, training and developing the right people, as well as enhancing the productivity of our sales force and our administrative support teams by giving them the tools and training they need to be effective. This component of our strategy also includes active succession planning and leadership development, with a focus on promoting from within our company.

   Our ability to recruit, train and retain capable new members for our sales team has a significant influence on our rate of growth. Ours is a relationship business and our Territory Managers are the main point of contact with our customers. We look for bright, hard-working individuals with positive attitudes, and we are committed to providing our people with a great workplace and opportunities to grow with the company and become future leaders of our global team.

2. Our places

   We intend to continue to expand our presence in existing markets and enter new markets, and to expand our international auction site network to handle expected growth in our business. When we talk about markets, we are referring to geographic markets and industry sectors.

   Although we expect that most of our growth in the near future will come from expanding our business and increasing our penetration in regions where we already have a presence, such as the United States and Western Europe, we anticipate that emerging markets in developing countries will be important in the longer term. Our sales offices in many of these emerging markets have been established to position us to take advantage of these future growth opportunities and we will continue to invest in frontier markets in the future.

   We plan to expand our worldwide network of auction sites, opening an average of two to three new or replacement sites per year. Our shorter-term focus for this expansion is the United States and Western Europe. In addition, we intend to continue to hold offsite auctions in new regions to expand the scope of our operations.

   We also aim to increase our market share in our core markets of construction, transportation and agricultural equipment, and to sell more assets in categories that are complimentary to these core markets. Examples of these complimentary categories include mining, forestry, and petroleum assets.

3. Our processes

   We are committed to developing and continually refining the processes and systems that we use to conduct our business. We believe that this continuous improvement focus will allow us to grow our revenues faster than our operating costs in the future. We also intend to use technology to facilitate our growth and enhance the quality and service level of our auctions.

Over the past few years, we have made significant progress in developing business processes and systems that are efficient, consistent and scalable, including the successful implementation of a new enterprise resource planning (or ERP) system.

We believe that these three components work together because our people help us to achieve our goals, our places give us focus areas for and the capacity to handle growth, and our processes help us to achieve that growth with efficiency and consistency.

Operations

The majority of our industrial auctions are held at our permanent auction sites, where we own the land and facilities, or at regional auction units, where we lease the land and typically have more modest facilities. We also hold off-site auctions at temporary locations, often on land owned by one of the main consignors to the particular auction. Most of our agricultural auctions are off-site auctions that take place on the consignor s farm. During the first six months of 2008, 90% of our total gross auction proceeds was attributable to auctions held at our permanent auction sites and regional auction units (first six months of 2007 85%). Gross auction proceeds represent the total proceeds from all items sold at our auctions (please see Sources of Revenue and Revenue Recognition below).

During the first half of 2008, we conducted 92 unreserved industrial auctions at locations in North America, Europe, the Middle East, South East Asia and Australia (first half of 2007 87). We also held 110 unreserved agricultural auctions during the first half of 2008, primarily in Canada and the United States (first half of 2007 146). Although our auctions have varied in size over the last 12 months, our average industrial auction during the 12-month period ended June 30, 2008 attracted over 1,400 bidder registrations (12 months ended June 30, 2007 1,400) and featured over 1,300 lots (12 months ended June 30, 2007 1,400) consigned by 193 consignors (12 months ended June 30, 2007 188), generating average gross auction proceeds of approximately $17.8 million per auction (12 months ended June 30, 2007 $15.9 million). Our agricultural auctions over the last 12 months averaged approximately $0.9 million in size, compared to $0.7 million over the same period in 2007.

Approximately 57% of our auction revenues in the first half of 2008 was earned from operations in the United States (first half of 2007 59%), 21% was generated from auctions in Canada (first half of 2007 22%) and the remaining 22% was earned from auctions in countries other than the United States and Canada, primarily in Europe, the Middle East, Australia, and Mexico (first half of 2007 19%). We had 1,037 full-time employees at June 30, 2008, including 261 sales representatives and 20 trainee territory managers, compared to 891, 259, and seven, respectively, at June 30, 2007.

We are a public company and our common shares are listed under the symbol RBA on the New York Stock Exchange and the Toronto Stock Exchange. On August 5, 2008, we had 104,726,670 common shares issued and outstanding and stock options outstanding to purchase a total of 2,636,274 common shares. On April 24, 2008, our issued and outstanding common shares were split on a three-for-one basis. All share and per share amounts in this document reflect the stock split on a retroactive basis.

