
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT

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

Date of report (Date of earliest event reported): May 31, 2017

Ritchie Bros. Auctioneers Incorporated

(Exact name of registrant as specified in its charter)

Canada
(State or other jurisdiction
of incorporation)

001-13425
(Commission
File Number)

N/A
(I.R.S. Employer
Identification Number)

9500 Glenlyon Parkway, Burnaby, British Columbia, Canada V5J 0C6
(Address of principal executive offices) (Zip Code)

(778) 331-5500
(Registrant's telephone number, including area code)

N/A
(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

EXPLANATORY NOTE

On May 31, 2017, Ritchie Bros. Auctioneers Incorporated (the “Company”) completed its previously announced acquisition of IronPlanet Holdings, Inc. (“IronPlanet”) pursuant to the terms of an Agreement and Plan of Merger, dated as of August 29, 2016 (the “Merger Agreement”), by and among the Company, Topaz Mergersub, Inc. (“Merger Sub”), IronPlanet and Fortis Advisors LLC (as representative of the indemnifying securityholders thereunder). Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into IronPlanet, with IronPlanet continuing as the surviving corporation. As a result of the merger, IronPlanet became a wholly owned subsidiary of the Company. On June 2, 2017, the Company filed a Current Report on Form 8-K with the U.S. Securities and Exchange Commission (the “Initial 8-K”) to report the completion of the transactions contemplated by the Merger Agreement and other related matters. This amendment to the Initial 8-K adds Item 8.01 set forth below, amends Item 9.01 of the Initial 8-K and provides the historical financial information required pursuant to Item 9.01 (a) of Form 8-K and the pro forma financial information required pursuant to Item 9.01(b) of Form 8-K.

Item 8.01 Other Events.

The Company hereby confirms the process for shareholders or other interested parties to communicate with the Company’s Board of Directors:

You can communicate directly with the Company’s independent directors via email at Chairman_of_the_Board@rbauction.com. All relevant correspondence will be forwarded to the Chair of the Company’s Board of Directors in accordance with the Company’s Shareholder Engagement Policy. A copy of the Company’s Shareholder Engagement Policy is available at:

https://www.rbauction.com/cms_assets/pdf/corporate-governance/2016-shareholder-engagement-policy.pdf.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

The audited consolidated financial statements of IronPlanet as of and for the years ended December 31, 2016 and 2015 and accompanying notes are included as Exhibit 99.2 hereto and are incorporated herein by reference.

The unaudited consolidated financial statements of IronPlanet as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 and accompanying notes are included as Exhibit 99.3 hereto and are incorporated herein by reference.

(b) Pro Forma Financial Information

The following Unaudited Pro Forma Combined Condensed Financial Statements required pursuant to Item 9.01(b) of Form 8-K are included as Exhibit 99.4 hereto and are incorporated herein by reference:

- (i) Unaudited Pro Forma Combined Condensed Balance Sheet as of March 31, 2017.
 - (ii) Unaudited Pro Forma Combined Condensed Income Statement for the year ended December 31, 2016 and for the three months ended March 31, 2017.
 - (iii) Notes to the Unaudited Pro Forma Combined Condensed Financial Statements.
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(d) Exhibits.

Exhibit No.	Description
23.1	Consent of KPMG LLP, Independent Auditors
99.1	Press release from the Company, dated May 31, 2017, entitled "Ritchie Bros. Completes Its Acquisition of IronPlanet, Growing Digital Presence and Offering Unprecedented Choice to Customers" (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on June 2, 2017)
99.2	Audited consolidated financial statements of IronPlanet as of and for the years ended December 31, 2016 and 2015 and accompanying notes
99.3	Unaudited consolidated financial statements of IronPlanet as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 and accompanying notes
99.4	Unaudited Pro Forma Combined Consolidated Balance Sheet as of March 31, 2017 and Unaudited Pro Forma Combined Condensed Income Statement for the year ended December 31, 2016 and for the three months ended March 31, 2017 and accompanying notes

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 hereunto duly authorized.

RITCHIE BROS. AUCTIONEERS INCORPORATED

By: /s/ Darren Watt

Darren Watt

General Counsel & Corporate Secretary

Date: August 8, 2017

EXHIBIT INDEX

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Consent of Independent Auditors

We consent to the incorporation by reference in the registration statements (Nos. 333-65533, 333-188350, 333-202636, 333-211112 and 333-213114) on Form S-8 of Ritchie Bros. Auctioneers Incorporated of our report dated March 31, 2017, with respect to the consolidated balance sheets of IronPlanet Holdings, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, convertible preferred stock and stockholders' deficit, cash flows and comprehensive loss for each of the years in the two year period ended December 31, 2016, which report appears in the Form 8-K of Ritchie Bros. Auctioneers Incorporated dated August 8, 2017.

(signed) KPMG LLP

San Francisco, California
August 8, 2017

IRONPLANET HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

IRONPLANET HOLDINGS, INC.

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Independent Auditors' Report

To the Board of Directors and Stockholders of
IronPlanet Holdings, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of IronPlanet Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of operations, comprehensive loss, convertible preferred stock and stockholders' deficit, and cash flows for each of the years in the two-year period ended December 31, 2016, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IronPlanet Holdings, Inc. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Francisco, California
March 31, 2017

IRONPLANET HOLDINGS, INC.
Consolidated Statements of Operations
(In thousands)

	Year Ended December 31,	
	2016	2015
Gross revenue (including related party gross revenue of \$3,771 and \$2,009 for the years ended December 31, 2016 and 2015, respectively)	\$ 130,717	\$ 103,423
Customer equity incentives	(20,878)	(12,752)
Total revenue	<u>109,839</u>	<u>90,671</u>
Cost of revenue	42,760	33,144
Gross profit	<u>67,079</u>	<u>57,527</u>
Operating expenses:		
Sales and marketing	45,180	37,751
Technology	4,599	3,515
General and administrative	31,464	20,219
Amortization of intangible assets	5,683	5,966
Total operating expenses	<u>86,926</u>	<u>67,451</u>
Loss from operations	(19,847)	(9,924)
Interest expense	(2,308)	(5,017)
Other (expense) income, net	(3,052)	71
Loss on extinguishment of debt	—	(4,769)
Net loss before taxes	<u>(25,207)</u>	<u>(19,639)</u>
Income tax provision (benefit)	783	(6,270)
Net loss	<u>\$ (25,990)</u>	<u>\$ (13,369)</u>

IRONPLANET HOLDINGS, INC.
Consolidated Statements of Comprehensive Loss
(In thousands)

	Year Ended December 31,	
	2016	2015
Net loss	\$ (25,990)	\$ (13,369)
Other comprehensive loss:		
Foreign currency translation adjustments, net of tax of \$0	(203)	(1,831)
Interest Rate Swap:		
(Loss) income recognized in accumulated other comprehensive (loss) income	(104)	11
Reclassification of loss to interest expense	118	—
Interest rate swap, net of tax of \$0	14	11
Comprehensive loss	<u>\$ (26,179)</u>	<u>\$ (15,189)</u>

The accompanying notes are an integral part of these consolidated financial statements.

IRONPLANET HOLDINGS, INC.
Consolidated Balance Sheets
(In thousands, except share data)

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Assets		
Current assets:		
Cash	\$ 74,689	\$ 55,232
Accounts receivable, net of allowance for doubtful accounts	6,362	4,537
Accounts receivable – related parties	3	—
Prepaid expenses and other current assets	3,992	5,435
Seller advances	7,395	20,642
Inventory	2,535	4,124
Restricted cash	3,000	3,047
Total current assets	97,976	93,017
Property and equipment, net	6,359	5,350
Goodwill	55,018	55,018
Intangible assets, net	27,597	33,279
Deposits and other assets	756	4,850
Total assets	\$ 187,706	\$ 191,514
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 1,514	\$ 1,398
Accrued liabilities	12,577	13,602
Warrants on convertible preferred stock	5,325	2,172
Customer deposits	3,729	3,527
Marketplace payables	42,737	50,535
Marketplace payables – related parties	639	246
Current portion of long-term debt	3,972	2,573
Total current liabilities	70,493	74,053
Deferred tax liability	888	217
Long-term debt	32,008	35,778
Total liabilities	103,389	110,048
Commitments and contingencies		
Convertible preferred stock, \$0.00001 par value – 86,270,621 shares authorized; 66,908,776 and 65,899,759 shares issued and outstanding at December 31, 2016 and 2015, respectively; aggregate liquidation preference of \$113,536 at December 31, 2016	143,524	138,034
Stockholders' deficit:		
Common stock, \$0.00001 par value – 138,729,379 shares authorized; 18,149,593 and 12,523,677 shares issued and outstanding at December 31, 2016 and 2015, respectively	—	—
Additional paid-in capital	46,916	22,282
Unissued customer equity incentive shares	8,224	9,318
Accumulated other comprehensive loss	(3,576)	(3,387)
Accumulated deficit	(110,771)	(84,781)
Total stockholders' deficit	(59,207)	(56,568)
Total liabilities, convertible preferred stock and stockholders' deficit	\$ 187,706	\$ 191,514

IRONPLANET HOLDINGS, INC.
Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Unissued Customer Equity Incentive Shares	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount					
Balance at December 31, 2014	44,481,466	\$ 72,850	12,066,527	\$ 12	\$ 19,240	\$ —	\$ (1,567)	\$ (71,412)	\$ (53,727)
Recapitalization-change in par value				(12)	12				
Issuance of Series E convertible preferred stock in connection with the Cat Auction Services acquisition	16,206,581	48,619	—	—	—	—	—	—	—
Issuance of Series E convertible preferred stock, net of \$0 of issuance costs	5,215,800	13,152	—	—	—	—	—	—	—
Customer equity incentives related to issuance of Series E convertible preferred stock to Cat dealers	—	3,425	—	—	—	—	—	—	—
Common stock earned by Cat dealers	—	—	—	—	—	9,318	—	—	9,318
Retirement of Series A-1 convertible preferred stock	(4,088)	(12)	—	—	—	—	—	—	—
Exercise of common stock options	—	—	452,456	—	1,030	—	—	—	1,030
Repurchase of common stock	—	—	(105,306)	—	(185)	—	—	—	(185)
Stock-based compensation expense	—	—	—	—	1,944	—	—	—	1,944
Issuance of common stock as part of employee compensation	—	—	110,000	—	241	—	—	—	241
Net loss	—	—	—	—	—	—	—	(13,369)	(13,369)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1,820)	—	(1,820)
Balance at December 31, 2015	65,899,759	\$ 138,034	12,523,677	\$ —	\$ 22,282	\$ 9,318	\$ (3,387)	\$ (84,781)	\$ (56,568)
Issuance of Series E convertible preferred stock for cash net of issuance costs	1,009,017	4,817	—	—	—	—	—	—	—
Series E convertible preferred stock issuance costs	—	(24)	—	—	—	—	—	—	—
Customer equity incentives related to issuance of Series E convertible preferred stock to Cat dealers	—	697	—	—	—	—	—	—	—
Common stock earned by Cat dealers	—	—	5,108,302	—	21,272	(21,272)	—	—	—
Common stock payable to Cat dealers	—	—	—	—	—	20,178	—	—	20,178
Exercise of common stock options	—	—	517,614	—	581	—	—	—	581
Stock-based compensation expense	—	—	—	—	2,781	—	—	—	2,781
Net loss	—	—	—	—	—	—	—	(25,990)	(25,990)
Other comprehensive loss, net of tax	—	—	—	—	—	—	(189)	—	(189)
Balance at December 31, 2016	66,908,776	\$ 143,524	18,149,593	\$ —	\$ 46,916	\$ 8,224	\$ (3,576)	\$ (110,771)	\$ (59,207)

The accompanying notes are an integral part of these consolidated financial statements

IRONPLANET HOLDINGS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Twelve Months Ended December 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (25,990)	\$ (13,369)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,032	7,994
Stock-based compensation	2,781	1,944
Accretion of debt discounts	—	1,355
Amortization of debt issuance costs	358	318
Loss on disposal of property	23	9
Changes in fair value of convertible preferred stock warrant liability	3,153	542
Non-cash loss on early extinguishment of debt	—	672
Customer equity incentives	20,878	12,743
Income from retirement of preferred stock shares in legal settlement	—	(12)
Changes in cost method investment	(63)	336
Release of valuation allowance on deferred tax assets	—	(6,597)
Write-off of initial public offering costs	4,373	—
Changes in operating assets and liabilities		
Accounts receivable	(1,772)	2,928
Accounts receivable – related parties	(3)	11
Prepaid expenses and other current assets	(235)	(1,103)
Seller advances and note receivable	13,244	(19,003)
Inventory	1,588	(2,234)
Restricted cash	51	618
Deposits and other assets	4,256	(302)
Accounts payable	162	(314)
Accrued liabilities	(957)	4,099
Customer deposits	209	122
Marketplace payables	(7,800)	11,233
Marketplace payables – related parties	393	246
Deferred tax	671	238
Net cash provided by operating activities	<u>23,353</u>	<u>2,474</u>
Cash flows from investing activities		
Cash acquired in connection with acquisition of Cat Auction Services	—	7,880
Purchases of property and equipment	(3,417)	(3,095)
Proceeds from sale of property and equipment	17	—
Proceeds from sale of cost method investment	1,169	—
Net cash (used in) provided by investing activities	<u>(2,231)</u>	<u>4,785</u>
Cash flows from financing activities		
Proceeds from term loan	—	40,195
Proceeds from issuance of common stock upon exercise of stock options	581	1,030
Proceeds from issuance of convertible preferred stock, net of issuance costs	4,793	18,636
Payment of debt	(2,729)	(38,645)
Repurchase of common stock	—	(185)
Debt issuance costs paid	—	(1,486)
Payments of initial public offering costs	(4,116)	(257)
Net cash (used in) provided by financing activities	<u>(1,471)</u>	<u>19,288</u>
Effect of exchange rate changes on cash	(194)	(1,504)
Net increase in cash	19,457	25,043
Cash, beginning of period	55,232	30,189
Cash, end of period	<u>\$ 74,689</u>	<u>\$ 55,232</u>

IRONPLANET HOLDINGS, INC.
Consolidated Statements of Cash Flows (continued)
(In thousands)

	Twelve Months Ended December 31,	
	2016	2015
Supplemental disclosure of cash flow information		
Cash paid for taxes	\$ 67	\$ 112
Interest paid	\$ 1,950	\$ 3,344
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property, plant and equipment in accounts payable and accrued liabilities	\$ 4	\$ 20
Issuance of convertible preferred stock as part of business combination	\$ —	\$ 48,619
Issuance of common stock as part of employee compensation	\$ —	\$ 241
Issuance of common stock earned by Cat and certain Caterpillar dealers	\$ 21,272	\$ —

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

IronPlanet Holdings, Inc. succeeds IronPlanet, Inc. as the parent reporting company. IronPlanet, Inc. was incorporated in Delaware in January 1999. In April 2015, the stockholders of IronPlanet, Inc. became stockholders of IronPlanet Holdings, Inc. in a reorganization (“the Reorganization”). All references to “the Company” herein refer to IronPlanet, Inc. and its subsidiaries prior to the Reorganization and to IronPlanet Holdings, Inc. and its subsidiaries on or after the date of the Reorganization.

The Company’s principal business is the operation of a marketplace for the selling and buying of used equipment and other durable assets through its brands using online and other marketplace formats. The Company provides related services including physical inspection and valuation services. The Company has a broad global customer base, operating through its subsidiaries in the United States, Canada, and Ireland. The Company’s brands market to sellers and buyers of assets used in industries including construction, transportation, oil and gas, government dispositions, mining, agriculture, materials handling, and forestry.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been presented in all material respects in accordance with generally accepted accounting principles in the United States (“GAAP”).

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation. These reclassifications have no impact on previously reported net income (loss), cash flows, or stockholders’ deficit.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These differences could have a material effect on the Company’s future results of operations and financial position. Significant items subject to estimates and assumptions include revenue and seller guarantees; the allowances for doubtful accounts and collapsed sales, the valuation of customer equity incentives; purchase price allocations; the carrying amounts of goodwill, long-lived assets, including definite-lived intangible assets; useful lives for depreciation and amortization; the valuation of stock options and convertible preferred stock warrants; deferred income taxes; and reserves for tax uncertainties and other contingencies.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency

The functional currency of the Company's subsidiaries outside of the United States is generally the local currency of the country where the subsidiary is located. The financial statements of the Company's international operations are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities, the historical exchange rate for stockholders' deficit, and an average exchange rate for each period for revenue, expenses, and gains and losses. Foreign currency translation adjustments are recorded in other comprehensive loss, which is a component of total stockholders' deficit.

Foreign currency transactions are transactions denominated in a currency other than the entity's functional currency. Gains or losses arising from the remeasurement of these transactions are recorded within general and administrative expenses in the Company's Consolidated Statements of Operations.

The following table summarizes the foreign exchange loss that the Company recorded for the years ended December 31, 2016 and 2015 (in thousands):

	Year Ended December 31,	
	2016	2015
Foreign exchange loss	\$ 342	\$ 23

Business Combinations

The results of businesses acquired in business combinations are included in the Company's consolidated financial statements from the date of acquisition. The Company allocates the purchase price, which is the total consideration provided in a business combination, to the identifiable assets and liabilities of the acquired business at their acquisition date fair values. The excess of the purchase price over the amount allocated to the identifiable assets and liabilities, if any, is recorded as goodwill.

The Company uses estimates and assumptions to value assets acquired and liabilities assumed at the acquisition date, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, adjustments to the assets acquired and liabilities assumed are recorded with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Consolidated Statements of Operations.

Acquisition-related transaction costs incurred by the Company are accounted for as an expense in the period in which the costs are incurred.

Revenue Recognition and Auction Guarantees

The Company typically sells equipment or other assets on consignment from sellers and stimulates buyer interest through sales and marketing techniques in order to match sellers to buyers in its marketplace. Prior to offering an item for sale, the Company performs required inspections, title and lien searches, and make-ready activities to prepare the item for sale in the marketplace.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marketplace revenue is primarily driven by seller commissions, fees charged to sellers for listing and inspecting equipment, and buyer transaction fees. The Company also generates revenue from related marketplace services including make-ready activities, logistics coordination, storage, private auction hosting, and asset appraisals. Revenue from related services is recognized when the service to be rendered has been completed. Revenue from seller commissions and fees for the sale of an item is recognized when the sale is complete, which is generally at the conclusion of the marketplace transaction between the seller and buyer. This occurs when a buyer has become legally obligated to pay the purchase price and buyer transaction fee for an asset for which the seller is obligated to relinquish the item for the sales price less seller commissions and listing fees. At this time, the Company has substantially performed what it must do to be entitled to the benefits represented by its commissions and fees. Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and the buyer transaction fee; collects payment from the buyer; and remits the proceeds, net of the seller commissions, listing fees, and taxes, to the seller. The Company notifies the seller when the buyer payment has been received in order to clear release of the equipment or other asset to the seller. These remaining service obligations are not viewed to be an essential part of the services provided by the Company. Sales taxes collected from buyers and remitted to governmental authorities are excluded from revenue in the Consolidated Statement of Operations.

Under the Company's standard terms and conditions, it is not obligated to pay the seller for items in a marketplace sale in which the buyer has not paid for the purchased item. If the buyer defaults on its payment obligation, also referred to as a "collapsed sale," the equipment or other assets may be returned to the seller or moved into a subsequent marketplace event. Revenue is recorded, net of a provision for collapsed sales, which is an estimate of sales that are expected to default based on the Company's historical experience.

Revenue is reduced by a provision for disputes, which is an estimate of disputed items that are expected to be settled at a cost to the Company. Some disputes relate to settlements of discrepancies under the Company's IronClad Assurance program. The IronClad Assurance equipment condition certification refers to a written inspection report which is provided to potential buyers that reflects the condition of a specific piece of equipment offered for sale, and includes ratings, comments, and photographs of the particular piece of equipment following inspection by one of the Company's equipment inspectors. The IronClad Assurance equipment condition certification provides that a buyer may file a written dispute claim during an eligible dispute period for consideration and resolution at the sole determination of the Company if the purchased equipment is not substantially in the condition represented in the inspection report. Typically disputes under *IronClad Assurance*® are settled with minor repairs or additional services, such as washing or detailing the item; the estimated costs of such items or services are included in the disputes allowance. The disputes allowance also covers the costs of any other disputes or accommodations made with the Company's buyers or sellers.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the changes in the disputes allowance (in thousands):

	Year Ended December 31,	
	2016	2015
Balance, beginning of period	\$ 126	\$ 70
Add: provision for disputes allowance	1,148	1,519
Less: dispute settlements	(1,150)	(1,463)
Balance, end of period	<u>\$ 124</u>	<u>\$ 126</u>

In certain situations, the Company offers to guarantee minimum sales proceeds to sellers on selected consignments of equipment (“guarantee contracts”). In these arrangements, the Company is obligated to pay the agreed-upon minimum amount if the consigned equipment sells for less than the minimum price. If actual proceeds are less than the guaranteed amount, the commission earned is reduced; if proceeds are sufficiently lower, the Company may incur a loss on the sale. If such consigned equipment sells above the minimum price, the Company may be entitled to a share of the excess proceeds as negotiated with the seller. The Company’s share of the excess, if any, is recorded in revenue together with the commission for guaranteed sales. Losses, if any, resulting from guarantee contracts are recorded within revenue in the period in which the relevant marketplace event was completed. However, if a loss relating to items under a guarantee contract in effect at a period end that will be sold after the period end, is known or is probable and estimable at the financial statement reporting date, such loss is accrued in the financial statements for that period. Where a loss is neither probable nor able to be reasonably estimated, the Company recognizes a liability based on the estimated stand-alone fair value of the guarantee. The liability for guarantee contracts is included in accrued liabilities within the Consolidated Balance Sheets.