Sources of Revenue and Revenue Recognition

Gross auction proceeds represent the total proceeds from all items sold at our auctions. Our definition of gross auction proceeds may differ from those used by other participants in our industry. Gross auction proceeds is an important measure we use in comparing and assessing our operating performance. It is not a measure of our financial performance, liquidity or revenue and is not presented in our consolidated financial statements. We believe that auction revenues, which is the most directly comparable measure in our Statement of Operations, and certain other line items, are best understood by considering their relationship to gross auction proceeds. Auction revenues represent the revenues we earn in the course of conducting our auctions. The portion of our gross auction proceeds that we do not retain is remitted to our customers who consign the items we sell at our auctions.

Auction revenues are comprised of auction commissions earned from consignors through straight commission and guarantee contracts, net profits or losses on the sale of inventory items, administrative and documentation fees on the sale of certain lots, auction advertising fees, and the fees applicable to purchases made through our internet and proxy bidding systems. All revenue is recognized when the auction sale is complete and we have determined that the auction proceeds are collectible.

Effective January 1, 2008, we have made certain reclassifications in our Statements of Operations that have affected our reported auction revenues. Interest income, which was previously included as part of auction revenues, is now recorded in other income . Auction advertising fees and documentation fees, which were previously recorded as an offset to direct expenses, are now included in auction revenues. These changes were made to improve the presentation in our financial statements. These reclassifications have no impact on our net earnings. Our comparative historical quarterly financial results have been reclassified to conform with the presentation adopted in 2008.

Straight commissions are our most common type of auction revenues and are generated by us when we act as agent for consignors and earn a pre-negotiated, fixed commission rate on the gross sales price of the consigned equipment at auction. In recent periods, straight commission sales have represented approximately 75% of our gross auction proceeds volume on an annual basis.

In some situations we guarantee minimum sales proceeds to the consignor and earn a commission based on the actual results of the auction, typically including a pre-negotiated percentage of any sales proceeds in excess of the guaranteed amount. The consigned equipment is sold on an unreserved basis in the same manner as other consignments. If the actual auction proceeds are less than the guaranteed amount, our commission is reduced, and if the proceeds are sufficiently less, we can incur a loss on the sale. We factor in a higher rate of commission on these sales to compensate for the increased risk we assume.

Our financial exposure from guarantee contracts fluctuates over time, but in recent periods, our portfolios of industrial and agricultural auction guarantees have had an average period of exposure (days remaining until date of auction as at quarter-end) of approximately 35 days and 70 days, respectively. The combined exposure at any time from all outstanding guarantee contracts can fluctuate significantly from period to period, but the quarter-end balances averaged approximately $53 million over the last 12 months. Losses, if any, resulting from guarantee contracts are recorded in the period in which the relevant auction is completed, unless the loss is incurred after the period end but before the financial reporting date, in which case the loss is accrued in the financial statements for the period end. In recent periods, guarantee contracts have represented approximately 15% of gross auction proceeds on an annual basis.

Auction revenues also include the net profit or loss on the sale of inventory in cases where we acquire ownership of equipment for a short time prior to an auction sale. We purchase equipment for specific auctions and sell it at those auctions in the same manner as consigned equipment. During the period that we retain ownership, the cost of the equipment is recorded as inventory on our balance sheet. The net gain or loss on the sale is recorded as auction revenues. In recent periods, sales of inventory have represented approximately 10% of gross auction proceeds on an annual basis. We generally refer to our guarantee and outright purchase business as our underwritten or at-risk business.

The choice by consignors between straight commission, guarantee, or outright purchase arrangements depends on many factors, including the consignor s risk tolerance and sale objectives. In addition, we do not have a target for the relative mix of contracts. 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 revenues and our auction revenue rate (i.e. auction revenues as a percentage of gross auction proceeds) are affected by the mix and performance of contracts entered into with consignors in the particular period and fluctuate from period to period. Our auction revenue rate performance is presented in the table below.

(1) Historical auction revenue rates have been restated to conform with the presentation adopted in 2008. The revised presentation had an insignificant impact on auction revenue rates for the periods 2003 through 2007. On an annual basis, the impact on auction revenue rates was in the range of one to 12 basis points.