Revenue also includes the fees earned, net of acquisition costs, from the sale of inventory. The Company may obtain inventory from time to time due to collapsed sales or other seller or buyer accommodations. For inventory sale contracts, the Company acquires title to assets to sell in an upcoming marketplace event. Such acquisition of equipment in advance of an auction is an ancillary component of the Company’s auction business. As the auction business is a net business, gross auction sales are not reported as revenue in the Consolidated Statements of Operations; rather, the net commission earned from sales is reported as revenue, which reflects the Company’s agency relationship between buyers and sellers of equipment. In general, the risks and rewards of ownership are not substantially different than the Company’s other guarantee contracts.

The Company’s customer equity incentives are considered to be sales incentives and are reported at their fair value as a reduction of revenue at the time that the customer has earned the incentive. The fair value is based on the fair value of the underlying equity security. See Note 3—“Business Combinations.”

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cost of Revenue

Cost of revenue includes the cost of performing inspections of equipment to be sold in the Company's marketplace as well as the cost of other support services, travel, and office and occupancy costs. Inspections are generally performed at the seller's physical location. The cost of inspections include payroll costs and related benefits for the Company's employees that perform and manage field inspection services; the related inspection report preparation and quality assurance; fees paid to contractors who perform field inspections; related travel and incidental costs for the Company's inspection service organization; and office and occupancy costs for its inspection services personnel. Cost of revenue also includes costs for the Company's customer support, marketplace operations, logistics, make-ready costs to prepare the item for sale and title and lien investigation functions. Significant components of these costs include employee compensation, facilities costs, including event-based auction lease costs, allocated depreciation and amortization, and lease and operations costs related to the Company's third-party data centers at which its websites are hosted.

Advertising Costs

Advertising costs are expensed as incurred and are included in sales and marketing expenses. Advertising costs were \$3.3 million for each of the years ended December 31, 2016 and 2015.

Stock-Based Compensation

Stock-based compensation expense is recognized based upon the estimated grant date fair value of the awards measured using the Black-Scholes option-pricing model. Fair value is generally recognized as an expense on a straight-line basis, net of estimated forfeitures, over the employee requisite service period. The Black-Scholes option-pricing model requires the input of highly subjective and complex assumptions, including the fair value of the underlying common stock, expected volatility in the price of the common stock, risk-free interest rates, expected term of the option, expected forfeiture rates, and expected dividend yield of the Company's common stock. These estimates involve inherent uncertainties and the application of management's judgment.

The Company uses the "with and without" approach in determining the order in which tax attributes are utilized. As a result, the Company only recognizes the tax deduction from stock-based awards in additional paid-in capital if tax is reduced on returns after all other tax attributes available to the Company to reduce tax have been utilized.

Restricted Cash

Restricted cash balances of \$3.0 million as of December 31, 2016 and 2015, were held in accounts owned by the Company in support of short-term stand-by letters of credit to provide seller security, leased office space, and credit card availability. From time to time, restricted cash can include auction proceeds owed to sellers in certain jurisdictions where such funds are required by law or contract to be maintained in segregated bank accounts. Included in restricted cash as of December 31, 2016 and 2015 was \$0 and \$7,000, respectively, held in such segregated accounts.

Accounts Receivable

Accounts receivable primarily consist of amounts owed by buyers for equipment sold in the Company's marketplace, seller listing fees, buyer transaction fees, and other service fees. Accounts receivable payment terms vary. Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts and collapsed sales.

The Company determines its allowance for doubtful accounts based on known troubled accounts, the aging of the accounts, and historical experiences of losses incurred. Changes to the allowance for doubtful accounts are recorded in general and administrative expenses, and uncollectible account write-offs are charged against the allowance for doubtful accounts.

IRONPLANET HOLDINGS, INC.

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The following table presents the changes in the allowance for doubtful accounts (in thousands):

	Year Ended December 31,	
	2016	2015
Balance, beginning of period	\$ 353	\$ 186
Add: provision for doubtful accounts	0	471
Less: write-offs, net of recoveries and other adjustments	(297)	(304)
Balance, end of period	<u>\$ 56</u>	<u>\$ 353</u>

Inventory

Inventory consists of equipment and other assets purchased for resale in an upcoming Company marketplace event. Inventory is valued at the lower of cost or management's estimate of net realizable value (i.e., the expected sale price upon disposition less the costs of disposal and transportation). The significant elements of cost include the acquisition price of the inventory and make-ready costs to prepare the inventory for sale in the marketplace. The specific identification method is used to determine amounts removed from inventory. Write-downs to the carrying value of inventory are recorded in revenue in the Consolidated Statements of Operations.

Property and Equipment, Including Capitalized Software Development Costs

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Repairs and maintenance costs are expensed as incurred. Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

	<u>Useful Lives</u>
Computer equipment and software	3 years
Website application and infrastructure	3 years
Furniture and fixtures	3 years
Vehicles	3 years

Leasehold improvements are amortized over the shorter of the lease term or useful life, which typically range from three to five years.

The Company capitalizes and includes in property and equipment the direct costs related to the development of the Company's technology platform when the original code is enhanced to provide new functionality or features. The Company begins amortizing capitalized software development costs when the software is substantially complete and ready for its intended use. For the years ended December 31, 2016 and 2015, the Company capitalized \$1.9 million and \$1.5 million, respectively, primarily related to payroll and payroll-related costs and outside services. Such costs are amortized over the estimated useful life of the asset. All other development costs are expensed as incurred and are included in technology expenses.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Goodwill, Intangible Assets and Long-Lived Assets

Goodwill

Goodwill arises from business combinations and is measured as the excess of the purchase consideration over the sum of the acquisition-date fair values of tangible and identifiable intangible assets acquired, less any liabilities assumed. Goodwill is not amortized.

Tests for impairment of goodwill are performed on an annual basis in the fourth quarter or when events or circumstances indicate that the carrying amount may not be recoverable. Circumstances that could trigger an impairment test outside of the annual test include but are not limited to: a significant adverse change in the business climate or legal factors, adverse cash flow trends, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel, decline in stock price, and the results of tests for recoverability of a significant asset group.

The Company has a single reporting unit. The Company completes a qualitative analysis, including an evaluation of macroeconomic conditions, industry and market considerations, cost factors, and overall financial performance related to its goodwill. If the Company's qualitative analysis indicates that it is more likely than not that the fair value of the reporting unit asset is less than its carrying amount, then the Company would perform a quantitative two-step impairment test. The quantitative impairment test compares the fair value of the Company's reporting unit to its carrying amount, and an impairment loss is recognized equivalent to the excess of the carrying amount over fair value.

The determination of whether or not goodwill has become impaired involves a significant level of judgment by management. Changes in the Company's strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of goodwill.

No impairment of goodwill was identified for the years ended December 31, 2016 and 2015.

Definite-Lived Intangible Assets and Long-Lived Assets

Identifiable intangible assets consist of trade names, customer relationships, existing technology, and contractual non-competition agreements associated with acquired businesses. Intangible assets with finite lives are amortized over their estimated useful lives on a straight-line basis. The straight-line method of amortization represents the Company's best estimate of the distribution of the economic value of the identifiable intangible assets, which typically range from three to eight years. Intangible assets are carried at cost less accumulated amortization. Amortization of intangibles is included in operating expenses.

Long-lived assets, such as property and equipment and definite-lived intangible assets with estimable lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset or asset group plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset or asset group. An impairment loss reduces the carrying amount of the related asset to its estimated fair value in the period in which the determination is made. No impairment of long-lived assets or definite-lived intangible assets was identified for the years ended December 31, 2016 and 2015.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt Issuance Costs and Debt Discounts

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense using the effective interest method. Debt discounts related to warrants and end of term payments are also amortized as interest expense over the term of the related debt using the effective interest method. The carrying value of debt is presented net of unamortized debt issuance costs and discounts.

Interest Rate Swap

The interest rate swap agreement utilized by the Company effectively modifies a portion of the Company's exposure to interest rate risk by converting the Company's floating-rate debt exposure to a fixed-rate, thus reducing the impact of interest-rate changes on future interest expense and cash flows. The Company has designated its swap as a hedge of its benchmark LIBOR-based interest rate. The Company has documented the hedge designation by identifying the hedging instrument, the nature of the risk being hedged and the approach for measuring hedge effectiveness. The effective portion of this hedge is recorded as a component of other comprehensive income (loss) and will be recognized in income in the period in which the underlying transaction impacts the Consolidated Statements of Operations. The ineffective portions of this hedge, if any, are recognized in current earnings.

The Company assesses both at inception and on an ongoing basis whether the interest rate swap is effective in offsetting the changes in cash flows of the hedged item. The Company also assesses hedge ineffectiveness at least quarterly and records the gain or loss related to the ineffective portion to current earnings, while the effective portion is recorded in other comprehensive income (loss). If the Company determines that the forecasted transaction is no longer probable of occurring (i.e., unlikely to have floating rate debt outstanding), it would discontinue hedge accounting for the affected portion of the hedge instrument, and any related unrealized gain or loss on the contract would be recognized in current earnings of that period.

The Company recognizes the interest rate swap at its fair value, which is included in deposits and other assets or accrued liabilities on the Company's Consolidated Balance Sheets.

The Company is exposed to counterparty credit risk on its derivative instruments. The Company has established and maintains strict counterparty credit guidelines and enters into hedges only with the financial institutions that are investment grade or better to minimize the Company's exposure to potential defaults. The Company has also entered into master netting agreements to minimize its credit exposures with counterparties.

Marketplace Payables

Marketplace payables consist of funds received from buyers, net of seller commissions, listing fees, or other amounts due to the Company, which are recorded as payables to the sellers or related lien holders upon closing of a marketplace sale.

Income Taxes

The Company accounts for income taxes under the asset-and-liability method, which requires the recognition of current taxes payable or refundable and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's financial statements. The measurement of current taxes payable or refundable and deferred tax assets and liabilities is based on provisions of enacted tax law. The effects of future changes in tax laws or rates are not anticipated.

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The Company evaluates its ability to realize the benefit of its deferred tax assets in each jurisdiction at the required more likely than not level of certainty based on the existence of sufficient income of the appropriate character. In determining the need for a valuation allowance, the Company weighs all available positive and negative evidence, both objective and subjective in nature, including prior earnings history, expected future earnings, carryback and carryforward periods, and the feasibility of tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. Evaluating the need for an amount of valuation allowance requires significant judgment, and adjustments made to the valuation allowance could significantly impact the Company's tax provision or benefit. The reported tax positions are based upon their technical merits, relevant tax law, and the specific facts and circumstances as of each reporting period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax positions.

A tax position is only recognized in the financial statements if it is more likely than not to be sustained based solely on its technical merits as of the reporting date. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments that will result in recognition of additional tax benefits or additional charges to the tax provision and may not accurately reflect actual outcomes. The Company's policy is to recognize interest and penalties relating to uncertain tax positions related to unrecognized tax benefits as a component of income tax expense.

Convertible Preferred Stock and Warrants

The holders of the outstanding shares of convertible preferred stock do not have stated redemption rights; however, the rights and preferences of the convertible preferred stock provide for a deemed liquidation of the shares in the event of a sale of all or substantially all of the Company's assets, the merger or consolidation of the Company, or upon the sale of more than 50% of the voting power of the Company. The holders of the Series A, B, C, D, and E convertible preferred stock control a majority of the voting power of the Company's capital stock and have the right to designate a majority of the members of the Board of Directors of the Company. As a result, the holders of these preferred shares could force a change in control that would trigger the liquidation of all series of convertible preferred stock. Such deemed liquidation could occur outside of the control of the Company's common stockholders, and accordingly, all shares of convertible preferred stock have been presented outside of permanent equity in the accompanying Consolidated Balance Sheets for all periods presented.

In addition, freestanding warrants related to shares that are presented outside of permanent equity are classified as a liability in the accompanying Consolidated Balance Sheets. The convertible preferred stock warrants are subject to re-measurement at each balance sheet date, and any change in fair value is recognized as a component of other income, net in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. There is a three-tier fair value hierarchy, which prioritizes the inputs to valuation methodologies used to measure fair value.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 inputs, such as quoted prices for similar assets and liabilities in markets that are not active or other inputs that are observable or could be corroborated by observable market data.

Level 3: Unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

The carrying value of cash, restricted cash, accounts receivable, amounts receivable from stockholders, seller advances, marketplace payables, accounts payable, and other accruals readily settled in cash approximate fair value because of the short-term nature of the instruments. The carrying value of the Company's variable interest rate debt, excluding unamortized debt issuance costs, approximates fair value. The carrying value of the Company's interest rate swap is its fair value. The fair value of the swap is determined using Level 2 inputs and based on a valuation by a third-party firm.

Customer equity incentives payable for equity incentives earned but not yet fixed as well as the liability related to warrants for the purchase of convertible preferred stock are carried at fair value. In addition, the Company estimated the fair value of the Series E convertible preferred stock issued as consideration for its acquisition of Associated Auction Services, LLC in April 2015 and as part of the Series E convertible preferred stock purchase program following the closing of the acquisition (see Note 3—"Business Combination").

The valuation analysis of these items estimated the enterprise value of the Company using the income approach, based on discounted cash flows, as of the valuation date, and the market approach, using the market multiple approach. The analysis considered the Company's historical and prospective financial results as well as then current trends in the capital markets. Key assumptions for the income approach included revenue growth rates and general economic conditions. The discount rate used in the valuation reflected the risks associated with achieving the projected financial results. The market approach included market inputs using comparable companies from a representative peer group selected based on industry and market capitalization data. For the valuation as of June 30, 2016, the market approach included the terms of the letter of intent with Ritchie Bros. Auctioneers Incorporated ("RBA"); for the valuation as of December 31, 2016, the market approach is based on the terms of the merger agreement with RBA (see Note 25—"Merger with Ritchie Bros. Auctioneers Incorporated").

The values derived by the methodologies above are then analyzed using a probability-weighted expected return method, which estimates equity value based upon an analysis of various future outcomes, such as an initial public offering ("IPO"), merger or sale, and staying private. The enterprise value of the Company is then allocated to the different classes of securities.

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The allocated value is based upon the probability-weighted present values of expected future investment returns, considering each of the possible outcomes available to the Company, as well as the rights of each security class. The value of each series of warrants is based on the preferred warrant holder maximizing their economic value in each scenario based on their specific rights and preferences by either maintaining their liquidation preference or converting to common stock. The analysis then assumes a cashless exercise and estimates the net value for the warrant holder at the future date. This value is then adjusted to the present value using the same discount rate used in the income approach.

Significant Level 3 inputs include the probabilities associated with the future outcomes, the periods of time a liquidity event will be achieved, revenue growth rates and discount rates consistent with the level of risk and economy in general. Changes in these Level 3 inputs could have a significant impact on the fair value of the resulting fair value measurements.

For the valuation as of December 31, 2015, the aggregate probability of an IPO on that date was 50%, with time to IPO ranging from 6 months to 12 months. The aggregate probability of sale or merger was 30%, with time to transaction ranging from 6 months to 18 months. The probability of staying private was 20%. The revenue growth rates ranged from 12% to 29%. The discount rate used in the valuation was 20%.

For the valuation as of June 30, 2016, the aggregate probability of sale or merger was 60%, with time to transaction ranging from 3 months to 9 months. The aggregate probability of IPO was 30%, with time to IPO ranging from 3 to 12 months. The probability of staying private was 10%. The discount rate used in the valuation was 20%.

For the valuation as of December 31, 2016, the aggregate probability of sale or merger was 90%, with time to transaction ranging from 4 months to 6 months. The aggregate probability of IPO or staying private was 10%. The discount rate used in the valuation was 20%.

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for any of the periods presented.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred and are classified in general and administrative expenses. Gain contingencies are not reflected in the accounts until realized.

Out-of-period Adjustments

During the fourth quarter of 2015, the Company recorded out-of-period adjustments to increase the fair value of the amortizable intangible assets acquired from Kruse Energy & Equipment Auctioneers, LLC ("Kruse Energy") relating to a correction of valuation assumptions. The correction of this error resulted in a reclassification of \$1.6 million from goodwill to amortizable intangible assets and an increase in amortization expense of \$280,000 in the fourth quarter of 2015. The impact of the adjustment is not considered material to any prior or current period consolidated financial statements. As a result, the Company has not restated any prior period amounts.

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Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. Areas of revenue recognition that will be affected include, but are not limited to, transfer of control, variable consideration, allocation of transfer pricing, licenses, time value of money, contract costs and disclosures. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of Effective Date, which defers the effective date of ASU 2014-09 by one year and allows early adoption as of the original effective date of fiscal years and interim reporting periods beginning after December 15, 2016, at which time companies may adopt the new standard update under the full retrospective method or the modified retrospective method. The deferral results in the new revenue standard will become effective for the Company for fiscal years and interim reporting periods beginning after December 15, 2017 and 2018 for public and nonpublic companies, respectively. The Company is currently evaluating the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The new standard provides guidance around management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related financial statement note disclosures. The new standard is effective for annual periods ending after December 15, 2016 for both public and nonpublic companies. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and 2017 for public and nonpublic companies, respectively. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. Under ASU No. 2015-16, an acquirer must recognize adjustments to provisional amounts in business combinations that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, including the cumulative effect of the change in provisional amount as if the accounting had been completed at the acquisition date. The adjustments related to previous reporting periods must be disclosed by income statement line item either on the face of the income statement or in the notes. Early adoption is permitted, and the Company elected to early adopt this ASU, effective January 1, 2015. As a result of this early adoption, in connection with the Associated Auction Services, LLC (“Cat Auction Services”) acquisition completed on April 1, 2015, in the fourth quarter of 2015, the Company recorded a decrease to its deferred tax liability, which had been recorded as of the business combination acquisition date, of approximately \$1.4 million and a corresponding decrease of \$1.4 million to goodwill as a result of new income tax related information obtained. In addition, the Company recorded \$1.4 million of income tax expense in the Consolidated Statement of Operations during the fourth quarter of 2015 to adjust the income tax benefit recognized during the second quarter of 2015 related to the Company’s corresponding release of its valuation allowance.

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In February 2016, the FASB issued ASU 2016-02, Leases, which establishes a comprehensive new lease accounting model. The new standard: (a) clarifies the definition of a lease; (b) requires a dual approach to lease classification similar to current lease classifications; and, (c) causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, the determination of forfeiture rates, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and 2017 for public and nonpublic companies, respectively. Early adoption is permitted and the Company has elected to adopt the provisions effective January 1, 2017. As a result of the adoption, the Company will recognize approximately \$3.5 million of deferred tax assets from excess deductions from the exercise of stock options. There will also be a corresponding increase in the Company's valuation allowance against its deferred tax assets.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 identifies how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. The standard should be applied retrospectively and early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total amount of cash, cash equivalents and restricted cash. Entities will also be required to reconcile such total to the amounts on the balance sheet and disclose the nature of the restrictions. The effective date coincides with the effective date of ASU 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, i.e., the standard is effective for fiscal years and interim periods beginning after December 15, 2017. The Company is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04 *Intangibles-Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment*. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The standard is effective for fiscal years and interim periods beginning after December 15, 2019 and 2021 for public entities that are SEC filers and nonpublic companies, respectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

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3. Business Combinations

Cat Auction Services Acquisition

On April 1, 2015, the Company acquired Cat Auction Services, which was owned by Caterpillar Inc. and certain independent Cat dealers, for total consideration of \$49.2 million. The transaction was accounted for using the purchase method of accounting, and the purchase consideration included the issuance of 16,206,581 shares of the Company's Series E convertible preferred stock valued at \$48.6 million along with \$0.6 million of cash. The acquisition was consummated to increase the Company's position as a leading comprehensive integrated platform for managing used equipment acquisitions and dispositions.

In the fourth quarter of 2015, the Company finalized the purchase accounting for the acquisition. The Company recorded a decrease to its deferred tax liability, which had been recorded as of the business combination acquisition date, of approximately \$1.4 million and a corresponding decrease of \$1.4 million to goodwill as a result of new income tax related information obtained.

The following table summarizes the allocation of the consideration paid for Cat Auction Services to the fair value of the net tangible and identifiable intangible assets acquired and recognized at the acquisition date (in thousands):

	<u>Fair Value</u>	<u>Useful life</u>
Tangible net assets and liabilities:		
Cash	\$ 8,497	
Accounts receivable	2,944	
Other current assets	305	
Property and equipment	230	
Accounts payable	(1,051)	
Marketplace payables	(10,385)	
Accrued liabilities	(580)	
Deferred tax liability	(6,597)	
Total net liabilities	\$ (6,637)	
Intangible assets:		
Existing technology	1,672	1 year
Customer relationships	17,760	8 years
Trade name	2,460	8 years
Non-compete agreements	1,020	5 years
Total intangible assets	22,912	
Goodwill	32,961	
Total purchase consideration	<u>\$ 49,236</u>	

The fair value attributable to the existing technology of Cat Auction Services' website was determined using the cost approach, which estimates the costs involved in re-creating the existing site.

The fair value attributable to customer relationships was based on the value attributable to Cat Auction Services' existing customer relationships, including its dealer network, the relationship to Caterpillar Inc., and its established network of sellers and buyers. The Company valued this customer relationship information using a variation of the income approach known as the multi-period excess earnings method.

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The fair value attributable to the agreement to use the Cat Auction Services' trade name, and the "Caterpillar" and "CAT" marks, was determined using the relief from royalty method, which is a variant of the income approach. This method is based on the assumption that the Company would be required to pay royalty payments to the owner of the trade name if the Company did not otherwise have the right to use the subject asset.

Certain Cat Auction Services employees were subject to non-compete agreements. The fair value of the non-compete agreements was based on a cash flow differential method of the income approach, which measured the difference between cash flows generated with the non-compete agreements in place assuming the lack of competition as compared to the cash flows without the agreements and assumed competition.

The valuation models were based on estimates of future operating projections of the acquired business as well as judgments on the discount rates used and other variables. The Company determined the forecasts based on a number of factors including its best estimate of near-term net sales expectations and long-term projections, which include review of internal and independent market analyses. The discount rate used was representative of the weighted-average cost of capital.

The residual amount of \$33.0 million was assigned to goodwill. Goodwill reflects the value of the expected synergies of the Cat Auction Services operations with the Company's marketplace.

The acquisition of Cat Auction Services was completed in a tax-free transaction for U.S. income tax purposes. Accordingly, the amount of goodwill and other acquired identifiable intangible assets above any historical tax basis is not amortizable for U.S. income tax purposes.

In connection with the Cat Auction Services acquisition, the Company entered into several agreements with Caterpillar Inc., and certain independent Cat dealers. The acquisition agreement with Cat Auction Services contained incentive-based elements and standard contracting terms that were made available to Caterpillar Inc. and its operating subsidiaries and current and future Cat dealers worldwide. These elements include: (1) an opportunity to earn Company common stock through selling equipment, measured in gross merchandise volume (GMV), in the Company's marketplace (the "Earnout"); (2) a Series E convertible preferred stock purchase program; (3) and negotiated master contract terms for marketplace sales by these parties.

Earnout

The acquisition agreement contains a provision whereby the Earnout is payable to Caterpillar Inc. together with its operating subsidiaries, ("Caterpillar"), and certain independent Cat dealers, through their respective representatives, in exchange for specified levels of GMV sold in the Company's marketplace. Specifically, for each \$1.0 million of GMV generated in the Company's marketplace that is attributable to these parties in a single Earnout period (prorated for amounts less than \$1.0 million), a number of shares of the Company's common stock, as determined by a formula based on the period-ending level of common stock equivalents and certain awards outstanding, will be issued to them. The applicable Earnout periods include GMV from Caterpillar and certain independent Cat dealers from: (1) February 1, 2015 through December 31, 2015, (2) January 1, 2016 through June 30, 2016, and (3) July 1, 2016 through December 31, 2016. The shares earned in a given Earnout period are issued following the close of such Earnout period. There are maximum amounts that can be earned in a single period, and any shortfall on earned shares from the maximum can roll over and increase the maximum in subsequent periods. In the event of the completion of an IPO or acquisition of the Company prior to December 31, 2016, if at least 50% of the applicable maximum amount had been earned in a prior period as of the time of the IPO or acquisition of the Company, the remaining maximum amount of such prior period and any other prior period in which 50% of the maximum amount had been earned plus the maximum amount of the current period and any subsequent period become payable in full. No such event occurred prior to December 31, 2016.

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The Earnout is not earned solely by former owners of Cat Auction Services, but may also be earned by a broader group of certain independent Cat dealers. Accordingly, the Earnout has not been accounted for as an element of contingent consideration to be paid for the purchase of Cat Auction Services. The Company accounts for the Earnout as equity consideration provided by a vendor to a customer as incentive to use the Company's marketplace. The Company has reduced its revenue for the fair value of the equity instruments earned in each reporting period, which is included in customer equity incentives in the Consolidated Statement of Operations. The initial measurement date for the fair value of the stock earned is the date at which the eligible item is sold in the marketplace event and revenue is recognized related to the GMV provided. This amount is based on estimates that include the fair value of the Company's shares and an estimate of the equity base at the end of the applicable Earnout period that would apply to determine the number of shares earned per \$1.0 million of GMV.

For the first Earnout period, which ended on December 31, 2015, 2,741,258 shares of the Company's common stock were earned by Caterpillar and certain independent Cat dealers. Prior to the end of the applicable earnout period, the value of the shares earned but not yet issued are shown on the Consolidated Balance Sheets as customer equity incentives payable within current liabilities. As discussed in Note 2—"Summary of Significant Accounting Policies—Fair Value of Financial Instruments," the customer equity incentives payable is carried at its fair value and changes in the fair value during the Earnout period, if any, are included in customer equity incentives in the Consolidated Statement of Operations. At the end of the applicable Earnout period, the value of the shares earned is fixed, and the value of shares earned but not yet issued is shown as unissued customer equity incentive shares within stockholders' deficit on the Consolidated Balance Sheets. For the second earnout period, which ended on June 30, 2016, 2,367,044 shares were earned and issued on August 12, 2016. For the third and final earnout period that ended December 31, 2016, 1,359,393 were earned by Caterpillar and certain independent Cat dealers. These shares were issued on March 28, 2017.

The following table presents the activity for the customer equity incentives payable as of December 31, 2016 and 2015 (in thousands):

	Year Ended December 31,	
	2016	2015
Balance, beginning of year	\$ —	\$ —
Customer equity incentives payable earned included in customer equity incentives	17,320	7,270
Revaluation of customer equity incentives payable included in customer equity incentives	2,858	2,048
Reclassification to unissued customer equity incentive shares	(20,178)	(9,318)
Balance, end of year	<u>\$ —</u>	<u>\$ —</u>

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Stock purchase program

The Cat Auction Services acquisition agreement provided that Caterpillar and certain eligible independent Cat dealers could purchase shares of Series E convertible preferred stock of the Company following the closing of the Cat Auction Services acquisition agreement. Independent Cat dealers were eligible to purchase up to 10,000,000 shares of Series E convertible preferred stock of the Company at a discount to the then current fair market value from April 1, 2015 through April 1, 2016. Caterpillar and certain independent Cat dealers were also eligible to purchase up to an additional 10,000,000 shares of Series E convertible preferred stock of the Company at the then-current fair market value from April 1, 2015 through October 1, 2016. This purchase right terminated upon the earlier of a specified date or certain events associated with an IPO or change in control transaction after notification is provided 30 days in advance of such termination. On July 1, 2016, the Company gave notice that this purchase right would terminate on July 31, 2016.

From April 1, 2015 through December 31, 2015, 5,215,800 shares of Series E convertible preferred stock were purchased under this program, resulting in \$13.2 million of proceeds to the Company. The associated discount on those shares totaled \$3.4 million for the year ended December 31, 2015. In the year ended December 31, 2016, 1,009,017 shares of Series E convertible preferred stock were purchased under these programs, resulting in \$4.8 million of proceeds to the Company and an associated discount on those shares of \$0.7 million for the year ended December 31, 2016, respectively. The Company accounts for the value of the discount as equity consideration provided by a vendor to a customer, which is included in customer equity incentives in the Consolidated Statement of Operations. The measurement of the discount is based on the fair value of the shares compared to the purchase price at the time the shares were issued.

Standard contract terms

The Cat Auction Services acquisition agreement provided negotiated master contractual terms for independent Cat dealers who invested through the stock purchase program or who were former owners of Cat Auction Services or stockholders of IronPlanet, Inc. These terms include a fixed straight commission and listing fee rates in addition to the provision of certain marketplace data.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Geographic Information

The Company's geographic information as determined by the revenue and location was as follows (in thousands):

	Year Ended December 31,	
	2016	2015
Gross revenue		
United States	\$ 122,119	\$ 96,530
All other	8,598	6,893
Total gross revenue	<u>\$ 130,717</u>	<u>\$ 103,423</u>
Customer equity incentives		
United States	\$ 17,221	\$ 11,597
All other	3,657	1,155
Total customer equity incentives	<u>\$ 20,878</u>	<u>\$ 12,752</u>
Total revenue		
United States	\$ 104,898	\$ 84,933
All other	4,941	5,738
Total revenue	<u>\$ 109,839</u>	<u>\$ 90,671</u>
	December 31,	
	2016	2015
Long-lived assets		
United States	\$ 88,814	\$ 93,550
All other	160	97
Total long-lived assets	<u>\$ 88,974</u>	<u>\$ 93,647</u>

Revenue is generally attributed to the legal entity running the marketplace event, which may differ from the individual seller's or buyer's location. Long-lived assets include property and equipment, goodwill, and intangible assets.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Gross Revenue

Gross revenue consisted of the following (in thousands):

	Year Ended December 31,	
	2016	2015
Marketplace revenue	\$ 125,483	\$ 100,210
Services and other revenue	5,234	3,213
Gross revenue	<u>\$ 130,717</u>	<u>\$ 103,423</u>

Net fee revenue on inventory sales included in marketplace revenue was as follows:

	Year Ended December 31,	
	2016	2015
Sale proceeds	\$ 101,140	\$ 104,762
Cost of purchased equipment	91,803	94,022
Net fee revenue	<u>\$ 9,337</u>	<u>\$ 10,740</u>

6. Interest Expense and Other (Expense) Income, Net

The components of interest expense were as follows (in thousands):

	Year Ended December 31,	
	2016	2015
Coupon interest	\$ 1,832	\$ 3,344
Amortization of debt discount	0	1,355
Amortization of debt issuance costs	358	318
Interest Expense from Interest Rate Swap	118	0
Total interest expense	<u>\$ 2,308</u>	<u>\$ 5,017</u>

IRONPLANET HOLDINGS, INC.

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Other (expense) income, net included the following (in thousands):

	Year Ended December 31,	
	2016	2015
Warrant revaluation	\$ (3,153)	\$ (542)
Litigation settlement	—	900
Interest income	—	69
(Write-down)/recovery of cost method investment	63	(336)
Other	(38)	(20)
Other (expense) income, net	<u>\$ (3,052)</u>	<u>\$ 71</u>

7. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	December 31,	
	2016	2015
Value-added tax receivables	\$ 2,206	\$ 1,388
Prepaid expenses	1,571	2,008
Deferred offering costs	—	690
Investment in Mascus	—	1,349
Mascus sales proceeds in escrow	160	—
Other	55	—
Total prepaid expenses and other current assets	<u>\$ 3,992</u>	<u>\$ 5,435</u>

Value-added tax (“VAT”) receivables consist of amounts due from local country tax authorities and primarily arise in situations where buyers are exempt from paying VAT. In these situations, the Company first remits VAT to its sellers and subsequently files tax returns to claim refunds for the amounts remitted. Refunds are received as the tax returns and related claims are filed and accepted by the respective local tax authority.

Deferred offering costs consist primarily of legal, printer, accounting fees and other fees related to the Company’s previously proposed IPO. The Company wrote off the previously recognized deferred offering costs during 2016 as it is no longer seeking such a liquidity event. Selling and administrative expense includes the write-off of \$4.4 million of deferred offering costs, which includes approximately \$690,000 of deferred offering costs at December 31, 2015 as well as the deferred offering costs capitalized in 2016.

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The Company's cost method investment includes a minority interest in Mascus International Holding B.V. ("Mascus"). In 2015, Mascus' other shareholders began negotiations for the sale of Mascus, which was subsequently completed in the first quarter of 2016. The Company reclassified its cost method investment in Mascus from deposits and other assets to prepaid expenses and other current assets in anticipation of its sale after December 31, 2015 and reduced its carrying value to the expected net realizable value. As the Company's portion of the sale proceeds, which is considered to be the fair value of the investment, for Mascus was less than carrying value of the investment, the Company recorded an impairment charge of approximately €307,900 (\$336,000) during the year ended December 31, 2015. The Company sold its investment in Mascus International Holding BV ("Mascus") at its carrying value, receiving proceeds of €1.0 million (\$1.2 million) with the balance of approximately €152,000 (\$160,000) placed in escrow. The funds in escrow will be released in 2017.

8. Property and Equipment, Net

Property and equipment, which includes software developed for internal use, consisted of the following (in thousands):

	December 31,	
	2016	2015
Website application and infrastructure cost	\$ 6,585	\$ 6,422
Computer equipment and software	6,754	4,546
Furniture and fixtures	1,641	1,278
Leasehold improvements	143	153
Vehicles	1,243	749
Land	371	371
Total property and equipment	<u>16,739</u>	<u>13,519</u>
Accumulated depreciation	<u>(10,378)</u>	<u>(8,169)</u>
Total property and equipment, net	<u>\$ 6,359</u>	<u>\$ 5,350</u>

Depreciation and amortization expense relating to property and equipment was \$2.4 million and \$2.0 million for the years ended December 31, 2016 and 2015, respectively.

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9. Deposits and Other Assets

Deposits and other assets consisted of the following (in thousands):

	December 31,	
	2016	2015
Long-term VAT receivable	\$ —	\$ 3,971
Deposits	696	809
Interest rate swap	25	11
Notes receivable	35	59
Total deposits and other assets	\$ 756	\$ 4,850

The long-term VAT receivable for the year ended December 31, 2015 relates to tax returns and related claims with the tax authorities of Italy. These receivables were considered long-term due to the lengthy process associated with filing and acceptance of the returns prior to refund by the tax authorities of Italy, including providing a bank or insurance guarantee in the amount of the VAT refund plus interest. The Company has been working with the Italian authorities and has collected a significant portion of the long-term and short-term VAT receivables during 2016. The remaining VAT receivable from Italy is expected to be received in 2017 and has been reclassified to prepaid expenses and other assets.

10. Goodwill and Intangible Assets

The following table provides a summary of the changes in the carrying amount of the Company's goodwill (in thousands):

Balance at December 31, 2014	\$ 23,697
Kruse Energy out-of-period adjustment	(1,640)
Cat Auction Services acquisition	32,961
Balance at December 31, 2015	\$ 55,018
2016 Activity	—
Balance at December 31, 2016	\$ 55,018

IRONPLANET HOLDINGS, INC.

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The following table presents the components of intangible assets, net as of December 31, 2016 (in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Carrying value</u>
Customer relationships	\$ 31,230	\$ 8,171	\$ 23,059
Existing technology	2,312	2,163	149
Trade name	4,820	1,346	3,474
Non-compete agreements	1,730	815	915
Total intangible assets, net	<u>\$ 40,092</u>	<u>\$ 12,495</u>	<u>\$ 27,597</u>

The following table presents the components of intangible assets, net as of December 31, 2015 (in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Carrying value</u>
Customer relationships	\$ 31,230	\$ 4,039	\$ 27,191
Existing technology	2,312	1,617	695
Trade name	4,820	692	4,128
Non-compete agreements	1,730	465	1,265
Total intangible assets, net	<u>\$ 40,092</u>	<u>\$ 6,813</u>	<u>\$ 33,279</u>

Amortization expense was \$5.7 million and \$6.0 million for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, the weighted-average remaining amortization period of the Company's intangible assets was 5.3 years.

The estimated aggregate amortization expense for each of the five succeeding years and thereafter is as follows (in thousands):

2017	\$ 5,256
2018	5,098
2019	4,956
2020	4,803
2021	4,324
Thereafter	3,160
Total	<u>\$ 27,597</u>

IRONPLANET HOLDINGS, INC.

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11. Accrued Liabilities

The following table presents the components of accrued liabilities (in thousands):

	December 31,	
	2016	2015
Payroll and related	\$ 4,874	\$ 5,147
Sales and other taxes	1,635	3,009
Accrued professional expenses	1,706	1,246
Auction guarantees	304	832
Disputes allowance	124	126
All other	3,934	3,242
Total accrued liabilities	\$ 12,577	\$ 13,602

12. Debt

Prior Facilities

On October 31, 2014, the Company entered into a loan and security agreement with Hercules Technology Growth Capital, Inc. which provided the Company with a term loan (the “2014 Term Loan”) in the amount of up to \$37.5 million at a floating interest rate equal to the greater of (1) the prime rate as reported in the Wall Street Journal plus 6.2% and (2) 9.45% per annum. The maturity date of the term loan was November 1, 2017. The 2014 Term Loan also required an end of term fee. The end of term fee was originally \$3.7 million but was reduced to \$3.5 million when the Company successfully completed raising equity in 2014. The end of term fee was recognized as a discount to the full amount to be repaid and amortized over the life of the loan using the effective interest rate method.

In connection with the 2014 Term Loan, the Company issued freestanding warrants to the lender to purchase 1,155,822 shares of Series D convertible preferred stock. Proceeds from the debt issuance were first allocated to the warrants based on their then fair value of approximately \$1.4 million and then the residual amount was allocated to the debt. The allocation of proceeds to the warrant also created a discount in the associated debt, which was recognized using the effective interest rate method over the life of the debt. The Company incurred debt issuance costs of approximately \$0.6 million, which were also recognized using the effective interest rate method.

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The 2014 Term Loan contained certain customary representations and warranties, covenants, and events of default, including a prohibition on dividends with respect to the convertible preferred stock. Financial covenants included minimum forecasted EBITDA, minimum forecasted revenue, capital expenditure limitations, seller advances and notes receivable limitations, minimum operating cash levels, indebtedness limitations, and the preparation of associated compliance certificates. Borrowings under the 2014 Term Loan were secured by receivables, equipment, fixtures, general intangibles, inventory, investment property, deposit accounts, cash, and goods. The 2014 Term Loan also allowed for prepayment of the loan and security agreement, subject to a prepayment fee.

2015 Facility

On September 16, 2015 the Company repaid the 2014 Term Loan with the proceeds of a new credit facility (the “2015 Credit Facility”). The Company recorded a loss of \$4.8 million on the early extinguishment of the 2014 Term Loan, which included the write-off of the unamortized debt discount and issuance costs, as well as a prepayment fee of \$1.1 million.

The 2015 Credit Facility is a bank syndicated senior secured credit facility with SunTrust Bank as administrative agent for itself and the other lenders consisting of a \$15.0 million revolving credit facility and a \$40.0 million term loan (the “2015 Term Loan”). This new facility reduces the Company’s borrowing costs and extends the maturity of its principal bank credit facility to September 16, 2020. The debt is recorded net of deferred debt issuance costs of approximately \$1.5 million, which are being amortized using the effective interest rate method. As of December 31, 2016, there were \$37.0 million of term loans outstanding and no borrowings under the revolving credit facility. The weighted-average interest rate of debt outstanding as of December 31, 2016 and 2015 was 5.94% and 5.80%, respectively, on a quarterly annual equivalent basis.

The Company also entered into automobile loans during 2014 and 2015. Such loans were repaid in 2016.

The components of the carrying value of debt as of December 31, 2016 are as follows (in thousands):

	Current portion	Long-term debt	Total
2015 Credit Facility	\$ 4,000	\$ 33,000	\$ 37,000
Other	—	—	—
Less: unamortized debt issuance costs	28	992	1,020
Net carrying value of debt	\$ 3,972	\$ 32,008	\$ 35,980

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The following table presents the components of the carrying value of debt as of December 31, 2015 (in thousands):

	<u>Current portion</u>	<u>Long-term debt</u>	<u>Total</u>
2015 Credit Facility	\$ 2,500	\$ 37,000	\$ 39,500
Other	93	136	229
Less: unamortized debt issuance costs	20	1,358	1,378
Net carrying value of debt	<u>\$ 2,573</u>	<u>\$ 35,778</u>	<u>\$ 38,351</u>

The 2015 Credit Facility is secured by domestic receivables, domestic inventories, certain domestic equipment, general intangibles, 100% of the stock in domestic subsidiaries, and 65% of the stock of certain foreign subsidiaries and other assets. Borrowings under the 2015 Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the base rate (the “Base Rate”) which is generally the agent’s prime interest rate plus an incremental borrowing spread. The incremental borrowing spread is determined by the Company’s leverage ratio and ranges from 3.5% to 4.0% for LIBOR-based loans and 2.5% to 3.0% for Base Rate loans. The borrowing spread over LIBOR was set at 3.75% and 4.0% as of December 31, 2016 and December 31, 2015, respectively. The commitment fee was set at 0.375% and 0.50% as of December 31, 2016 and December 31, 2015, respectively.

The 2015 Credit Facility contains customary covenants restricting the Company’s activities, including limitations on the Company’s ability to sell assets, engage in mergers and acquisitions, enter into operating leases or capital leases, enter into transactions involving related parties, obtain derivatives or letters of credit, incur indebtedness or grant liens or negative pledges on its assets, make loans or make other investments. Under these covenants, the Company is prohibited from paying dividends with respect to its capital stock.

The 2015 Credit Facility also contains financial covenants that the Company must satisfy on an ongoing basis, including maximum leverage ratios and minimum coverage ratios. The permitted maximum leverage ratio declines over time and is 3.00 as of December 31, 2016, declining to 2.50 as of December 31, 2017. The fixed charge coverage ratio is set at 1.25 over the life of the facility. The facility may be prepaid in whole or in part without penalty.