In 2003, our expected average annual auction revenue rate was 9.50%, and at the end of 2003 we increased our expected average annual auction revenue rate to the range of 9.50% to 10.00%. At the beginning of 2008, we made changes to certain of our existing fees charged to our customers, including the minimum commission rate applicable to low value lots and the consignor document administration fee. These fees were increased slightly to reflect increased costs of conducting auctions. We believe these changes will result in an increase in our annual auction revenue rate and net earnings. In addition, effective January 2008, we reclassified our interest income to other income and made certain other revenue classifications, as discussed above under Sources of Revenue and Revenue Recognition. As a result of these fee changes and reclassifications, we increased our expected annual average auction revenue rate to be in the range of 9.75% to 10.25%. However, our past experience has shown that our auction revenue rate is difficult to estimate precisely, meaning our actual auction revenue rate in future periods may be above or below our expected range. For the six months ended June 30, 2008, we achieved an auction revenue rate of 10.14%.

The largest contributor to the variability of our auction revenue rate is the performance, rather than the amount, of our underwritten business. In a period when our underwritten business performs better than average, our auction revenue rate typically exceeds the expected average rate. Conversely, if our underwritten business performs below average, our auction revenue rate will typically be below the expected average rate.

Our gross auction proceeds and auction revenues are influenced by the seasonal nature of the auction business, which is determined mainly by the seasonal nature of the construction and natural resources industries. Gross auction proceeds and auction revenues tend to be higher during the second and fourth calendar quarters, during which time we generally conduct more business than in the first and third calendar quarters. This seasonality contributes to quarterly variability in our net earnings because a significant portion of our operating costs is relatively fixed.

Gross auction proceeds and auction revenues are also affected on a period-to-period basis by the timing of major auctions. In newer markets where we are developing operations, the number and size of auctions and, as a result, the level of gross auction proceeds and auction revenues are likely to vary more dramatically from period to period than in our established markets where the number, size and frequency of our auctions are more consistent. In addition, economies of scale are achieved as our operations in a region evolve from conducting intermittent auctions, to establishing a regional auction unit, and ultimately to developing a permanent auction site. Economies of scale are also achieved when our auctions increase in size.

Because of these seasonal and period-to-period variations, we believe that our gross auction proceeds and auction revenues are best compared on an annual basis, rather than on a quarterly basis.

Developments in 2008

Highlights of the first half of 2008 included:

People

On April 25, 2008, our Board of Directors appointed Robert S. Armstrong Chief Operating Officer (formerly Chief Financial Officer and Chief Operating Officer) and Robert A. McLeod Chief Financial Officer (formerly Director, Global Accounting).

Our executive officers as at June 30, 2008 were as follows:

- Peter Blake, Chief Executive Officer;
- Robert Mackay, President (formerly President United States, Asia and Australia);
- Robert Armstrong, Chief Operating Officer;
- Robert McLeod, Chief Financial Officer;
- Robert Whitsit, Senior Vice-President (formerly Senior Vice-President Southeast and Northeast Divisions);
- David Nicholson, Senior Vice-President Central United States, Mexico and South America (formerly Senior Vice-President South Central United States, Mexico and South America Divisions);
- Guylain Turgeon, Senior Vice-President Managing Director Europe and Middle East (formerly Senior Vice-President Managing Director European Operations).
- Steven Simpson, Senior Vice-President Western United States (formerly Vice-President, South West and North West Divisions);
- Curtis Hinkelman, Senior Vice-President Eastern United States (formerly Vice-President, Great Lakes Division);
- Kevin Tink, Senior Vice-President Canada and Agriculture (formerly Vice-President, Western Canada and Agricultural Divisions);
- Victor Pospiech, Senior Vice-President Administration and Human Resources (formerly Vice-President, Administration and Human Resources); and
- Jeremy Black, Corporate Secretary and Director, Business Development (formerly Director, Finance).

Our shareholders elected Christopher Zimmerman to our Board of Directors, and our Board appointed Robert W. Murdoch as Chairman, replacing Charles E. Croft who retired as a director. In addition, C. Russell Cmolik retired from our Board. With the retirement of Mr. Croft, Mr. Murdoch replaced Mr. Croft as a member of the Nominating and Corporate Governance Committee of our Board of Directors. Mr. Zimmerman was also appointed a member of the Compensation Committee of our Board of Directors.