The Company was in compliance with all covenants as of December 31, 2016. As of March 20, 2017, the Company amended the 2015 Credit Facility to increase the leverage ratio to 3.75 from 3.00 for the quarter ending March 31, 2017 and to 3.25 from 2.75 for the quarter ending June 30, 2017. Additionally, expenses incurred related to the merger with RBA will be excluded from covenant calculations through June 30, 2017 (see Note 25 “Merger with Ritchie Bros. Auctioneers Incorporated” and Note 26 “Subsequent Events”).

The 2015 Term Loan amortizes in equal quarterly installments based on an annual amortization rate of 5.0%, 10.0%, 10.0%, 12.5%, and 15.0% beginning in 2015, with the balance payable on the maturity date thereof. In addition, borrowing under the 2015 Term Loan is required to be repaid with certain mandatory cash flows. These additional payments from mandatory cash flows include excess cash flows, as defined and subject to certain exclusions, as well as net cash proceeds from all non-ordinary course asset sales or other dispositions of property, subject to exceptions for reinvestment. The Company does not expect to be required to make any additional payments in 2017.

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The table below shows the scheduled amortization of the 2015 Term Loan (in thousands):

2017	\$	4,000
2018		4,250
2019		5,250
2020		23,500
Total	\$	<u>37,000</u>

13. Interest Rate Swap

The Company entered into an interest rate swap in November 2015 to manage interest rate risk exposure on its floating rate debt. The interest rate swap agreement utilized by the Company effectively modifies a portion of the Company's exposure to interest rate risk by converting the Company's floating-rate debt exposure to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense and cash flows. The effective date of the swap was December 31, 2015 with a termination date of September 30, 2018. The initial notional principal on the swap is \$19.75 million, which was half of the then outstanding principal on the 2015 Term Loan. The swap amortizes by \$250,000 for each of the first three quarters and by \$0.5 million thereafter. The Company pays a fixed rate of 1.277% on the notional amount, calculated on an actual/360 day count basis, on the last day of every quarter commencing March 31, 2016 up to and including September 30, 2018, in exchange for receiving an interest rate equal to the 3-month-LIBOR for the same period. Amounts are settled on a net basis.

As of December 31, 2016, the fair value of the swap was approximately \$25,000, which is included in deposits and other assets, none of which is expected to be reclassified into earnings over the next twelve-month period.

14. Income Taxes

The following table presents the components of loss before taxes (in thousands):

	December 31,	
	2016	2015
Domestic	\$ (18,401)	\$ (16,180)
Foreign	(6,806)	(3,459)
	<u>\$ (25,207)</u>	<u>\$ (19,639)</u>

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The components of the income tax provision (benefit) were as follows for the period presented (in thousands):

	December 31,	
	2016	2015
Current:		
Federal	\$ —	\$ 14
State	112	76
Foreign	—	—
	112	90
Deferred:		
Federal	636	(6,168)
State	35	(192)
Foreign	—	—
	671	(6,360)
Total income tax provision (benefit)	\$ 783	\$ (6,270)

The income tax provision (benefit) differs from the amount of income taxes determined by applying the U.S. statutory federal income tax rate as follows (in thousands):

	December 31,	
	2016	2015
Tax benefit at federal statutory rate	\$ (8,824)	\$ (6,874)
State tax, net of federal benefit	(181)	(231)
Non-deductible IPO abandonment costs	1,519	—
Non-deductible stock-based compensation	486	420
Non-deductible meals and entertainment	375	326
Other permanent differences	31	328
Foreign losses	1,038	616
NOL expiration	—	97
Change in valuation allowance	6,667	(1,155)
True-up adjustments	(328)	203
Income tax provision	\$ 783	\$ (6,270)

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The deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	\$ 12,838	\$ 11,005
Foreign net operating loss carryforwards	5,064	3,516
Tax credit carryforwards	1,554	1,403
Accruals and reserves	2,716	1,539
Stock compensation expense	1,620	1,314
Basis difference in fixed assets	21	—
Total gross deferred tax assets	23,813	18,777
Valuation allowance	(19,983)	(13,138)
Net deferred tax assets	3,830	5,639
Deferred tax liabilities:		
Basis difference in fixed assets	—	283
Basis difference in intangible assets	3,279	4,798
Basis difference in goodwill	1,439	775
Deferred tax liabilities	4,718	5,856
Deferred tax assets (liabilities)	\$ (888)	\$ (217)

Realization of the deferred tax assets is dependent upon future taxable income during the periods in which temporary differences become deductible. A valuation allowance is recognized if, based on the weight of available evidence, both positive and negative, it is more likely than not that some portion, or all, of net deferred tax assets will not be realized. Management considers the history of losses in all country taxing jurisdictions in recent years to be strong negative evidence that deferred tax assets will not be more likely than not to be realized. This evidence is not outweighed by its long-term future projections of income. Management has considered the estimated timing for the reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax planning strategies in making this assessment.

As of December 31, 2016 and 2015, based on the available objective evidence, it was more likely than not that the Company's domestic and foreign deferred tax assets, with the exception of a state tax carryforward, will not be realized. Accordingly, the Company has provided a valuation allowance against its domestic and foreign deferred tax assets which are not more likely than not to be realized.

In connection with the acquisition of Cat Auction Services, the Company recorded a \$6.6 million deferred tax liability, which resulted in an offsetting reduction in the Company's valuation allowance. In the fourth quarter of 2015, the Company recorded a decrease of \$1.4 million to its originally reported deferred tax liability of \$8.0 million, which had been recorded as of the business combination acquisition date, and a corresponding decrease of \$1.4 million to goodwill as a result of new income tax-related information obtained.

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As of December 31, 2016 and 2015 the Company had a deferred tax liability relating to the tax amortization of goodwill that is in excess of deferred tax assets from tax credits. Accordingly, there is a net deferred liability from indefinite-lived intangibles, which is not viewed as a source of future taxable income for purposes of valuation allowance considerations. The Company has recorded deferred tax expense of \$0.7 million and \$0.2 million, respectively, related to the amortization of indefinite-lived intangibles for the years ended December 31, 2016 and 2015.

As of December 31, 2016, the Company had U.S. federal net operating loss carryforwards of \$37.7 million and California state net operating loss carryforwards of \$8.9 million. The U.S. federal and California state net operating loss carryforwards will expire in varying amounts starting in 2023 and 2030 respectively. Deferred tax assets for net operating loss carryforwards at December 31, 2016 exclude \$3.5 million of excess deductions from the exercise of stock options which have not been recognized. The excess deductions will be included in deferred tax assets upon the adoption of ASU 2016-09 effective January 1, 2017. In addition, as of December 31, 2016, the Company had approximately \$1.0 million of U.S. federal and \$0.5 million of California state research credits available for carryforward on tax returns as filed. \$0.8 million of U.S. federal and \$0.4 million of California state research credits are included as temporary deferred items within deferred taxes, prior to valuation allowance. The U.S. federal credit carryforwards will begin to expire in 2021. California state tax credit carryforwards have no expiration dates.

As of December 31, 2016, the Company had foreign net operating losses of \$34.1 million. Some of the foreign net operating losses will expire starting in 2033. Cash held by the Company's foreign operations was \$10.4 million as of December 31, 2016. The Company's non-U.S. subsidiaries do not have cumulative earnings and profits that would be subject to U.S. taxation if funds were remitted.

The Company applies guidance for uncertainty in income taxes that requires the application of a more likely than not threshold to the recognition and de-recognition of uncertain tax positions. If the recognition threshold is met, this guidance permits the Company to recognize a tax benefit measured at the largest amount of the tax benefit that, in management's judgment, is more likely than not to be realized upon settlement.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits (without related interest expense) was as follows (in thousands):

Balance at January 1, 2015	\$	319
Additions for tax positions for the current year		—
Balance at December 31, 2015		319
Additions for tax positions for the current year		39
Balance at December 31, 2016	\$	358

IRONPLANET HOLDINGS, INC.

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Management is not aware of any events that make it reasonably possible that there would be a significant change in the reported unrecognized tax benefits during the next 12 month period subsequent to December 31, 2016. As of December 31, 2016, none of the \$0.4 million of unrecognized tax benefit, if recognized, would impact income tax expense and effective tax rate given the valuation allowance position.

As of December 31, 2016 and 2015, unrecognized tax benefits are related to research and development tax credits and are reported as a reduction of gross deferred tax assets. The Company's policy is to classify interest accrued or penalties related to unrecognized tax benefits as a component of income tax expense. As of December 31, 2016 and 2015, the Company has accrued interest associated with unrecognized tax benefits of \$5,283 and \$4,456, respectively.

In the normal course of business, the Company is subject to audit by U.S. Federal and various state taxing authorities and by the taxing authorities in various foreign jurisdictions. As of December 31, 2016, the Company's filed U.S. federal returns are open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2011 through December 31, 2015. The Company's California state returns are open to audit as of December 31, 2016 under the statute of limitations for the years ending December 31, 2010 through 2015. In addition, all years for which there are unutilized net operating losses and tax credit carryovers are open to audit to the extent of the carryforward amounts. As of December 31, 2016, the Company's foreign tax returns are open to audit under the statute of limitations for the years ending December 31, 2010 through December 31, 2015.

15. Recapitalization and Reorganization

In April 2015, the Company completed the Reorganization in connection with its acquisition of Cat Auction Services. Each share of each class of IronPlanet, Inc. stock issued and outstanding immediately prior to the Reorganization, as well as outstanding warrants and options, automatically converted into an equivalent corresponding equity security of IronPlanet Holdings, Inc. upon the closing of the Cat Auction Services acquisition, and IronPlanet, Inc.'s stockholders immediately prior to the Reorganization became stockholders of IronPlanet Holdings, Inc. See Note 3—"Business Combinations," for further discussion regarding the Cat Auction Services acquisition.

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16. Convertible Preferred Stock and Warrants

Convertible Preferred Stock

The Company's convertible preferred stock at December 31, 2016 consisted of the following (in thousands, except share data):

	<u>Shares Authorized</u>	<u>Shares Issued and Outstanding</u>	<u>Carrying Value</u>	<u>Liquidation Preference</u>
Series A	16,746,220	16,746,220	\$ 7,936	\$ 10,969
Series A-1	5,004,988	5,000,900	3,061	2,501
Series B	12,395,329	12,395,329	37,323	37,186
Series C	1,533,333	900,000	3,946	4,000
Series D	10,590,751	9,434,929	20,572	20,662
Series E	40,000,000	22,431,398	70,686	38,219
Total	<u>86,270,621</u>	<u>66,908,776</u>	<u>\$ 143,524</u>	<u>\$ 113,537</u>

The Company's convertible preferred stock at December 31, 2015 consisted of the following (in thousands, except share data):

	<u>Shares Authorized</u>	<u>Shares Issued and Outstanding</u>	<u>Carrying Value</u>	<u>Liquidation Preference</u>
Series A	16,746,220	16,746,220	\$ 7,936	\$ 10,969
Series A-1	5,004,988	5,000,900	3,061	2,501
Series B	12,395,329	12,395,329	37,323	37,186
Series C	1,533,333	900,000	3,946	4,000
Series D	10,590,751	9,434,929	20,572	20,662
Series E	40,000,000	21,422,381	65,196	33,402
Total	<u>86,270,621</u>	<u>65,899,759</u>	<u>\$ 138,034</u>	<u>\$ 108,720</u>

During 2016, the Company issued 1,009,017 shares of Series E convertible preferred stock to certain independent Cat dealers who exercised their rights to purchase shares of Series E convertible preferred stock pursuant to the purchase right described in Note 3—"Business Combination," resulting in \$4.8 million of proceeds to the Company and an associated discount on those shares of \$0.7 million. The share purchase program was terminated on July 31, 2016.

Under the Company's Certificate of Incorporation, preferred stock is issuable in series, and the Board of Directors is authorized to determine the rights, preferences, and terms of each series.

IRONPLANET HOLDINGS, INC.

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Dividends

Series D and Series E preferred stockholders are entitled to noncumulative dividends prior to any dividend on the Series A, Series A-1, Series B, and Series C preferred stock or common stock. The Series D preferred stockholders are entitled to noncumulative dividends of \$0.18 per share and the Series E preferred stockholders are entitled to noncumulative dividends of 8% of the original per share purchase price. The Series A, Series B, and Series C preferred stockholders are entitled to noncumulative dividends of \$0.05, \$0.24 and \$0.32 per share, respectively, prior to any dividend on the Series A-1 preferred stock or common stock. Series A-1 preferred stockholders are entitled to receive noncumulative dividends of \$0.04 per share. Additionally, each series of preferred stock entitles holders to participate in any dividends paid to common shareholders.

Dividends will be paid only when declared by the Board of Directors out of legally available funds. No dividends were declared during any of the periods presented.

Conversion

Each share of convertible preferred stock is, at the option of the holder, convertible into one share of common stock. The outstanding shares of convertible preferred stock automatically convert into shares of common stock on the closing of an underwritten public offering of common stock under the Securities Act of 1933, as amended, in which the Company receives at least \$20.0 million in net proceeds and the offering price per share is at least \$6.00, as adjusted for stock splits, dividends, reclassification and the like, or upon written consent of holders of a majority of the convertible preferred stock.

Liquidation Preference

Series D and Series E have preference upon liquidation. Series D preferred stockholders are entitled to receive an amount per share of \$2.19 plus any declared but unpaid dividends. Series E preferred stockholders are entitled to receive the original amount paid per share plus any declared and unpaid dividends. As of December 31, 2016, Series E preferred stockholders have a weighted-average liquidation preference of \$1.70 per share.

After the distribution to Series D and Series E stockholders, if any assets remain in the Company, Series A, Series B and Series C preferred stockholders are entitled to receive, upon liquidation, an amount per share of \$0.655, \$3.00, and the amount paid per share, respectively, at an equal rate, plus any declared and unpaid dividends. As of December 31, 2016, Series C preferred stockholders have been paid an average of \$4.44 per share.

After the distribution to Series A, Series B, Series C, and Series D preferred stockholders, Series A-1 preferred stockholders are entitled to receive an amount equal to \$0.50 per share, plus any declared but unpaid dividends. Thereafter, any remaining assets shall be distributed pro rata to the common stockholders.

Voting

Each holder of Series A, Series B, Series C, Series D, and Series E convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such preferred shares are convertible and have voting rights and powers equal to the voting rights and powers of the common stock. The holders of Series A-1 convertible preferred stock do not have voting rights. So long as at least 500,000 shares of Series D remain outstanding, as adjusted for stock splits, dividends, reclassification and the like, the holders of Series D convertible preferred stock, voting as a separate class, are entitled to elect one member of the Company's Board of Directors. So long as at least 500,000 shares of Series E remain outstanding, as adjusted for stock splits, dividends, reclassification and the like, the holders of Series E convertible preferred stock, voting as a separate class, are entitled to elect two members of the Board of Directors. The remaining board of director members are elected by the holders of the voting preferred (on an as converted basis) and the voting common stock, voting together as a single class.

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Warrants

In April 2000, the Company entered into an agreement with a leasing company for computer and office equipment. In connection with this lease arrangement, the Company issued a warrant to purchase 21,887 shares of Series A convertible preferred stock at an exercise price of \$1.828 per share. This warrant is exercisable at any time until expiration five years from the effective date of the Company's initial public offering. These warrants were outstanding as of December 31, 2016.

In August 2008, the Company issued two separate warrants exercisable for Series C convertible preferred stock in connection with the sale of 250,000 shares of Series C convertible preferred stock. Each warrant provides for the issuance of 250,000 shares of Series C convertible preferred stock at an exercise price of \$4.00 per share that became exercisable when certain sales-based goals were achieved in January 2009 and January 2010. These warrants expired on December 31, 2015.

In connection with a 2013 financing, the Company issued a warrant to purchase 133,333 shares of Series C convertible preferred stock of the Company at a purchase price of \$4.50 per share exercisable at any time until the earlier of 1) an IPO and 2) expiration date of September 24, 2023. These warrants were outstanding as of December 31, 2016. Upon the completion of an IPO with an offering price in excess of \$4.50, the warrant is automatically net exercised; the warrant will expire unexercised upon the completion of a public offering of \$4.50 or less.

In connection with the 2014 Term Loan, the Company issued to the lender warrants to purchase 1,155,822 shares of Series D convertible preferred stock at \$2.19 a share. The warrants are exercisable for a period of ten years ending October 31, 2024. These warrants were outstanding as of December 31, 2016.

A summary of warrant share activity follows:

	<u>Series A</u>	<u>Series C</u>	<u>Series D</u>	<u>Total</u>
Balance at December 31, 2014	21,887	633,333	1,155,822	1,811,042
Expirations	—	(500,000)	—	(500,000)
Exercises	—	—	—	—
Balance at December 31, 2015	<u>21,887</u>	<u>133,333</u>	<u>1,155,822</u>	<u>1,311,042</u>

There has been no change in the number of outstanding warrants since December 31, 2015.

IRONPLANET HOLDINGS, INC.

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The change in the value of the warrant liability is summarized below (in thousands):

	<u>Series A</u>	<u>Series C</u>	<u>Series D</u>	<u>Total</u>
Balance at December 31, 2014	\$ 30	\$ 213	\$ 1,387	\$ 1,630
Expirations	—	(150)	—	(150)
Change in fair value	15	(16)	693	692
Balance at December 31, 2015	45	47	2,080	2,172
Expirations	—	—	—	—
Change in fair value	55	266	2,832	3,153
Balance at December 31, 2016	<u>\$ 100</u>	<u>\$ 313</u>	<u>\$ 4,912</u>	<u>\$ 5,325</u>

The Company will continue to adjust the liability for changes in fair value so long as the warrants are outstanding. See Note 2—"Summary of Significant Accounting Policies—Fair Value of Financial Instruments" for a discussion of the determination of the fair value of the warrants.

17. Common Stock

Holder of the Company's common stock cannot transfer their shares without the Company's consent, and the Company has the right of first refusal. These transfer restrictions terminate upon (1) the first sale of common stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission, or (2) any transfer or conversion made pursuant to a statutory merger or statutory consolidation of the Company with or into another corporation.

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At December 31, 2016 and 2015, the Company had reserved shares of common stock for future issuance as follows:

	December 31,	
	2016	2015
Options outstanding under the 1999 Stock Plan	9,548,736	10,392,353
Options outstanding under the 2015 Stock Plan	5,955,311	1,535,000
Shares available for future option grants under the 2015 Stock Plan	429,518	2,205,326
Convertible preferred stock	66,908,776	65,899,759
Convertible preferred stock warrants	1,311,042	1,311,042
Total	84,153,383	81,343,480

18. Stock Option Plans

Pursuant to the Company’s 1999 Stock Incentive Plan (the “1999 Plan”), options and restricted stock may be granted to employees, directors and consultants of the Company. Options granted under the 1999 Plan may either be incentive stock options (“ISOs”) or nonqualified stock options (“NSOs”). The ISOs may be granted at a price per share not less than 100% of the fair market value at the date of the grant. The NSOs may be granted at a price per share not less than 85% of the fair market value at the date of grant. If at any time, the Company grants an option and the optionee directly or by attribution owns stock comprising more than 10% of the total combined voting power of all classes of stock of the Company, the optionee price shall be at least 100% of the fair value at that date. Options and unvested shares of restricted stock awards generally vest and become exercisable over a period of two to four years, with a maximum term of 10 years. The 1999 Plan also allows the Company to award stock purchase rights to employees, officers, directors and consultants. The purchase of shares under the 1999 Plan may be in combination or entirely in the form of cash, a promissory note, or cancellation of indebtedness.

In April 2015, the Board of Directors and stockholders approved the 2015 Equity Incentive plan (the “2015 Stock Plan”), effective April 22, 2015, covering options and restricted stock that may be granted to employees, directors and consultants of the Company. The ISOs and NSOs may be granted at a price per share not less than 100% of the fair market value at the date of the grant. If at any time, the Company grants an option and the optionee directly or by attribution owns stock comprising more than 10% of the total combined voting power of all classes of stock of the Company, the optionee price shall be at least 110% of the fair value at that date. Employee stock options generally vest 25% upon one year of continued service to the Company, with the remainder in monthly increments over three additional years, with a maximum term of 10 years. Options expire no more than 10 years after the date of grant. Any options under the 2015 Stock Plan that expire or otherwise terminate will revert to the 2015 Stock Plan and again become available for issuance. The 2015 Stock Plan also provides for the granting of restricted stock.

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In addition to shares authorized under the 2015 Stock Plan, the total number of shares that may be issued under the 2015 Stock Plan at December 31, 2016 includes any shares subject to awards outstanding as of April 1, 2015 under the IronPlanet, Inc. 1999 (the “Prior Plan”) that expire or otherwise terminate without having been exercised in full and shares issued by the Company. As of December 31, 2016, the number of shares granted and available for future grants under the 2015 Stock Plan totaled 6,384,829.

Compensation Awards

Activity under the Company’s stock option plans is set forth below:

	Options Available for Grant	Number of Options	Options Outstanding		Aggregate Intrinsic Value (in thousands)
			Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (years)	
Balances at December 31, 2014	2,626,938	9,237,461	2.35	6.7	\$ 3,124
Options authorized	2,835,236	—	—		
Options granted	(3,955,000)	3,955,000	2.20		
Options exercised	—	(562,456)	2.28		\$ 307
Options forfeited	523,090	(523,090)	2.56		
Options expired	179,562	(179,562)	2.75		
Balances at December 31, 2015	2,209,826	11,927,353	2.29	6.8	\$ 13,466
Options authorized	2,314,000	—	—		
Options granted	(4,587,000)	4,587,000	3.54		
Options exercised	—	(517,614)	1.11		\$ 2,082
Options forfeited	305,349	(305,349)	2.48		
Options expired	187,343	(187,343)	2.70		
Balances at December 31, 2016	429,518	15,504,047	2.69	6.8	\$ 52,161
Options exercisable – December 31, 2016		8,577,548	2.35	5.2	\$ 31,747
Options vested and expected to vest – December 31, 2016		14,486,715	2.66	6.7	\$ 49,072

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest were calculated as the difference between the exercise price of the options and the estimated fair value of the Company’s common stock, as determined by the Board of Directors, as of December 31, 2015 and 2016.

The options granted in the years ended December 31, 2016, and 2015 had a weighted-average per share grant-date fair value of \$1.45 and \$0.82, respectively. At December 31, 2016, the unrecognized compensation expense with respect to options granted to employees was \$6.6 million and is expected to be recognized over 3.0 years.

The Company granted 110,000 restricted stock awards during the year ended December 31, 2015, with a weighted-average grant date fair value of \$1.99 per share, all of which were fully vested on grant date. The Company granted 2,500 restricted stock awards during the year ended December 31, 2016, with a weighted-average grant date fair value of \$2.55 per share, all of which were fully vested on grant date.

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Valuation assumptions

The Company estimated the fair value of employee stock options using the Black-Scholes valuation model. Each of the inputs in the model requires significant judgment. The fair value of employee stock options is being recognized on a straight-line basis over the requisite service period of the awards. The fair value of employee stock options was estimated using the following assumptions:

	Year Ended December 31,	
	2016	2015
Expected volatility	40%	40%
Risk-free interest rate	1.28-1.44%	1.58-1.84%
Expected term (in years)	6	6
Dividend yield	—%	—%

Fair Value of Common Stock: The fair value of the shares of the Company's common stock underlying the stock options has historically been determined by the Board of Directors. Because there has been no public market for the Company's common stock, its Board of Directors has determined the fair value of the Company's common stock at the time of grant of the option by considering a number of objective and subjective factors, including the Company's stage of development, sales of the Company's convertible preferred stock, the Company's operating and financial performance, equity market conditions affecting comparable public companies, the lack of liquidity of the Company's capital stock, and the general and industry-specific economic outlooks.

Expected Volatility: Because the Company is privately held and does not have any trading history for its common stock, the expected volatility was estimated based on the average volatility for comparable publicly traded companies over a period equal to the expected term of the stock option grants. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of the option.

Expected Term: The expected term represents the period that the share-based awards are expected to be outstanding. The Company used the simplified method to determine the expected term, which is calculated as the average of the time to vesting and the contractual life of the options.

Dividend Yield: The Company has never paid dividends on its common stock and has no plans to pay dividends on its common stock. Therefore, the Company used an expected dividend yield of zero.

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19. Stock-Based Compensation Expense

Total stock-based compensation expense recognized was as follows (in thousands):

	Year Ended December 31,	
	2016	2015
Cost of revenue	\$ 313	\$ 318
Sales and marketing	801	472
Technology	192	173
General and administrative	1,475	981
Total stock-based compensation expense	\$ 2,781	\$ 1,944

Stock-based compensation expense recognized during the years ended December 31, 2016 and 2015 for stock-based awards granted to employees was \$2.7 million and \$1.9 million, respectively.

20. Fair value disclosure

The following table represents the Company's fair value hierarchy for its financial assets and liabilities carried at fair value on a recurring basis as of December 31, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Restricted cash	\$ 3,000	\$ —	\$ —	\$ 3,000
Interest rate swap	—	25	—	25
Total assets to be measured at fair value	\$ 3,000	\$ 25	\$ —	\$ 3,025
Liabilities:				
Convertible preferred stock warrant liability	\$ —	\$ —	\$ 5,325	\$ 5,325
Total liabilities to be measured at fair value	\$ —	\$ —	\$ 5,325	\$ 5,325

IRONPLANET HOLDINGS, INC.

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The following table represents the Company's fair value hierarchy for its financial assets and liabilities carried at fair value on a recurring basis as of December 31, 2015 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Restricted cash	\$ 3,040	\$ —	\$ —	\$ 3,040
Interest rate swap	<u>—</u>	<u>11</u>	<u>—</u>	<u>11</u>
Total assets to be measured at fair value	<u>\$ 3,040</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 3,051</u>
Liabilities:				
Convertible preferred stock warrant liability	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,172</u>	<u>\$ 2,172</u>
Total liabilities to be measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,172</u>	<u>\$ 2,172</u>

As the 2015 Term Loan is subject to variable rate resets, the fair value was estimated to be equal to its carrying value, excluding unamortized debt issuance costs.

21. Commitments and Contingencies

Leases

Future minimum payments under operating leases at December 31, 2016 having initial terms in excess of one year are as follows (in thousands):

Year ending December 31,	
2017	\$ 1,728
2018	1,659
2019	1,474
2020	812
2021	<u>33</u>
Total	<u>\$ 5,706</u>

Rent expense was \$2.1 million and \$1.5 million for the years ended December 31, 2016 and 2015, respectively. Certain leases contain an escalation clause calling for increased rents. When a lease contains an escalation clause, rent expense is recognized on a straight-line basis over the lease term.

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Legal Proceedings

In January 2015, Cat Auction Services, which is now a wholly-owned entity of the Company (see Note 3—“Business Combinations”), was served with a summons and complaint in the U.S. District Court for the District of Delaware in the matter of International Construction Products LLC v. Caterpillar Inc., et al., D. Del. Case No. 1: 15-cv-00. The lawsuit alleges generally that certain heavy equipment manufacturers have conspired to keep new competitors out of the market and have charged prices above competitive levels. The lawsuit alleges that the Company’s acquisition of Cat Auction Services is harmful to competition in the heavy construction equipment market and seeks injunctive relief in the form of an unwinding of the acquisition. Following the completion of the acquisition in April 2015, Cat Auction Services became the Company’s wholly owned subsidiary and the Company assumed the defense. In October 2015, the court heard motions to dismiss plaintiff’s claims, and on January 21, 2016 the court dismissed all claims against the defendants. In particular, the claims against Cat Auction Services were dismissed with prejudice. On February 4, 2016, the plaintiff filed a Motion for Reconsideration, an Amended Complaint, and a proposed Second Amended Complaint, all in an attempt to revive the allegations that were dismissed. The defendants responded to these new pleadings with a second motion to dismiss and an opposition to reconsideration. As to Cat Auction Services, the response was that reconsideration should be denied because the current allegations are very similar to those previously and correctly dismissed at the Company’s request. On August 22, 2016, the court denied the plaintiff’s Motion for Reconsideration and Leave to Amend with respect to its unlawful merger claims against Cat Auction Services. However, the court was unclear as to the dismissal of state law antitrust claims against Cat Auctions Services and denied clarification of its Order. As a result, while the Company does not believe that any state law claims apply to it, it is not dismissed completely from the case and will be required to comply with discovery requests. The Company believes the lawsuit is without merit and intends to defend it vigorously.

On May 31, 2011, the Company filed suit against RBA for tortious interference with contractual relations, tortious interference with prospective business relations, and defamation, and against a seller for breach of contract related to equipment that was originally to be sold through the Company’s marketplace. In September 2012, the district court denied a motion for summary judgment filed by RBA and the seller, and the case proceeded to trial. In February 2013, a jury awarded a verdict in favor of the Company on all counts after finding that RBA intentionally and improperly interfered with a valid contract between the Company and the seller and in 2014 a final judgment was entered in favor of the Company for \$0.9 million in punitive damages against the seller and RBA to be shared jointly and severally, \$0.3 million in compensatory damages against the seller, and \$47,000 in interest. The punitive damage award was recorded in other income, net and the remainder in general and administrative expenses when the Company received payment in 2015.

Guarantee Agreements

At December 31, 2016 and 2015, outstanding guarantees for minimum sale proceeds to sellers under contracts for future marketplace sales totaled \$21.3 million and \$28.8 million, respectively (undiscounted and before estimated proceeds from the sale in the marketplace). The weighted-average tenor of these auctions guarantees were 292 and 73 days for December 31, 2016 and 2015, respectively. In accordance with the Company’s revenue recognition policy for guarantee arrangements described in Note 2— “Summary of Significant Accounting Policies—Revenue Recognition and Auction Guarantees,” the Company has evaluated losses on unsold pieces of equipment as of December 31, 2016 and 2015. A loss contingency of \$0.2 million and \$0.3 million was recorded for the years ended December 31, 2016 and 2015, respectively. The total liability for guarantees was \$0.3 million and \$0.8 million as of December 31, 2016 and 2015, respectively.

IRONPLANET HOLDINGS, INC.

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22. 401(k) Plans

The Company has defined-contribution 401(k) plans for full-time employees, which qualify under Section 401(k) of the Internal Revenue Code. Under the terms of the plans, employees may contribute up to 100% of their annual compensation, subject to Internal Revenue Service limitations, of their annual compensation, and the Company can make discretionary employer contributions. Effective January 1, 2016, the three legacy 401(k) plans of IronPlanet, Inc., Kruse Energy and Cat Auction Services were combined into one plan. Employer contributions to the 401(k) plans of \$0.9 million and \$0.4 million were made for the years ended December 31, 2016 and 2015, respectively.

23. Related-Party Transactions

Transactions with Caterpillar

Caterpillar has an equity ownership in the Company of 15% as of December 31, 2016. An executive of Caterpillar was a member of the Company's Board of Directors from April 2015 through May 2016.

Caterpillar is one of the Company's preferred providers and sellers of equipment in the Company's marketplace. The Company's preferred provider agreement with Caterpillar reflects the high volume of business that Caterpillar has conducted with the Company, and is similar to other preferred provider agreements with unrelated parties in that they provide for seller commission rates that are more favorable than the Company's standard commission rates and the waiver of certain fees for equipment that Caterpillar sells through the Company's marketplace.

During the years ended December 31, 2016 and 2015, the Company recorded revenue from Caterpillar totaling \$3.0 million and \$2.0 million, respectively. There were no amounts owed by Caterpillar for billings of marketplace related services as of December 31, 2016 or 2015. Amounts owed to Caterpillar related to auction activity as of December 31, 2016 and 2015 were \$0.6 million and \$0.2 million, respectively. Cost of revenue is not tracked on a per item or on a per customer basis for equipment sold in the Company's marketplace as these costs are generally consistent across the Company's customer base. The Company has no reasonable basis for tracking costs separately for such equipment. Accordingly, the Company has not separately disclosed related party cost of revenue in its Consolidated Statements of Operations.

On April 1, 2015, the Company acquired Associated Auction Services, LLC, which was owned by Caterpillar, and certain independent Cat dealers, that operated under the name Cat Auction Services for total consideration of \$49.5 million. See Note 3— "Business Combinations" for further description of the transaction.

Transactions with Ring Power Corporation

Ring Power Corporation ("Ring Power") has an equity ownership in the Company of 4% as of December 31, 2016. An executive with Ring Power became a member of the Company's Board of Directors in May 2016, at which time the Company determined Ring Power to be a related party. During year ended December 31, 2016 and 2015, the Company recorded revenue from Ring Power totaling of \$0.7 million and \$0.8 million, respectively. Amounts due from Ring Power for billings of marketplace related services were \$2,000 and \$0 at December 31, 2016 and 2015, respectively. Amounts owed to Ring Power related to auction activity as of December 31, 2016 and 2015 were approximately \$8,000 and \$23,000, respectively.

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Transactions Involving Chief Executive Officer

The Company uses its Chief Executive Officer's personally owned hunting property for sales and marketing meetings and entertaining customers. The total fees billed to the Company for use of the property during the years ended December 31, 2016 and 2015 were \$133,000 and \$210,000, respectively. Outstanding amounts of \$41,000 and \$70,000 were due to the Chief Executive Officer as of December 31, 2016 and 2015, respectively.

24. Credit Risk and Customer Concentration

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of demand deposit accounts, certificates of deposit, trade accounts receivable and hedging instruments.

The Company provides its services on a credit basis. Accounts receivable are recorded when billed, advanced, or accrued and represent claims against third parties that will be settled in cash. The Company has mitigated credit risk because buyers are generally required to pay for the purchased items in advance of release of such items.

One customer accounted for 10% or more of the accounts receivable as of December 31, 2016 and 2015. No one customer accounted for more than 10% of revenue for the year ended December 31, 2016. One customer accounted for more than 10% of revenue for the year ended December 31, 2015.

The Company's customers include Caterpillar and certain independent Cat dealers. These Cat dealers are independently owned and managed organizations; however, as discussed in Note 3— "Business Combinations," since April 2015, the Company has current customer incentives in place and standard marketplace contract terms that apply to Caterpillar and certain of those independent Cat dealers who are customers of the Company.

The Company's cash is deposited in financial institutions. However, deposits may exceed federally insured limits. Accordingly, there may be a risk that the Company will not recover the full principal of its deposits or that liquidity may be diminished.

25. Merger with Ritchie Bros. Auctioneers Incorporated

On August 29, 2016, RBA and the Company jointly announced that they have entered into an agreement under which RBA will acquire the Company for approximately \$758.5 million, subject to customary closing adjustments. Under the terms of the transaction, RBA will acquire 100% of the equity of the Company for approximately \$740.0 million in cash and will assume unvested equity interests in the Company, subject to adjustment, bringing the total transaction consideration to approximately \$758.5 million. The consummation of the sale is subject to certain conditions, including, among others, the expiration or termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements, Act of 1976, CFIUS (Committee on Foreign Investment in the United States) approval; receipt of all other material governmental and third party consents, authorizations and approvals; no occurrence of a Material Adverse Change (as defined in the merger agreement), and certain other customary closing conditions.

IRONPLANET HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On October 11, 2016 the Company received notification from the Premerger Notification Office of the Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice (DOJ) that each has received completed Notification and Report Forms from all parties with respect to the proposed acquisition by RBA of the Company. The notification stated that the waiting period required by Section 7A(b)(1) of the Clayton Act, 15 U.S.C. Section 18a(b)(1), will expire on November 10, 2016. RBA voluntarily withdrew its filing and refiled effective November 15, 2016, (within two business days of the original expiration date) which extended the waiting period to December 15, 2016. On December 15, 2016, both RBA and the Company received a second request for additional information and documentary material. In connection with the second request, RBA and the Company entered into a timing agreement (“TAR”) that specifies, among other things, certain dates by which information is required to be delivered. Further, the TAR specifies that the waiting period shall extend 75 days from the date of compliance with the Second Request, which was March 6, 2017. However, the DOJ may determine to terminate the waiting period prior to end of the 75th day at which time the parties may proceed to close the merger.

26. Subsequent Events

Issuance of Earnout Shares

On March 28, 2017, the Company issued 1,359,393 of its common stock for the third and final earnout period that ended December 31, 2016. These shares were included as unissued customer equity incentive shares in the Consolidated Balance Sheet as of December 31, 2016.

Amendment to 2015 Credit Facility

As of March 20, 2017, the Company amended the 2015 Credit Agreement to increase the leverage ratio to 3.75 from 3.00 for the quarter ending March 31, 2017 and to 3.25 from 2.75 for the quarter ending June 30, 2017. Additionally, expenses incurred through June 30, 2017 related to the merger with RBA (see Note 25 “Merger with Ritchie Bros. Auctioneers Incorporated”) will be excluded from the covenant calculations for the first two quarters of 2017. The leverage covenant will return to the existing schedule and calculation in the third quarter of 2017.

In return for granting the request, the \$15.0MM revolving credit facility would require lender approval to draw on the facility until the acquisition occurs or until September 30, 2017.

The Company has reviewed subsequent events through March 31, 2017, the date that these Consolidated Financial Statements were issued.

IRONPLANET HOLDINGS, INC.

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IRONPLANET HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2017	2016
Gross revenue (including related party gross revenue of \$717 and \$652 for the three months ended March 31, 2017 and 2016, respectively)	\$ 30,045	\$ 37,154
Customer equity incentives	—	(6,295)
Total revenue	<u>30,045</u>	<u>30,859</u>
Cost of revenue	10,261	10,234
Gross profit	<u>19,784</u>	<u>20,625</u>
Operating expenses:		
Sales and marketing	10,769	11,508
Technology	1,175	1,033
General and administrative	9,281	6,571
Amortization of intangible assets	1,314	1,741
Total operating expenses	<u>22,539</u>	<u>20,753</u>
(Loss) income from operations	(2,755)	52
Interest expense	(543)	(570)
Other expense, net	(211)	(216)
Net loss before taxes	<u>(3,509)</u>	<u>(734)</u>
Income tax (benefit) provision	(226)	91
Net loss	<u>\$ (3,283)</u>	<u>\$ (825)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IRONPLANET HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2017	2016
Net loss	\$ (3,283)	\$ (825)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments, net of tax of \$0	105	812
Interest rate swap:		
Gain (loss) recognized in accumulated other comprehensive loss	10	(213)
Reclassification to earnings	13	33
Interest rate swap, net of tax of \$0	23	(180)
Other comprehensive income,, net of tax	128	632
Comprehensive loss	<u>\$ (3,155)</u>	<u>\$ (193)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IRONPLANET HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2017	December 31, 2016
	(unaudited)	
Assets		
Current assets:		
Cash	\$ 83,504	\$ 74,689
Accounts receivable, net of allowance for doubtful accounts	21,006	6,362
Accounts receivable – related parties	3	3
Prepaid expenses and other current assets	3,685	3,992
Seller advances	2,014	7,395
Inventory	2,409	2,535
Restricted cash	3,000	3,000
Total current assets	115,621	97,976
Property and equipment, net	6,097	6,359
Goodwill	55,018	55,018
Intangible assets, net	26,283	27,597
Deposits and other assets	772	756
Total assets	<u>\$ 203,791</u>	<u>\$ 187,706</u>
Liabilities, Convertible Preferred Stock and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 2,271	\$ 1,514
Accrued liabilities	14,772	12,577
Warrants on convertible preferred stock	5,574	5,325
Customer deposits	3,670	3,729
Marketplace payables	57,936	42,737
Marketplace payables – related parties	1,181	639
Current portion of long-term debt	3,972	3,972
Total current liabilities	89,376	70,493
Deferred tax liability	827	888
Long-term debt	31,094	32,008
Total liabilities	<u>121,297</u>	<u>103,389</u>
Commitments and contingencies		
Convertible preferred stock, \$0.00001 par value – 86,270,621 shares authorized; 66,908,776 shares issued and outstanding ; aggregate liquidation preference of \$113,536	143,524	143,524
Stockholders' (deficit) equity:		
Common stock, \$0.00001 par value as of March 31, 2017 and December 31, 2016 – 138,729,379 shares authorized; 19,555,548 and 18,149,593 shares issued and outstanding at March 31, 2017 and December 31, 2016	—	—
Additional paid-in capital	56,472	46,916
Unissued customer equity incentive shares	—	8,224
Accumulated other comprehensive loss	(3,448)	(3,576)
Accumulated deficit	(114,054)	(110,771)
Total stockholders' deficit	<u>(61,030)</u>	<u>(59,207)</u>
Total liabilities, convertible preferred stock and stockholders' (deficit) equity	<u>\$ 203,791</u>	<u>\$ 187,706</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IRONPLANET HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net loss	\$ (3,283)	\$ (825)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,963	2,250
Stock-based compensation	1,254	584
Amortization of debt issuance costs	86	91
Changes in fair value of convertible preferred stock warrant liability	249	183
Gain on disposal of property and equipment	(29)	—
Customer equity incentives	—	6,295
Changes in operating assets and liabilities		
Accounts receivable	(14,600)	(32,418)
Accounts receivable – related parties	—	(30)
Prepaid expenses and other current assets	344	(220)
Seller advances	5,387	18,234
Inventory	126	248
Restricted cash	—	(1,708)
Deposits and other assets	7	224
Accounts payable	747	1,925
Accrued liabilities	2,187	2,204
Customer deposits	(61)	102
Marketplace payables	15,130	35,690
Marketplace payables – related parties	542	1,077
Deferred tax	(61)	118
Net cash provided by operating activities	<u>9,988</u>	<u>34,024</u>
Cash flows from investing activities		
Purchases of property and equipment	(392)	(1,098)
Proceeds from the sale of property and equipment	40	—
Proceeds from the sale of investment	—	1,185
Net cash (used in) provided by investing activities	<u>(352)</u>	<u>87</u>
Cash flows from financing activities		
Proceeds from issuance of common stock upon exercise of stock options	78	275
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	1,147
Payment of debt	(1,000)	(524)
Payments of initial public offering costs	—	(1,052)
Net cash used in financing activities	<u>(922)</u>	<u>(154)</u>
Effect of exchange rate changes on cash	101	552
Net increase in cash	8,815	34,509
Cash, beginning of period	74,689	55,232
Cash, end of period	<u>\$ 83,504</u>	<u>\$ 89,741</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IRONPLANET HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows (continued)
(Unaudited)
(In thousands)

	Three Months Ended	
	March 31,	
	2017	2016
Supplemental disclosure of cash flow information		
Cash paid for taxes	\$ 9	\$ 10
Interest paid	\$ 457	\$ 512
Supplemental disclosure of non-cash investing and financing activities		
Purchases of property, plant and equipment in accounts payable and accrued liabilities	\$ 4	\$ 5
Deferred initial public offering costs in accounts payable and accrued liabilities	—	827
Issuance of common stock earned by Caterpillar Inc. and certain independent Caterpillar dealers	\$ 8,224	\$ —

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

IronPlanet Holdings, Inc. succeeds IronPlanet, Inc. as the parent reporting company. IronPlanet, Inc. was incorporated in Delaware in January 1999. The Company's principal business is the operation of a marketplace for the selling and buying of used equipment and other durable assets through its brands using online and other marketplace formats. The Company provides related services including physical inspection and valuation services. The Company has a broad global customer base, operating through its subsidiaries in the United States, Canada, the United Kingdom, Mexico and Ireland. The Company's brands market to sellers and buyers of assets used in industries including construction, transportation, oil and gas, government dispositions, mining, agriculture, materials handling, and forestry.

2. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) regarding interim financial reporting, and include the accounts of the Company's wholly-owned subsidiaries. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted.

The consolidated balance sheet as of December 31, 2016 included herein was derived from the audited consolidated financial statements as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's audited financial statements for the year ended December 31, 2016.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements, and reflect, in the opinion of management, all normal recurring adjustments necessary to present fairly the Company's consolidated financial position, and the consolidated results of operations, comprehensive loss and cash flows for the interim periods presented, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2017 or any other period.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These differences could have a material effect on the Company's future results of operations and financial position. Significant items subject to estimates and assumptions include revenue and seller guarantees; the allowances for doubtful accounts and collapsed sales, the valuation of customer equity incentives; purchase price allocations; the carrying amounts of goodwill, long-lived assets, including definite-lived intangible assets; useful lives for depreciation and amortization; the valuation of stock options and convertible preferred stock warrants; deferred income taxes; and reserves for tax uncertainties and other contingencies.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition and Auction Guarantees

The Company typically sells equipment or other assets on consignment from sellers and stimulates buyer interest through sales and marketing techniques in order to match sellers to buyers in its marketplace. Prior to offering an item for sale, the Company performs required inspections, title and lien searches, and make-ready activities to prepare the item for sale in the marketplace.

Marketplace revenue is primarily driven by seller commissions, fees charged to sellers for listing and inspecting equipment, and buyer transaction fees. The Company also generates revenue from related marketplace services including make-ready activities, logistics coordination, storage, private auction hosting, and asset appraisals. Revenue from related services is recognized when the service to be rendered has been completed. Revenue from seller commissions and fees for the sale of an item is recognized when the sale is complete, which is generally at the conclusion of the marketplace transaction between the seller and buyer. This occurs when a buyer has become legally obligated to pay the purchase price and buyer transaction fee for an asset for which the seller is obligated to relinquish the item for the sales price less seller commissions and listing fees. At this time, the Company has substantially performed what it must do to be entitled to the benefits represented by its commissions and fees. Following the sale of the item, the Company invoices the buyer for the purchase price of the asset, taxes, and the buyer transaction fee; collects payment from the buyer; and remits the proceeds, net of the seller commissions, listing fees, and taxes, to the seller. The Company notifies the seller when the buyer payment has been received in order to clear release of the equipment or other asset to the seller. These remaining service obligations are not viewed to be an essential part of the services provided by the Company. Sales taxes collected from buyers and remitted to governmental authorities are excluded from revenue in the Consolidated Statement of Operations.

Under the Company's standard terms and conditions, it is not obligated to pay the seller for items in a marketplace sale in which the buyer has not paid for the purchased item. If the buyer defaults on its payment obligation, also referred to as a "collapsed sale," the equipment or other assets may be returned to the seller or moved into a subsequent marketplace event. Revenue is recorded, net of a provision for collapsed sales, which is an estimate of sales that are expected to default based on the Company's historical experience.

Revenue is reduced by a provision for disputes, which is an estimate of disputed items that are expected to be settled at a cost to the Company. Some disputes relate to settlements of discrepancies under the Company's *IronClad Assurance*® program. The *IronClad Assurance*® equipment condition certification refers to a written inspection report which is provided to potential buyers that reflects the condition of a specific piece of equipment offered for sale, and includes ratings, comments, and photographs of the particular piece of equipment following inspection by one of the Company's equipment inspectors. equipment condition certification provides that a buyer may file a written dispute claim during an eligible dispute period for consideration and resolution at the sole determination of the Company if the purchased equipment is not substantially in the condition represented in the inspection report. Typically disputes *IronClad Assurance*® under *IronClad Assurance*® are settled with minor repairs or additional services, such as washing or detailing the item; the estimated costs of such items or services are included in the disputes allowance. The disputes allowance also covers the costs of any other disputes or accommodations made with the Company's buyers or sellers.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the changes in the disputes allowance (in thousands):

	Three Months Ended	
	March 31,	
	2017	2016
Balance, beginning of period	\$ 124	\$ 126
Add: provision for disputes allowance	185	378
Less: dispute settlements	(213)	(397)
Balance, end of period	<u>\$ 96</u>	<u>\$ 107</u>

In certain situations, the Company offers to guarantee minimum sales proceeds to sellers on selected consignments of equipment (“guarantee contracts”). In these arrangements, the Company is obligated to pay the agreed-upon minimum amount if the consigned equipment sells for less than the minimum price. If actual proceeds are less than the guaranteed amount, the commission earned is reduced; if proceeds are sufficiently lower, the Company may incur a loss on the sale. If such consigned equipment sells above the minimum price, the Company may be entitled to a share of the excess proceeds as negotiated with the seller. The Company’s share of the excess, if any, is recorded in revenue together with the commission for guaranteed sales. Losses, if any, resulting from guarantee contracts are recorded within revenue in the period in which the relevant marketplace event was completed. However, if a loss relating to items under a guarantee contract in effect at a period end that will be sold after the period end, is known or is probable and estimable at the financial statement reporting date, such loss is accrued in the financial statements for that period. Where a loss is neither probable nor able to be reasonably estimated, the Company recognizes a liability based on the estimated stand-alone fair value of the guarantee. The liability for guarantee contracts is included in accrued liabilities within the Consolidated Balance Sheets.

Revenue also includes the fees earned, net of acquisition costs, from the sale of inventory. The Company may obtain inventory from time to time due to collapsed sales or other seller or buyer accommodations. For inventory sale contracts, the Company acquires title to assets to sell in an upcoming marketplace event. Such acquisition of equipment in advance of an auction is an ancillary component of the Company’s auction business. As the auction business is a net business, gross auction sales are not reported as revenue in the Consolidated Statements of Operations; rather, the net commission earned from sales is reported as revenue, which reflects the Company’s agency relationship between buyers and sellers of equipment. In general, the risks and rewards of ownership are not substantially different than the Company’s other guarantee contracts.

The Company’s customer equity incentives are considered to be sales incentives and are reported at their fair value as a reduction of revenue at the time that the customer has earned the incentive. The fair value is based on the fair value of the underlying equity security. See Note 3—“Business Combination.”

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Restricted Cash

Restricted cash balance of \$3.0 million as of March 31, 2017 and December 31, 2016 was held in accounts owned by the Company in support of short-term stand-by letters of credit to provide seller security. From time to time, restricted cash can include auction proceeds owed to sellers in certain jurisdictions where such funds are required by law or contract to be maintained in segregated bank accounts. As of March 31, 2017 and December 31, 2016, there were no amounts held in such segregated accounts.

Accounts Receivable

Accounts receivable primarily consist of amounts owed by buyers for equipment sold in the Company's marketplace, seller listing fees, buyer transaction fees, and other service fees. Accounts receivable payment terms vary. Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts and collapsed sales.

The Company determines its allowance for doubtful accounts based on known troubled accounts, the aging of the accounts, and historical experiences of losses incurred. Changes to the allowance for doubtful accounts are recorded in general and administrative expenses, and uncollectible account write-offs are charged against the allowance for doubtful accounts.

The following table presents the changes in the allowance for doubtful accounts (in thousands):

	Three Months Ended March 31,	
	2017	2016
Balance, beginning of period	\$ 56	\$ 353
Add: provision for doubtful accounts	35	161
Less: write-offs, net of recoveries and other adjustments	(2)	(175)
Balance, end of period	<u>\$ 89</u>	<u>\$ 339</u>

Capitalized Software Development Costs

The Company capitalizes and includes in property and equipment the direct costs related to the development of the Company's technology platform when the original code is enhanced to provide new functionality or features. The Company begins amortizing capitalized software development costs when the software is substantially complete and ready for its intended use. For the three months ended March 31, 2017 and 2016, the Company capitalized \$0.3 million and \$0.5 million, respectively, primarily related to payroll and payroll-related costs and outside services. Such costs are amortized over the estimated useful life of the asset. All other development costs are expensed as incurred and are included in technology expenses.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. There is a three-tier fair value hierarchy, which prioritizes the inputs to valuation methodologies used to measure fair value.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 inputs, such as quoted prices for similar assets and liabilities in markets that are not active or other inputs that are observable or could be corroborated by observable market data.

Level 3: Unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

The carrying value of cash, restricted cash, accounts receivable, amounts receivable from stockholders, seller advances, marketplace payables, accounts payable, and other accruals readily settled in cash approximate fair value because of the short-term nature of the instruments. The carrying value of the Company's variable interest rate debt, excluding unamortized debt issuance costs, approximates fair value. The carrying value of the Company's interest rate swap is its fair value. The fair value of the swap is determined using Level 2 inputs and based on a valuation by a third-party firm.

Customer equity incentives payable for equity incentives earned but not yet fixed as well as the liability related to warrants for the purchase of convertible preferred stock are carried at fair value. In addition, the Company estimated the fair value of the Series E convertible preferred stock issued as consideration for its acquisition of Associated Auction Services, LLC in April 2015 and as part of the Series E convertible preferred stock purchase program following the closing of the acquisition (see Note 3—"Business Combination").

The valuation analysis of these items estimated the enterprise value of the Company using the income approach, based on discounted cash flows, as of the valuation date, and the market approach, using the market multiple approach. The analysis considered the Company's historical and prospective financial results as well as then current trends in the capital markets. Key assumptions for the income approach included revenue growth rates and general economic conditions. The discount rate used in the valuation reflected the risks associated with achieving the projected financial results. The market approach included market inputs using comparable companies from a representative peer group selected based on industry and market capitalization data.

The values derived by the methodologies above are then analyzed using a probability-weighted expected return method, which estimates equity value based upon an analysis of various future outcomes, such as an initial public offering ("IPO"), merger or sale, and staying private. The enterprise value of the Company is then allocated to the different classes of securities.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The allocated value is based upon the probability-weighted present values of expected future investment returns, considering each of the possible outcomes available to the Company, as well as the rights of each security class. The value of each series of warrants is based on the preferred warrant holder maximizing their economic value in each scenario based on their specific rights and preferences by either maintaining their liquidation preference or converting to common stock. The analysis then assumes a cashless exercise and estimates the net value for the warrant holder at the future date. This value is then adjusted to the present value using the same discount rate used in the income approach.

Significant Level 3 inputs include the probabilities associated with the future outcomes, the periods of time a liquidity event will be achieved, revenue growth rates and discount rates consistent with the level of risk and economy in general. Changes in these Level 3 inputs could have a significant impact on the fair value of the resulting fair value measurements.

For the valuation as of March 31, 2016, the aggregate probability of an IPO on that date was 60%, with time to IPO ranging from 3 months to 15 months. The aggregate probability of sale or merger was 30%, with time to transaction ranging from 6 months to 15 months. The probability of staying private was 10%. The discount rate used in the valuation was 20%.

For the valuations as of December 31, 2016 and March 31, 2017, the market approach is based on the terms of the merger agreement with Ritchie Bros. Auctioneers Incorporated (“RBA”). (See Note 17—“Merger with Ritchie Bros. Auctioneers Incorporated”). For the valuation as of December 31, 2016, the aggregate probability of sale or merger was 90%, with time to transaction ranging from 4 months to 6 months. The aggregate probability of IPO or staying private was 10%. For the valuation as of March 31, 2017, the aggregate probability of sale or merger was 80%, with time to transaction ranging from 2 to 3 months. The aggregate probability of IPO or staying private was 20%. The discount rate used in the December 31, 2016 and March 31, 2017 valuations was 20%.

The Company’s accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1, Level 2, or Level 3 for any of the periods presented.

Recently Issued Accounting Standards

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, the determination of forfeiture rates, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016 and 2017 for public and nonpublic companies, respectively. Early adoption is permitted and the Company has elected to adopt the provisions effective January 1, 2017. As a result of the adoption, the Company recognized approximately \$3.5 million of deferred tax assets from excess deductions from the exercise of stock options. There is also a corresponding increase in the Company’s valuation allowance against its deferred tax assets.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Business Combination

In connection with the Cat Auction Services acquisition in April 2015, the Company entered into several agreements with Caterpillar Inc., and certain independent Cat dealers. The acquisition agreement with Cat Auction Services contained incentive-based elements and standard contracting terms that were made available to Caterpillar Inc. and its operating subsidiaries and current and future Cat dealers worldwide. These elements include: (1) an opportunity to earn Company common stock through selling equipment, measured in gross merchandise volume (GMV), in the Company's marketplace (the "Earnout"); (2) a Series E convertible preferred stock purchase program; (3) and negotiated master contract terms for marketplace sales by these parties.

Earnout

The acquisition agreement contains a provision whereby the Earnout is payable to Caterpillar Inc. together with its operating subsidiaries, ("Caterpillar"), and certain independent Cat dealers, through their respective representatives, in exchange for specified levels of GMV sold in the Company's marketplace. Specifically, for each \$1.0 million of GMV generated in the Company's marketplace that is attributable to these parties in a single Earnout period (prorated for amounts less than \$1.0 million), a number of shares of the Company's common stock, as determined by a formula based on the period-ending level of common stock equivalents and certain awards outstanding, will be issued to them. The applicable Earnout periods include GMV from Caterpillar and certain independent Cat dealers from: (1) February 1, 2015 through December 31, 2015, (2) January 1, 2016 through June 30, 2016, and (3) July 1, 2016 through December 31, 2016. The shares earned in a given Earnout period are issued following the close of such Earnout period. There are maximum amounts that can be earned in a single period, and any shortfall on earned shares from the maximum can roll over and increase the maximum in subsequent periods. In the event of the completion of an IPO or acquisition of the Company prior to December 31, 2016, the remaining maximum amounts of the Earnout for any period becomes payable in full with the exception the remaining maximum amount attributable to a prior Earnout period in which 50% of the applicable maximum amount had not been earned.

The Earnout is not earned solely by former owners of Cat Auction Services, but may also be earned by a broader group of certain independent Cat dealers. Accordingly, the Earnout has not been accounted for as an element of contingent consideration to be paid for the purchase of Cat Auction Services. The Company accounts for the Earnout as equity consideration provided by a vendor to a customer as incentive to use the Company's marketplace. The Company has reduced its revenue for the fair value of the equity instruments earned in each applicable period, which is included in customer equity incentives in the Consolidated Statement of Operations. The initial measurement date for the fair value of the stock earned is the date at which the eligible item is sold in the marketplace event and revenue is recognized related to the GMV provided. This amount is based on estimates that include the fair value of the Company's shares and an estimate of the equity base at the end of the applicable Earnout period that would apply to determine the number of shares earned per \$1.0 million of GMV.

Prior to the end of the applicable earnout period, the value of the shares earned but not yet issued are shown on the Consolidated Balance Sheets as customer equity incentives payable within current liabilities. As discussed in Note 2—"Summary of Significant Accounting Policies—Fair Value of Financial Instruments," the customer equity incentives payable is carried at its fair value and changes in the fair value during the Earnout period, if any, are included in customer equity incentives in the Consolidated Statement of Operations. At the end of the applicable Earnout period, the value of the shares earned is fixed, and the value of shares earned but not yet issued is shown as unissued customer equity incentive shares within stockholders' deficit on the Consolidated Balance Sheets. For the first Earnout period, which ended on December 31, 2015, 2,741,258 shares of the Company's common stock were earned by Caterpillar and certain independent Cat dealers and issued on April 1, 2016. For the second earnout period, which ended on June 30, 2016, 2,367,044 shares were earned and issued on August 12, 2016. For the third and final earnout period that ended December 31, 2016, 1,359,394 were earned by Caterpillar and certain independent Cat dealers. These shares were issued on March 28, 2017.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Stock purchase program

The Cat Auction Services acquisition agreement provided that Caterpillar and eligible independent Cat dealers could purchase shares of Series E convertible preferred stock of the Company following the closing of the Cat Auction Services acquisition agreement. Independent Cat dealers were eligible to purchase up to 10,000,000 shares of Series E convertible preferred stock of the Company at a discount to the then current fair market value from April 1, 2015 through April 1, 2016. Caterpillar and independent Cat dealers were also eligible to purchase up to an additional 10,000,000 shares of Series E convertible preferred stock of the Company at the then-current fair market value from April 1, 2015 through October 1, 2016. This purchase right would terminate upon the earlier of a specified date or certain events associated with an IPO or change in control transaction after notification is provided 30 days in advance of such termination. On July 1, 2016, the Company gave notice that this purchase right would terminate on July 31, 2016.

From January 1, 2016 through March 31, 2016, 349,644 shares of Series E convertible preferred stock were purchased under this program, resulting in \$1.1 million of proceeds to the Company. The associated discount on those shares totaled \$0.4 million for the three months ended March 31, 2016. The Company accounted for the value of the discount as equity consideration provided by a vendor to a customer, which is included in customer equity incentives in the Consolidated Statement of Operations. The measurement of the discount is based on the fair value of the shares compared to the purchase price at the time the shares were issued.

Standard contract terms

The Cat Auction Services acquisition agreement provided negotiated master contractual terms for independent Cat dealers who invested through the stock purchase program or who were former owners of Cat Auction Services or stockholders of IronPlanet, Inc. These terms include a fixed straight commission and listing fee rates in addition to the provision of certain marketplace data.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Geographic Information

The Company's geographic information as determined by the revenue and location was as follows (in thousands):

	Three Month Ended	
	March 31,	
	2017	2016
Gross revenue		
United States	\$ 28,357	\$ 34,236
All other	1,688	2,918
Total gross revenue	<u>\$ 30,045</u>	<u>\$ 37,154</u>
Customer equity incentives		
United States	\$ —	\$ 5,606
All other	—	689
Total customer equity incentives	<u>\$ —</u>	<u>\$ 6,295</u>
Total revenue		
United States	\$ 28,357	\$ 28,630
All other	1,688	2,229
Total revenue	<u>\$ 30,045</u>	<u>\$ 30,859</u>
	March 31,	December 31,
	2017	2016
Long-lived assets		
United States	\$ 87,255	\$ 88,814
All other	143	160
Total long-lived assets	<u>\$ 87,398</u>	<u>\$ 88,974</u>

Revenue is generally attributed to the legal entity running the marketplace event, which may differ from the individual seller's or buyer's location. Long-lived assets include property and equipment, goodwill, and intangible assets.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Gross Revenue

Gross revenue consisted of the following (in thousands):

	Three Months Ended March 31,	
	2017	2016
Marketplace revenue	\$ 29,006	\$ 36,606
Services and other revenue	1,039	548
Gross revenue	\$ 30,045	\$ 37,154

Net fee revenue on inventory sales included in marketplace revenue was as follows:

	Three Months Ended March 31,	
	2017	2016
Sale proceeds	\$ 20,045	\$ 32,794
Cost of purchased equipment	17,545	28,981
Net fee revenue	\$ 2,500	\$ 3,813

6. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31,	December 31,
	2017	2016
Value-added tax receivables	\$ 2,136	2,206
Prepaid expenses	1,333	1,571
Mascus proceeds in escrow	162	160
Other	54	55
Total prepaid expenses and other current assets	\$ 3,685	\$ 3,992

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Value-added tax (“VAT”) receivables consist of amounts due from local country tax authorities and primarily arise in situations where buyers are exempt from paying VAT. In these situations, the Company first remits VAT to its sellers and subsequently files tax returns to claim refunds for the amounts remitted. Refunds are received as the tax returns and related claims are filed and accepted by the respective local tax authority.

The Company’s had a minority interest in Mascus International Holding B.V. (“Mascus”). In 2015, Mascus’ other shareholders began negotiations for the sale of Mascus, which was subsequently completed in the first quarter of 2016, receiving proceeds of Euro 1.0 million (\$1.2 million) with the balance of approximately €152,000 placed in escrow. The funds in escrow will be released in 2017.