Our Board of Directors increased our total number of directors from six to seven and on April 25, 2008, and they appointed a new independent director, James M. Micali, to our Board. Mr. Micali is currently Chairman and President of Michelin North America, with responsibility for Michelin s operations in North America, and brings a wealth of experience managing major business functions, including strategic planning, sales and marketing, customer service, mergers and acquisitions, finance, legal, information systems, human resources and external relations. Mr. Micali replaced Mr. Edward B. Pitoniak on the Audit Committee of our Board of Directors and is also a member of the Compensation Committee of our Board of Directors. Mr. Pitoniak was appointed chair of the Compensation Committee of our Board of Directors.

Places

We held the largest auction in our history, at our permanent auction site in Orlando, Florida, with gross auction proceeds of $190 million.

We broke regional gross auction proceeds records in Fort Worth, Texas; Las Vegas, Nevada; North East, Maryland; Caorso, Italy; Atlanta, Georgia; Albuquerque, New Mexico and Brisbane, Australia.

We achieved cumulative sales in excess of $2 billion to online bidders since the launch of our rbauctionBid-Live internet bidding service in 2001.

We held our first auction at our new permanent auction site in Kansas City, Missouri.

We held our grand opening auction at our new permanent auction site near Paris, France, which replaced our regional auction unit in that area.

We moved to a new regional auction unit in Moncofa, Spain, which replaced our regional auction unit in Valencia, Spain, and conducted our largest ever auction in Spain at the new location subsequent to June 30, 2008.

We established a new regional auction unit in Las Vegas, Nevada.

We completed the sale of our headquarters property located in Richmond, British Columbia, and entered into a leaseback arrangement with the purchaser. This sale transaction resulted in a pre-tax gain of approximately $8.3 million.

On April 24, 2008, our issued and outstanding common shares split on a three-for-one basis. All share and per share information in this document gives effect to the stock split on a retroactive basis, unless indicated otherwise.

Overall Performance

During the first half of 2008, we recorded auction revenues of $197.2 million and net earnings of $62.3 million, or $0.59 per diluted common share. Net earnings for the period would have been $55.0 million, or $0.52 per diluted share, had after-tax gains of $7.3 million ($8.3 million before tax) on the sale of our headquarters property located in Richmond, British Columbia been excluded. This performance compares to auction revenues of $162.6 million and net earnings of $44.1 million, or $0.42 per diluted share, during the first half of 2007. Excluding the impact of the after-tax gains on the sale of property in 2008, our net earnings grew by approximately 25% compared to the first half of 2007. We have highlighted this gain on the disposal of capital assets because we do not believe that the sale of property is part of our normal operations. Our financial performance in the first half of 2008 was stronger than the equivalent period in 2007 primarily as a result of increased gross auction proceeds and higher auction revenue rate, partially offset by higher operating costs. We ended the first half of 2008 with working capital of $78.8 million, compared to $58.2 million at December 31, 2007.

Results of Operations

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

We conduct operations around the world in a number of different currencies, but our reporting currency is the United States dollar. In the first half of 2008, approximately 40% of our revenues and approximately 60% of our operating costs were denominated in currencies other than the United States dollar. The proportion of revenues denominated in currencies other than the United States dollar in a given period will differ from the annual proportion depending on the size and location of auctions held during the period.

The main currencies other than the United States dollar in which our revenues and operating costs are denominated are the Canadian dollar and the Euro. In recent periods there have been significant fluctuations in the value of the Canadian dollar and Euro relative to the United States dollar. These fluctuations affect our reported auction revenues and operating expenses when non-United States dollar amounts are converted into United States dollars for financial statement reporting purposes. In recent periods, including the first half of 2008, the effect on reported auction revenues and operating expenses in our consolidated financial statements has largely offset, making the impact of the currency fluctuation on our annual net earnings insignificant.