Property and Equipment, Net

Property and equipment, which includes software developed for internal use, consisted of the following (in thousands):

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Website application and infrastructure cost	\$ 7,531	\$ 6,585
Computer equipment and software	6,206	6,754
Furniture and fixtures	1,634	1,641
Leasehold improvements	143	143
Vehicles	1,223	1,243
Land	371	371
Total property and equipment	17,108	16,739
Accumulated depreciation	(11,011)	(10,378)
Total property and equipment, net	<u>\$ 6,097</u>	<u>\$ 6,359</u>

Depreciation and amortization expense relating to property and equipment was \$0.6 million and \$0.5 million for the three months ended March 31, 2017 and 2016, respectively.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deposits and Other Assets

Deposits and other assets consisted of the following (in thousands):

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Deposits	695	696
Interest rate swap	48	25
Notes receivable	29	35
Total deposits and other assets	<u>\$ 772</u>	<u>\$ 756</u>

Accrued Liabilities

The following table presents the components of accrued liabilities (in thousands):

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Payroll and related	\$ 3,931	\$ 4,874
Sales and other taxes	2,321	1,635
Accrued professional expenses	4,371	1,706
Auction guarantees	1,055	304
Disputes allowance	96	124
All other	2,998	3,934
Total accrued liabilities	<u>\$ 14,772</u>	<u>\$ 12,577</u>

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Goodwill and Intangible Assets

The following table presents the components of intangible assets, net as of March 31, 2017 (in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Carrying value</u>
Customer relationships	\$ 31,230	\$ 9,204	\$ 22,026
Existing technology	2,312	2,195	117
Trade name	4,820	1,510	3,310
Non-compete agreements	1,730	900	830
Total intangible assets, net	<u>\$ 40,092</u>	<u>\$ 13,809</u>	<u>\$ 26,283</u>

The following table presents the components of intangible assets, net as of December 31, 2016 (in thousands):

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Carrying value</u>
Customer relationships	\$ 31,230	\$ 8,171	\$ 23,059
Existing technology	2,312	2,163	149
Trade name	4,820	1,346	3,474
Non-compete agreements	1,730	815	915
Total intangible assets, net	<u>\$ 40,092</u>	<u>\$ 12,495</u>	<u>\$ 27,597</u>

Amortization expense was \$1.3 million and \$1.7 million for the three months ended March 31, 2017 and 2016, respectively.

The estimated aggregate amortization expense for each of the five succeeding years and thereafter is as follows (in thousands):

2017 remainder	\$ 3,942
2018	5,098
2019	4,956
2020	4,803
2021	4,324
Thereafter	3,160
Total	<u>\$ 26,283</u>

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Debt

2015 Facility

On September 16, 2015 the Company repaid its previous credit facility with the proceeds of a new credit facility (the “2015 Credit Facility”). The 2015 Credit Facility is a bank syndicated senior secured credit facility with SunTrust Bank as administrative agent for itself and the other lenders consisting of a \$15.0 million revolving credit facility and a \$40.0 million term loan (the “2015 Term Loan”). This new facility reduced the Company’s borrowing costs and extended the maturity of its principal bank credit facility to September 16, 2020. The debt was recorded net of deferred debt issuance costs of approximately \$1.5 million, which are being amortized using the effective interest rate method. As of March 31, 2017, there were \$36.0 million of term loans outstanding and no borrowings under the revolving credit facility. The weighted-average interest rate of debt outstanding as of March 31, 2017 was 6.10%, on a quarterly annual equivalent basis, including the effect of amortization of deferred debt issuance costs.

The components of the carrying value of debt as of March 31, 2017 are as follows (in thousands):

	<u>Current portion</u>	<u>Long-term debt</u>	<u>Total</u>
2015 Credit Facility	\$ 4,000	\$ 32,000	\$ 36,000
Less: unamortized debt issuance costs	28	906	934
Net carrying value of debt	<u>\$ 3,972</u>	<u>\$ 31,094</u>	<u>\$ 35,066</u>

The components of the carrying value of debt as of December 31, 2016 are as follows (in thousands):

	<u>Current portion</u>	<u>Long-term debt</u>	<u>Total</u>
2015 Credit Facility	\$ 4,000	\$ 33,000	\$ 37,000
Other	—	—	—
Less: unamortized debt issuance costs	28	992	1,020
Net carrying value of debt	<u>\$ 3,972</u>	<u>\$ 32,008</u>	<u>\$ 35,980</u>

The 2015 Credit Facility is secured by domestic receivables, domestic inventories, certain domestic equipment, general intangibles, 100% of the stock in domestic subsidiaries, and 65% of the stock of certain foreign subsidiaries and other assets. Borrowings under the 2015 Credit Facility bear interest at an index based on LIBOR or, at the option of the Company, the base rate (the “Base Rate”) which is generally the agent’s prime interest rate plus an incremental borrowing spread. The incremental borrowing spread is determined by the Company’s leverage ratio and ranges from 3.5% to 4.0% for LIBOR-based loans and 2.5% to 3.0% for Base Rate loans. The borrowing spread over LIBOR was set at 3.75% and 4.0% as of March 31, 2017 and 2016 respectively. Commitment fees were set at 0.375% and 0.50% as of March 31, 2017 and 2016, respectively.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The 2015 Credit Facility contains customary covenants restricting the Company's activities, including limitations on the Company's ability to sell assets, engage in mergers and acquisitions, enter into operating leases or capital leases, enter into transactions involving related parties, obtain derivatives or letters of credit, incur indebtedness or grant liens or negative pledges on its assets, make loans or make other investments. Under these covenants, the Company is prohibited from paying dividends with respect to its capital stock.

The 2015 Credit Facility also contains financial covenants that the Company must satisfy on an ongoing basis, including maximum leverage ratios and minimum coverage ratios. The permitted maximum leverage ratio declines over time and was 3.00 as of December 31, 2016, declining to 2.50 as of December 31, 2017. The fixed charge coverage ratio is set at 1.25 over the life of the facility. The facility may be prepaid in whole or in part without penalty.

As of March 20, 2017, the Company amended the 2015 Credit Facility to increase the leverage ratio to 3.75 from 3.00 for the quarter ending March 31, 2017 and to 3.25 from 2.75 for the quarter ending June 30, 2017. Additionally, expenses incurred related to the merger with RBA will be excluded from covenant calculations through June 30, 2017 (see Note 17 "Merger with Ritchie Bros. Auctioneers Incorporated"). The Company was in compliance with all covenants as of March 31, 2017.

The 2015 Term Loan amortizes in equal quarterly installments based on an annual amortization rate of 5.0%, 10.0%, 10.0%, 12.5%, and 15.0% beginning in 2015, with the balance payable on the maturity date thereof. In addition, borrowing under the 2015 Term Loan is required to be repaid with certain mandatory cash flows. These additional payments from mandatory cash flows include excess cash flows, as defined and subject to certain exclusions, as well as net cash proceeds from all non-ordinary course asset sales or other dispositions of property, subject to exceptions for reinvestment. The Company does not expect to be required to make any additional payments in 2017.

The table below shows the scheduled amortization of the 2015 Term Loan (in thousands):

2017 remainder	\$	3,000
2018		4,250
2019		5,250
2020		23,500
Total	\$	<u>36,000</u>

9. Interest Rate Swap

The Company entered into an interest rate swap in November 2015 to manage interest rate risk exposure on its floating rate debt. The interest rate swap agreement utilized by the Company effectively modifies a portion of the Company's exposure to interest rate risk by converting the Company's floating-rate debt exposure to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense and cash flows. The effective date of the swap was December 31, 2015 with a termination date of September 30, 2018. The initial notional principal on the swap is \$19.75 million, which was half of the then outstanding principal on the 2015 Term Loan. The swap amortizes by \$250,000 for each of the first three quarters and by \$0.5 million thereafter. The Company pays a fixed rate of 1.277% on the notional amount, calculated on an actual/360 day count basis, on the last day of every quarter commencing March 31, 2016 up to and including September 30, 2018, in exchange for receiving an interest rate equal to the 3-month-LIBOR for the same period. Amounts are settled on a net basis.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2017 and December 31, 2016, the fair value of the swap was approximately \$48,000 and \$25,000, respectively, which is included in deposits and other assets, none of which is expected to be reclassified into earnings over the next twelve-month period.

10. Income Taxes

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual tax rate changes, the Company makes a cumulative adjustment in that quarter.

The Company's provision for income taxes and effective tax rates were as follows:

	Three Months Ended	
	March 31,	
	2017	2016
Provision for income taxes (benefit)	\$ (226)	\$ 103
Income (loss) before income taxes	(3,509)	(741)
Effective tax rate	6%	(14)%

The Company's effective tax rates and income tax provisions for the three months ended March 31, 2017 and 2016 were primarily attributable to recording a full non-cash valuation allowance against its foreign and domestic deferred tax assets during those periods. The Company maintained a full valuation allowance against its foreign and domestic deferred tax assets as of December 31, 2016 and March 31, 2017. The Company will continue to evaluate all evidence in all jurisdictions in future periods to determine if a change in valuation allowance against its deferred tax assets is warranted. Any changes to the Company's valuation allowance will affect its effective tax rate, but will not affect the amount of cash paid for income taxes in the foreseeable future.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. Convertible Preferred Stock and Warrants

Convertible Preferred Stock

The Company's convertible preferred stock at December 31, 2016 consisted of the following (in thousands, except share data):

	<u>Shares Authorized</u>	<u>Shares Issued and Outstanding</u>	<u>Carrying Value</u>	<u>Liquidation Preference</u>
Series A	16,746,220	16,746,220	\$ 7,936	\$ 10,969
Series A-1	5,004,988	5,000,900	3,061	2,501
Series B	12,395,329	12,395,329	37,323	37,186
Series C	1,533,333	900,000	3,946	4,000
Series D	10,590,751	9,434,929	20,572	20,662
Series E	40,000,000	22,431,398	70,686	38,219
Total	<u>86,270,621</u>	<u>66,908,776</u>	<u>\$ 143,524</u>	<u>\$ 113,537</u>

There has been no change in the convertible preferred shares outstanding since December 31, 2016.

On March 31, 2016, the Company issued 349,644 shares of Series E convertible preferred stock to certain independent Cat dealers who exercised their rights to purchase shares of Series E convertible preferred stock pursuant to the purchase right described in Note 3—"Business Combination", resulting in \$1.1 million of proceeds to the Company. The associated discount on those shares totaled \$0.4 million for the three months ended March 31, 2016. The share purchase program was terminated on July 31, 2016.

Under the Company's Certificate of Incorporation, preferred stock is issuable in series, and the Board of Directors is authorized to determine the rights, preferences, and terms of each series.

Dividends

Series D and Series E preferred stockholders are entitled to noncumulative dividends prior to any dividend on the Series A, Series A-1, Series B, and Series C preferred stock or common stock. The Series D preferred stockholders are entitled to noncumulative dividends of \$0.18 per share and the Series E preferred stockholders are entitled to noncumulative dividends of 8% of the original per share purchase price. The Series A, Series B, and Series C preferred stockholders are entitled to noncumulative dividends of \$0.05, \$0.24 and \$0.32 per share, respectively, prior to any dividend on the Series A-1 preferred stock or common stock. Series A-1 preferred stockholders are entitled to receive noncumulative dividends of \$0.04 per share. Additionally, each series of preferred stock entitles holders to participate in any dividends paid to common shareholders.

Dividends will be paid only when declared by the Board of Directors out of legally available funds. No dividends were declared during any of the periods presented.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Conversion

Each share of convertible preferred stock is, at the option of the holder, convertible into one share of common stock. The outstanding shares of convertible preferred stock automatically convert into shares of common stock on the closing of an underwritten public offering of common stock under the Securities Act of 1933, as amended, in which the Company receives at least \$20.0 million in net proceeds and the offering price per share is at least \$6.00, as adjusted for stock splits, dividends, reclassification and the like, or upon written consent of holders of a majority of the convertible preferred stock.

Liquidation Preference

Series D and Series E have preference upon liquidation. Series D preferred stockholders are entitled to receive an amount per share of \$2.19 plus any declared but unpaid dividends. Series E preferred stockholders are entitled to receive the original amount paid per share plus any declared and unpaid dividends. As of December 31, 2016, Series E preferred stockholders have a weighted-average liquidation preference of \$1.70 per share.

After the distribution to Series D and Series E stockholders, if any assets remain in the Company, Series A, Series B and Series C preferred stockholders are entitled to receive, upon liquidation, an amount per share of \$0.655, \$3.00, and the amount paid per share, respectively, at an equal rate, plus any declared and unpaid dividends. As of December 31, 2016, Series C preferred stockholders have been paid an average of \$4.44 per share.

After the distribution to Series A, Series B, Series C, and Series D preferred stockholders, Series A-1 preferred stockholders are entitled to receive an amount equal to \$0.50 per share, plus any declared but unpaid dividends. Thereafter, any remaining assets shall be distributed pro rata to the common stockholders.

Voting

Each holder of Series A, Series B, Series C, Series D, and Series E convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such preferred shares are convertible and have voting rights and powers equal to the voting rights and powers of the common stock. The holders of Series A-1 convertible preferred stock do not have voting rights. So long as at least 500,000 shares of Series D remain outstanding, as adjusted for stock splits, dividends, reclassification and the like, the holders of Series D convertible preferred stock, voting as a separate class, are entitled to elect one member of the Company's Board of Directors. So long as at least 500,000 shares of Series E remain outstanding, as adjusted for stock splits, dividends, reclassification and the like, the holders of Series E convertible preferred stock, voting as a separate class, are entitled to elect two members of the Board of Directors. The remaining board of director members are elected by the holders of the voting preferred (on an as converted basis) and the voting common stock, voting together as a single class.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Warrants

The change in the value of the warrant liability for the three months ended March 31, 2017 and 2016 is summarized below (in thousands):

	<u>Series A</u>	<u>Series C</u>	<u>Series D</u>	<u>Total</u>
Balance at December 31, 2016	\$ 100	\$ 313	\$ 4,912	\$ 5,325
Change in fair value	4	14	231	249
Balance at March 31, 2017	<u>\$ 104</u>	<u>\$ 327</u>	<u>\$ 5,143</u>	<u>\$ 5,574</u>

	<u>Series A</u>	<u>Series C</u>	<u>Series D</u>	<u>Total</u>
Balance at December 31, 2015	\$ 45	\$ 47	\$ 2,080	\$ 2,172
Change in fair value	3	6	174	183
Balance at March 31, 2016	<u>\$ 48</u>	<u>\$ 53</u>	<u>\$ 2,254</u>	<u>\$ 2,355</u>

There has been no change in the number of outstanding warrants since December 31, 2015.

12. Stock Option Plans

In April 2015, the Board of Directors and stockholders approved the 2015 equity incentive plan (the “2015 Stock Plan”), effective April 22, 2015, covering options and restricted stock that may be granted to employees, directors and consultants of the Company. Any options under the 1999 Stock Plan that expire or otherwise terminate will revert to the 2015 Stock Plan and again become available for issuance. As of March 31, 2017, the number of shares granted and available for future grants under the 2015 Stock Plan totaled 15,887,004.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Compensation Awards

Activity under the Company's stock option plans is set forth below:

	Options Outstanding				Aggregate Intrinsic Value (in thousands)
	Options Available for Grant	Number of Options	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (years)	
Balances at December 31, 2016	429,518	15,504,047	2.69	6.8	\$ 52,161
Options authorized	—	—			
Options granted	—	—			
Options exercised	—	(46,561)	1.67		\$ 204
Options forfeited	241,653	(241,653)	3.10		
Options expired	13,832	(13,832)	2.65		
Balances at March 31, 2017	<u>685,003</u>	<u>15,202,001</u>	2.68	6.5	\$ 58,038
Options exercisable – March 31, 2017		<u>9,596,796</u>	2.43	5.4	\$ 39,063
Options vested and expected to vest – March 31, 2017		<u>14,323,582</u>	2.66	6.4	\$ 54,988

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest were calculated as the difference between the exercise price of the options and the estimated fair value of the Company's common stock, as determined by the Board of Directors, as of December 31, 2016 and March 31, 2017.

At March 31, 2017, the unrecognized compensation expense with respect to options granted to employees was \$5.6 million and is expected to be recognized over 3.0 years.

The options granted in the three months ended March 31, 2016 had a weighted-average per share grant-date fair value \$1.38. No options were granted during the three months ended March 31, 2017.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Valuation assumptions

The Company estimated the fair value of employee stock options using the Black-Scholes valuation model. Each of the inputs in the model requires significant judgment. The fair value of employee stock options is being recognized on a straight-line basis over the requisite service period of the awards.

No options were granted to employees during the three months ended March 31, 2017. The fair value of employee stock options granted during the three months ended March 31, 2016 was estimated using the following assumptions:

	Three Months Ended,	
	2017	2016
Expected volatility	N/A	40%
Risk-free interest rate	N/A	1.43 – 1.44%
Expected term (in years)	N/A	6
Dividend yield	N/A	—%

Total stock-based compensation expense recognized was as follows (in thousands):

	Three Months Ended March 31,	
	2017	2016
Cost of revenue	\$ 86	\$ 95
Sales and marketing	123	123
Technology	26	50
General and administrative	1,019	316
Total stock-based compensation expense	\$ 1,254	\$ 584

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. Fair value disclosure

The following table represents the Company's fair value hierarchy for its financial assets and liabilities carried at fair value on a recurring basis as of March 31, 2017 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Restricted cash	\$ 3,000	\$ —	\$ —	\$ 3,000
Interest rate swap	—	48	—	48
Total assets to be measured at fair value	<u>\$ 3,000</u>	<u>\$ 48</u>	<u>\$ —</u>	<u>\$ 3,048</u>
Liabilities:				
Convertible preferred stock warrant liability	\$ —	\$ —	\$ 5,574	\$ 5,574
Total liabilities to be measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,574</u>	<u>\$ 5,574</u>

The following table represents the Company's fair value hierarchy for its financial assets and liabilities carried at fair value on a recurring basis as of December 31, 2016 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Restricted cash	\$ 3,000	\$ —	\$ —	\$ 3,000
Interest rate swap	—	25	—	25
Total assets to be measured at fair value	<u>\$ 3,000</u>	<u>\$ 25</u>	<u>\$ —</u>	<u>\$ 3,025</u>
Liabilities:				
Convertible preferred stock warrant liability	\$ —	\$ —	\$ 5,325	\$ 5,325
Total liabilities to be measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,325</u>	<u>\$ 5,325</u>

As the 2015 Term Loan is subject to variable rate resets, the fair value was estimated to be equal to its carrying value, excluding unamortized debt issuance costs.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and Contingencies

Legal Proceedings

In January 2015, Cat Auction Services, which is now a wholly-owned entity of the Company (see Note 3—“Business Combination”), was served with a summons and complaint in the U.S. District Court for the District of Delaware in the matter of International Construction Products LLC v. Caterpillar Inc., et al., D. Del. Case No. 1: 15-cv-00. The lawsuit alleges generally that certain heavy equipment manufacturers have conspired to keep new competitors out of the market and have charged prices above competitive levels. The lawsuit alleges that the Company’s acquisition of Cat Auction Services is harmful to competition in the heavy construction equipment market and seeks injunctive relief in the form of an unwinding of the acquisition. Following the completion of the acquisition in April 2015, Cat Auction Services became the Company’s wholly owned subsidiary and the Company assumed the defense. In October 2015, the court heard motions to dismiss plaintiff’s claims, and on January 21, 2016 the court dismissed all claims against the defendants. In particular, the claims against Cat Auction Services were dismissed with prejudice. On February 4, 2016, the plaintiff filed a Motion for Reconsideration, an Amended Complaint, and a proposed Second Amended Complaint, all in an attempt to revive the allegations that were dismissed. The defendants responded to these new pleadings with a second motion to dismiss and an opposition to reconsideration. As to Cat Auction Services, the response was that reconsideration should be denied because the current allegations are very similar to those previously and correctly dismissed at the Company’s request. On August 22, 2016, the court denied the plaintiff’s Motion for Reconsideration and Leave to Amend with respect to its unlawful merger claims against Cat Auction Services. However, the court was unclear as to the dismissal of state law antitrust claims against Cat Auctions Services and denied clarification of its Order. As a result, while the Company does not believe that any state law claims apply to it, it is not dismissed completely from the case and will be required to comply with discovery requests. The Company believes the lawsuit is without merit and intends to defend it vigorously.

Guarantee Agreements

As of March 31, 2017 and December 31, 2016, outstanding guarantees for minimum sale proceeds to sellers under contracts for future marketplace sales totaled \$41.0 million and \$21.3 million, respectively (undiscounted and before estimated proceeds from the sale in the marketplace). The weighted-average tenor of these auctions guarantees were 167 days and 292 days, as of March 31, 2017 and December 31, 2016, respectively. In accordance with the Company’s revenue recognition policy for guarantee contracts described in Note 2— “Summary of Significant Accounting Policies—Revenue Recognition and Auction Guarantees,” the Company has evaluated losses on unsold pieces of equipment as of March 31, 2017 and December 31, 2016. The total liability for guarantees was \$1.1 million and \$0.7 million as of March 31, 2017 and December 31, 2016, respectively. A loss contingency of approximately \$36,000 and \$178,000 was recorded for the three months ended March 31, 2017 and 2016, respectively.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. Related-Party Transactions

Transactions with Caterpillar

Caterpillar has an equity ownership in the Company of 15% as of March 31, 2017. An executive of Caterpillar was a member of the Company's Board of Directors from April 2015 through May 2016.

Caterpillar is one of the Company's preferred providers and sellers of equipment in the Company's marketplace. The Company's preferred provider agreement with Caterpillar reflects the high volume of business that Caterpillar has conducted with the Company, and is similar to other preferred provider agreements with unrelated parties in that they provide for seller commission rates that are more favorable than the Company's standard commission rates and the waiver of certain fees for equipment that Caterpillar sells through the Company's marketplace.