United States Dollar Exchange Rate Comparison

Six months ended June 30,	**2008**	**2007**	**% Change in U.S. $**
Average value of one U.S. dollar:			
Canadian dollar	$1.0070	$1.1349	-11%
Euro	0.6536	0.7523	-13%

Auction Revenues

Six months ended June 30,	**2008**	**2007**	**% Change**
Auction revenues	$ 197,216	$ 162,603	21%
Gross auction proceeds	$1,945,515	$1,645,624	18%
Auction revenue rate	10.14%	9.88%	

Our auction revenues increased in the first half of 2008 compared to the equivalent period in 2007 primarily as a result of higher gross auction proceeds in most of our markets around the world, a higher auction revenue rate and currency fluctuations. Our underwritten business (guarantee and inventory contracts) represented 27% of our total gross auction proceeds in the first six months of 2008 (first half of 2007 23%), which is in a similar range to the proportions experienced in recent periods. Our agricultural division generated gross auction proceeds of $92.3 million during the first half of 2008, compared to $94.1 million in the corresponding period in 2007. We believe that this decrease is an example of the variability of our sales from period to period resulting from the timing and size of individual auctions, and not

necessarily an indication of a trend in this business. Our 2007 auction revenues include the reclassifications discussed above under Sources of Revenue and Revenue Recognition to conform to the presentation adopted in 2008.
Our auction revenue rate for the first half of 2008 was 10.14%, which was within our expected range of 9.75% to 10.25%. The increase compared to our experience in the equivalent period in 2007 related primarily to the performance of our underwritten business, which performed better in 2008 than in 2007, as well as the increase in fees discussed above under Sources of Revenue and Revenue Recognition. We continue to believe our sustainable average auction revenue rate will be in the range of 9.75% to 10.25%, although our experience has shown that our auction revenue rate is difficult to estimate precisely. Our actual auction revenue rate in future periods may be above or below our expected range.
Our auction revenues and our net earnings are influenced to a great extent by small changes in our auction revenue rate. For example, a 10 basis point (0.1%) increase or decrease in our auction revenue rate during the first six months of 2008 would have impacted auction revenues by approximately $2.0 million, of which approximately $1.3 million or $0.01 per common share would have flowed through to net earnings after tax in our statement of operations, assuming no other changes. This factor is important to consider when evaluating our current and past performance, as well as when judging future prospects.
Direct Expenses

Six months ended June 30,	**2008**	**2007**	**% Change**
Direct expenses	$26,496	$22,205	19%
Direct expenses as a percentage of gross auction proceeds	1.36%	1.35%	

Direct expenses are the costs we incur specifically to conduct an auction. Direct expenses include the costs of hiring temporary personnel to work at the auction, advertising directly related to the auction, travel costs for employees to attend and work at the auction, security hired to safeguard equipment at the auction site and rental expenses for temporary auction sites. During the first half of 2008, direct expenses were also affected by fee reclassifications, as discussed above under Sources of Revenue and Revenue Recognition. Our comparative direct expenses have been reclassified to conform with the presentation adopted in 2008. The reclassification did not have a significant impact on our direct expenses. At each quarter end, we estimate the direct expenses incurred with respect to auctions completed near the end of the period. In the subsequent quarter, these accruals are adjusted, to the extent necessary, to reflect actual costs incurred.
Our direct expense rate, which represents direct expenses as a percentage of gross auction proceeds, fluctuates from period to period based in part on the size and location of the auctions we hold during a particular period. The direct expense rate generally decreases as the average size of our auctions increases. In addition, we usually experience lower direct expense rates for auctions held at permanent auction sites compared to auctions held at offsite locations, mainly as a result of the economies of scale and other efficiencies that we typically experience at permanent auction sites. Our direct expense rate for the first half of 2008 was roughly consistent with the rate we achieved in the comparable period in 2007.
Depreciation and Amortization Expense

Six months ended June 30,	**2008**	**2007**	**% Change**
Depreciation and amortization expense	$11,587	$9,008	29%

Depreciation is calculated on either a straight line or a declining balance basis on capital assets employed in our business, including buildings, computer hardware and software, automobiles and yard equipment. Depreciation increased in the first half of 2008 compared to the first half of 2007 as a result of depreciation relating to new assets that we have put into service in recent periods, such as new auction facilities and new

computer hardware and software. We expect our depreciation in future periods to increase in line with our on-going capital expenditures.

General and Administrative Expenses

Six months ended June 30,	2008	2007	% Change
General and administrative expenses	$82,482	$65,062	27%

General and administrative expenses, or G&A, include such expenditures as personnel (salaries, wages, bonuses and benefits), non-auction related travel, information technology, repairs and maintenance, advertising and utilities.

Our infrastructure and workforce have continued to expand to support our growth objectives, and this, combined with other factors such as currency fluctuations and costs associated with our business process improvement projects, has resulted in an increase in our G&A. During the first half of 2008, the ongoing growth in many aspects of our business, including personnel, facilities, and infrastructure, was the main reason for the increase in G&A.

Gross auction proceeds continued to increase during the first half of 2008, and have increased approximately 50% over the last three years. This has necessitated continued investments in our people, places and processes. Our rapid growth has resulted in additions to our workforce, which is one of the key components of our strategy. Our future success is dependent upon building the places required to handle our anticipated future growth, and developing and implementing processes to help gain efficiencies and consistency. Our sales force and administrative support teams are instrumental in carrying out these building and development programs and are necessary to facilitate and accommodate that growth. Personnel costs are the largest component of our G&A, and our workforce increased 17% between June 30, 2007 and June 30, 2008. In addition, in order to support our workforce and expanding network of auction sites, IT infrastructure and communications costs, as well as repairs and maintenance costs, increased in the first half of 2008 compared to the first half of 2007. Our ongoing expansion will continue to influence future levels of G&A.

Currency fluctuations resulted in a net increase in our G&A of approximately $4.5 million from the comparable period in the prior year, mainly as a result of the weakening of the U.S. dollar versus the Canadian dollar and Euro.

Interest Income

Six months ended June 30,	2008	2007	% Change
Interest income	$2,346	$3,498	-33%

Interest income earned can fluctuate from period to period depending on our cash position, which is affected by the timing, size and number of auctions held during the period, as well as the timing of the receipt of auction proceeds from buyers and payments to consignors. Interest income is also affected by changes in interest rates. The decrease in interest income during the first half of 2008 was mostly due to the timing of auctions, as well as a decrease in market interest rates in 2008 as compared to 2007.

Gain on Disposition of Capital Assets

Six months ended June 30,	2008	2007	% Change
Gain on disposition of capital assets	$7,310	$156	N/A

The gain on disposition of capital assets in the first half of 2008 included a $8.3 million gain recorded on the sale of our headquarters property located in Richmond, British Columbia, partially offset by the write off of costs incurred on a property development project that was no longer considered viable.

Income Taxes

Six months ended June 30,	**2008**	**2007**	**% Change**
Income taxes	$24,144	$26,082	-7%
Effective income tax rate	27.9%	37.2%	

Income taxes have been estimated using the tax rates in effect in each of the tax jurisdictions in which we earn our income. The effective tax rate for the six months ended June 30, 2008 was lower than the rate we experienced in the comparable period in 2007 as a result of adjustments recorded in 2008 to reflect our actual cash tax expenses arising from our 2007 income tax filings, and a lower proportion of our earnings being earned in higher tax rate jurisdictions in 2008. In addition, the gain recorded on the sale of the headquarters property was considered a capital gain and subject to a lower tax rate. Income tax rates in future periods will fluctuate depending upon the impact of unusual items and the level of earnings in the different tax jurisdictions in which we earn our income.

Net Earnings

Six months ended June 30,	**2008**	**2007**	**% Change**
Net earnings	$62,326	$44,114	41%
Net earnings per share basic	0.60	0.42	43%
Net earnings per share diluted	0.59	0.42	40%

Excluding the impact of the $8.3 million gain ($7.3 million after tax) recorded on the sale of our headquarters property, our net earnings in the first half of 2008 would have been $55.0 million, or $0.53 and $0.52 per basic and diluted share, respectively. Net earnings in the first half of 2008 were higher compared to the first half of 2007 primarily due to increased gross auction proceeds and a higher auction revenue rate, partially offset by higher operating costs.

Quarter Ended June 30, 2008 Compared to Quarter Ended June 30, 2007

United States Dollar Exchange Rate Comparison

The proportion of revenues and expenses denominated in currencies other than the United States dollars in a given period will differ from the annual proportion depending on the size and location of auctions held during the period, but is usually roughly consistent with the rates we expect to experience on a full year basis.

Three months ended June 30,	**2008**	**2007**	**% Change in U.S. $**
Average value of one U.S. dollar:			
Canadian dollar	$1.0100	$1.0981	-8%
Euro	0.6400	0.7523	-15%