During the three months ended March 31, 2017 and 2016, the Company recorded revenue from Caterpillar totaling \$0.5 million and \$0.7 million, respectively. Amounts owed by Caterpillar for billings of marketplace related services as of March 31, 2017 and December 31, 2016 were \$1.2 million and \$0.0 million, respectively. Amounts owed to Caterpillar related to auction activity as of March 31, 2017 and December 31, 2016 were \$0.0 million and \$0.6 million, respectively. Cost of revenue is not tracked on a per item or on a per customer basis for equipment sold in the Company's marketplace as these costs are generally consistent across the Company's customer base. The Company has no reasonable basis for tracking costs separately for such equipment. Accordingly, the Company has not separately disclosed related party cost of revenue in its Consolidated Statements of Operations.

Transactions with Ring Power Corporation

Ring Power Corporation ("Ring Power") has an equity ownership in the Company of 4% as of March 31, 2017. An executive with Ring Power became a member of the Company's Board of Directors in May 2016, at which time the Company determined Ring Power to be a related party. During three months ended March 31, 2017 and 2016, the Company recorded revenue from Ring Power totaling of \$0.2 million and \$1.4 million, respectively. Amounts due from Ring Power for billings of marketplace related services were approximately \$3,000 and \$2,000 at March 31, 2017 and at December 31, 2016, respectively. Amounts owed to Ring Power related to auction activity as of March 31, 2017 and December 31, 2016 were approximately \$0 and \$8,000, respectively.

Transactions Involving Chief Executive Officer

The Company uses its Chief Executive Officer's personally owned hunting property for sales and marketing meetings and entertaining customers. The total fees billed to the Company for use of the property during the three months ended March 31, 2017 and 2016 were \$45,410 and \$92,000, respectively. Amounts due to the Chief Executive Officer as of March 31, 2017 and December 31, 2016 were \$0 and \$41,000, respectively.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Credit Risk and Customer Concentration

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of demand deposit accounts, certificates of deposit, trade accounts receivable and hedging instruments.

The Company provides its services on a credit basis. Accounts receivable are recorded when billed, advanced, or accrued and represent claims against third parties that will be settled in cash. The Company has mitigated credit risk because buyers are generally required to pay for the purchased items in advance of release of such items.

No one customer accounted for 10% or more of accounts receivable as of March 31, 2016 or as of March 31, 2017. One customer accounted for 10% or more of the accounts receivable as of December 31, 2016. No one customer accounted for more than 10% of revenue for the three months ended March 31, 2017. One customer accounted for 10% or more of revenue for the three months ended March 31, 2016.

The Company's customers include Caterpillar and certain independent Cat dealers. These Cat dealers are independently owned and managed organizations; however, as discussed in Note 3— "Business Combinations," since April 2015, the Company has current customer incentives in place and standard marketplace contract terms that apply to Caterpillar and certain of those independent Cat dealers who are customers of the Company. Gross revenue from Caterpillar and certain of its independent Cat dealers as \$2.6 million for the three months ended March 31, 2017.

The Company's cash is deposited in financial institutions. However, deposits may exceed federally insured limits. Accordingly, there may be a risk that the Company will not recover the full principal of its deposits or that liquidity may be diminished.

17. Merger with Ritchie Bros. Auctioneers Incorporated

On August 29, 2016, RBA and the Company jointly announced that they entered into an agreement under which RBA would acquire the Company for approximately \$758.5 million, subject to customary closing adjustments. Under the terms of the transaction, RBA would acquire 100% of the equity of the Company for approximately \$740.0 million in cash and would assume unvested equity interests in the Company, subject to adjustment, bringing the total transaction consideration to approximately \$758.5 million. The consummation of the sale was subject to certain conditions, including, among others, the expiration or termination of the applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements, Act of 1976, CFIUS (Committee on Foreign Investment in the United States) approval; receipt of all other material governmental and third party consents, authorizations and approvals; no occurrence of a Material Adverse Change (as defined in the merger agreement), and certain other customary closing conditions. On May 31, 2017 RBA and the Company announced the closing of the transaction.

IRONPLANET HOLDINGS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. Subsequent Events

Subsequent events have been evaluated through August 7, 2017.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On May 31, 2017 (the “Acquisition Date”), Ritchie Bros. Auctioneers Incorporated (“Ritchie Bros.” or the “Company”) completed its previously announced acquisition of IronPlanet Holdings, Inc. (“IronPlanet”) pursuant to the terms of an Agreement and Plan of Merger (the “Merger Agreement”), by and among the Company, Topaz Mergersub, Inc. (“Merger Sub”), IronPlanet and Fortis Advisors LLC (as representative of the indemnifying securityholders thereunder). Pursuant to the terms of the Merger Agreement, Merger Sub merged with and into IronPlanet, with IronPlanet continuing as the surviving corporation. As a result of the merger, IronPlanet became a wholly owned subsidiary of the Company (the “Acquisition”). The total merger consideration included the following:

- Consideration of \$722,740,000 to shareholders, vested option holders and warrant holders, which includes (i) \$35,000,000 in escrow to cover certain indemnification claims under the Merger Agreement for a period of nine months following the Acquisition Date, subject to extension for any unresolved indemnification claims (ii) \$42,934,000 of consideration to be paid to option holders that was recorded as a liability on the Acquisition Date, and (iii) \$1,526,000 due to stockholders to reflect the settlement of pre-existing relationships as well as a post-close working capital adjustment;
- Payment of \$12,583,000 of IronPlanet transaction costs;
- Repayment of indebtedness of \$36,000,000 on behalf of IronPlanet; and
- Issuance of \$4,926,000 of Ritchie Bros. unvested options.

In fiscal year 2016, to fund the consideration payable for the proposed acquisition of IronPlanet, the Company:

- Entered into a credit agreement providing for multicurrency revolving facilities (the “Revolving Credit Facilities”) in an aggregate amount of \$675,000,000 and a delayed-draw term loan facility (the “Delayed-Draw Facility”) in an aggregate amount of \$325,000,000; and
- Completed its offering of \$500,000,000 of 5.375% senior notes due 2025 (the “Senior Notes”).

The Revolving Credit Facilities were drawn down to fund the operations of Ritchie Bros. The Delayed Draw Facility was undrawn prior to the Acquisition Date. In connection with the closing of the Acquisition, the Company executed the following financing transactions:

- Borrowed \$325,000,000 under the Delayed Draw Facility;
- Repaid \$59,593,000 of borrowings outstanding under the Revolving Credit Facilities.

The above transactions entered into in connection with financing the Acquisition are referred to collectively as the “Financing Transactions”. The unaudited pro forma condensed combined financial information of Ritchie Bros. is presented to illustrate the pro forma effects of the Acquisition and the Financing Transactions. These transactions are collectively referred to as the “Transactions”.

The unaudited pro forma condensed combined balance sheet as of March 31, 2017, combines the historical condensed consolidated balance sheets of Ritchie Bros. and IronPlanet as of March 31, 2017, giving effect to the Acquisition as if it had occurred on March 31, 2017. The unaudited pro forma condensed combined income statements for the year ended December 31, 2016 and three months ended March 31, 2017, combines the historical income statements of Ritchie Bros. and IronPlanet for the respective periods giving effect to the Transactions as if they had occurred on January 1, 2016, the first day of the Company’s 2016 fiscal year.

Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined balance sheet and income statements.

The unaudited pro forma condensed combined financial information set forth below gives effect to adjustments to: (i) record acquired assets and assumed liabilities at their fair values; (ii) reflect amortization of fair value adjustments for intangible assets; (iii) adjust for acquisition costs incurred in connection with the Transactions; and (iv) reflect the Financing Transactions including debt assumed and debt repaid.

The unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of Regulation S-X. The unaudited pro forma adjustments relating to the Acquisition have been prepared in accordance with business combination accounting guidance as provided under the provisions of US GAAP Accounting Standard Codification 805, *Business Combinations* (“ASC 805”).

Management made a preliminary allocation of the consideration transferred to the assets acquired and liabilities assumed in the Acquisition as of the Acquisition Date based on the information available and management’s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed. The finalization of the purchase accounting assessment may result in changes to the valuation of assets acquired and liabilities assumed, which could be material. Accordingly, the pro forma adjustments related to the allocation of consideration transferred are preliminary and have been presented solely for the purpose of providing unaudited pro forma condensed combined financial statements in the current report on Form 8-K/A. Management expects to finalize the accounting for the business combination as soon as practicable within the measurement period in accordance with ASC 805, but in no event later than one year from May 31, 2017.

The unaudited pro forma adjustments are based upon available information and certain assumptions that management believes are reasonable under the circumstances. The unaudited pro forma condensed combined financial information is presented for informational purposes only. The unaudited pro forma condensed combined financial information does not purport to represent what the Company’s results of operations or financial condition would have been had the Transactions described above actually occurred on the dates indicated, and it does not purport to project the Company’s results of operations or financial condition for any future period or as of any future date. The unaudited pro forma condensed combined financial information does not reflect any cost savings or associated costs to achieve such savings from operating efficiencies, synergies, or other restructuring that may result from the Acquisition. The unaudited pro forma condensed combined financial statements also do not include any adjustment for liabilities or related costs that may result from integration activities or any adjustments for redundancies in operations that may occur as a result of the Acquisition since management has not completed the process of making these assessments. In addition, the unaudited pro forma condensed combined financial information includes adjustments which are preliminary and may be revised. There can be no assurance that such revisions will not result in material changes to the information.

The unaudited pro forma condensed combined financial information should be read in conjunction with (a) the Company’s audited consolidated financial statements as of and for the year ended December 31, 2016, and the notes relating thereto, in its Annual Report on Form 10-K; (b) “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2016; (c) the Company’s unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2017, and the notes relating thereto, in its Quarterly Report on Form 10-Q; (d) “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Quarterly Report on Form 10-Q as of and for the three months ended March 31, 2017 (e) the audited consolidated financial statements of IronPlanet as of and for the year ended December 31, 2016, and the notes relating thereto, contained in the current report on Form 8-K/A; and (f) the unaudited condensed consolidated financial statements of IronPlanet as of and for the three months ended March 31, 2017, and the notes relating thereto, contained in the current report on Form 8-K/A.

Unaudited Pro Forma Condensed Combined Balance Sheet
as of March 31, 2017
(in thousands of U.S. dollars)

	Historical Results		Pro Forma Adjustments (Note 4)		Ritchie Bros. Auctioneers Incorporated Pro Forma
	Ritchie Bros. Auctioneers Incorporated (As reported)	IronPlanet (As adjusted)	Acquisition Adjustments	Financing and Other Adjustments	
Assets					
Current assets:					
Cash and cash equivalents	\$ 236,894	\$ 83,504	\$ (745,245)(A)	\$ 755,560(O)	\$ 330,713
Restricted cash	137,986	3,000	-	-	140,986
Trade and other receivables	112,353	23,193	(333)(B)	-	135,213
Inventory	20,868	2,409	-	-	23,277
Advances against auction contracts	7,485	2,014	-	-	9,499
Prepaid expenses and deposits	15,114	1,422	-	-	16,536
Assets held for sale	242	-	-	-	242
Income taxes receivable	15,091	198	-	-	15,289
	546,033	115,740	(745,578)	755,560	671,755
Property, plant and equipment	515,019	2,526	-	-	517,545
Equity-accounted investments	7,197	-	-	-	7,197
Restricted cash	500,000	-	-	(500,000)(P)	-
Deferred debt issue costs	5,853	-	-	(1,206)(Q)	4,647
Other non-current assets	4,711	826	1,755(C)	-	7,292
Intangible assets	74,987	29,854	158,146(D)	-	262,987
Goodwill	98,065	55,018	514,928(E)	-	668,011
Deferred tax assets	22,450	-	1,397(F)	-	23,847
	\$ 1,774,315	\$ 203,964	\$ (69,352)	\$ 254,354	\$ 2,163,281
Liabilities and Equity					
Current liabilities:					
Auction proceeds payable	\$ 278,195	\$ 59,629	\$ -	\$ -	\$ 337,824
Trade and other payables	115,434	25,729	36,101(G)	333(Q)	177,597
Income taxes payable	1,378	43	-	-	1,421
Current portion of long-term debt	-	3,972	(3,972)(H)	16,381(Q)	16,381
Short-term debt	24,616	-	-	40,982(Q)	65,598
	419,623	89,373	32,129	57,696	598,821
Long-term debt	596,438	31,094	(31,094)(I)	196,658(Q)	793,096
Share unit liabilities	2,404	-	-	-	2,404
Other non-current liabilities	14,972	176	(176)(J)	-	14,972
Deferred tax liabilities	39,691	827	21,996(F)	-	62,514
Total liabilities	1,073,128	121,470	22,855	254,354	1,471,807
Contingently redeemable performance share units	5,021	-	-	-	5,021
Convertible preferred stock	-	143,524	(143,524)(K)	-	-
Stockholders' equity					
Share capital:					
Common stock	129,625	-	-	-	129,625
Additional paid-in capital	28,227	56,472	(49,390)(L)	-	35,309
Retained earnings / (accumulated deficit)	593,212	(114,054)	97,259(M)	-	576,417
Accumulated other comprehensive income	(59,690)	(3,448)	3,448(N)	-	(59,690)
Stockholders' equity	691,374	(61,030)	51,317	-	681,661
Non-controlling interest	4,792	-	-	-	4,792
	696,166	(61,030)	51,317	-	686,453
	\$ 1,774,315	\$ 203,964	\$ (69,352)	\$ 254,354	\$ 2,163,281

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Information

Unaudited Pro Forma Condensed Combined Income Statement
for the Twelve Months Ended December 31, 2016
(in thousands of U.S. dollars, except for per share amounts)

	Historical Results		Pro Forma Adjustments (Note 5)		Ritchie Bros. Auctioneers Incorporated Pro Forma
	Ritchie Bros. Auctioneers Incorporated (As reported)	IronPlanet (As adjusted)	Acquisition Adjustments	Financing and Other	
Revenues	\$ 566,395	\$ 130,717	\$ -	\$ -	\$ 697,112
Customer equity incentives	-	(20,878)	-(A)	-	(20,878)
Net sales	566,395	109,839	-	-	676,234
Cost of services, excluding depreciation and amortization	66,062	42,155	-	-	108,217
	500,333	67,684	-	-	568,017
Selling, general and administrative expenses	283,529	77,321	(3,536)(B)	-	357,314
Acquisition-related costs	11,829	2,296	(10,363)(C)	-	3,762
Depreciation and amortization expenses	40,861	8,033	9,682(D)	-	58,576
(Gain) Loss disposition of property, plant and equipment	(1,282)	23	-	-	(1,259)
Impairment loss	28,243	-	-	-	28,243
Foreign exchange loss (gain)	1,431	342	-	-	1,773
	364,611	88,015	(4,217)	-	448,409
Operating income/(loss)	135,722	(20,331)	4,217	-	119,608
Other income/(expense):					
Interest income	1,863	(1)	-	-	1,862
Interest expense	(5,564)	(2,308)	2,308(E)	(37,273)(H)	(42,837)
Equity income	1,028	-	-	-	1,028
Debt extinguishment costs	(6,787)	-	-	6,787(I)	-
Other, net	4,232	(2,567)	(3,153)(F)	-	(1,488)
	(5,228)	(4,876)	(845)	(30,486)	(41,435)
Income/(loss) before income taxes	130,494	(25,207)	3,372	(30,486)	78,173
Income tax expense/(benefit)					
Current	40,341	112	(20,767)(G)	(7,926)(G)	11,760
Deferred	(3,359)	671	735(G)	-	(1,953)
Net income/(loss)	\$ 93,512	\$ (25,990)	\$ 23,404	\$ (22,560)	\$ 68,366
Net income/(loss) attributable to:					
Stockholders	\$ 91,832	\$ (25,990)	\$ 23,404	\$ (22,560)	\$ 66,686
Non-controlling interests	1,680	-	-	-	1,680
	\$ 93,512	\$ (25,990)	\$ 23,404	\$ (22,560)	\$ 68,366
Earnings per share attributable to stockholders:					
Basic	\$ 0.86				\$ 0.63(J)
Diluted	\$ 0.85				\$ 0.62(J)
Weighted average number of shares outstanding:					
Basic	106,630,323				106,630,323(J)
Diluted	107,457,794				107,758,173(J)

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Information

**Unaudited Pro Forma Condensed Combined Income Statement
for the Three Months Ended March 31, 2017
(in thousands of U.S. dollars, except for per share amounts)**

	Historical Results		Pro Forma Adjustments (Note 5)		Ritchie Bros. Auctioneers Incorporated Pro Forma
	Ritchie Bros. Auctioneers Incorporated (As reported)	IronPlanet (As adjusted)	Acquisition Adjustments	Financing and Other	
Revenues	\$ 124,499	\$ 30,045	\$ -	\$ -	\$ 154,544
Customer equity incentives	-	-	-(A)	-	-
Net sales	<u>124,499</u>	<u>30,045</u>	<u>-</u>	<u>-</u>	<u>154,544</u>
Cost of services, excluding depreciation and amortization	<u>12,813</u>	<u>10,112</u>	<u>-</u>	<u>-</u>	<u>22,925</u>
	111,686	19,933	-	-	131,619
Selling, general and administrative expenses	70,575	18,013	(848)(B)	-	87,740
Acquisition-related costs	8,627	2,754	(10,445)(C)	-	936
Depreciation and amortization expenses	10,338	1,963	2,510(D)	-	14,811
(Gain) Loss disposition of property, plant and equipment	(721)	(29)	-	-	(750)
Foreign exchange loss (gain)	(730)	25	-	-	(705)
	<u>88,089</u>	<u>22,726</u>	<u>(8,783)</u>	<u>-</u>	<u>102,032</u>
Operating income/(loss)	23,597	(2,793)	8,783	-	29,587
Other income/(expense):					
Interest income	955	9	-	-	964
Interest expense	(8,133)	(543)	543(E)	(2,665)(H)	(10,798)
Equity income	(53)	-	-	-	(53)
Other, net	1,382	(181)	(249)(F)	-	952
	<u>(5,849)</u>	<u>(715)</u>	<u>294</u>	<u>(2,665)</u>	<u>(8,935)</u>
Income/(loss) before income taxes	17,748	(3,508)	9,077	(2,665)	20,652
Income tax expense/(benefit)					
Current	7,488	(164)	(6,387)(G)	(693)(G)	244
Deferred	(173)	(61)	2,592(G)	-	2,358
Net income/(loss)	<u>\$ 10,433</u>	<u>\$ (3,283)</u>	<u>\$ 12,872</u>	<u>\$ (1,972)</u>	<u>\$ 18,050</u>
Net income/(loss) attributable to:					
Stockholders	\$ 10,377	\$ (3,283)	\$ 12,872	\$ (1,972)	\$ 17,994
Non-controlling interests	56	-	-	-	56
	<u>\$ 10,433</u>	<u>\$ (3,283)</u>	<u>\$ 12,872</u>	<u>\$ (1,972)</u>	<u>\$ 18,050</u>
Earnings per share attributable to stockholders:					
Basic	\$ 0.10				\$ 0.17(J)
Diluted	<u>\$ 0.10</u>				<u>\$ 0.17(J)</u>
Weighted average number of shares outstanding:					
Basic	106,851,595				106,851,595(J)
Diluted	<u>107,788,949</u>				<u>108,164,580(J)</u>

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Information

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1. Basis of Preparation

Ritchie Bros.' historical results are derived from Ritchie Bros.' audited consolidated income statement for the fiscal year ended December 31, 2016, unaudited condensed consolidated income statement for the three months ended March 31, 2017 and unaudited condensed consolidated balance sheet as of March 31, 2017, which are prepared in accordance with U.S. GAAP.

IronPlanet's historical results are derived from IronPlanet's audited consolidated statement of operations for the fiscal year ended December 31 2016, unaudited condensed consolidated statement of operations for the three months ended March 31, 2017 and unaudited condensed consolidated balance sheet as of March 31, 2017, which are prepared in accordance with U.S. GAAP. Certain balances were reclassified within the "IronPlanet (as Adjusted)" column in the unaudited pro forma condensed combined financial information so that presentation would be consistent with Ritchie Bros. The most significant balance sheet adjustments include a reclassification of certain software assets from "Property and equipment, net" to "Intangible assets" and consumption taxes receivables from "Prepaid expenses and other current assets" to "Trade and other receivables". The most significant income statement adjustments include a reclassification of depreciation and amortization and acquisition-related costs out of "Cost of Revenues" and "General and administrative" operating expense into separate line items.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting for business combinations under U.S. GAAP. The historical financial information has been adjusted to give pro forma effect to events that are: (a) directly attributable to the Transactions, (b) factually supportable, and (c) with respect to the unaudited pro forma condensed combined income statements, expected to have a continuing impact.

The acquisition method of accounting is based on ASC 805 which uses the fair value concepts defined in ASC 820, *Fair Value Measurements and Disclosures*. ASC 805 requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the Acquisition Date. The financial statements of Ritchie Bros. issued after completion of the Acquisition will reflect such fair values, measured as of the Acquisition Date, which may be different than the estimated fair values included in these unaudited pro forma condensed combined financial statements. The financial statements of Ritchie Bros. issued after the completion of the Acquisition will not be retroactively restated to reflect the historical financial position or results of operations of IronPlanet.

In order to prepare the unaudited pro forma condensed combined financial information, management performed a preliminary review of IronPlanet's accounting policies to identify significant differences from Ritchie Bros' accounting policies used to prepare Ritchie Bros' historical financial statements. Based on the procedures performed to date, the accounting policies of IronPlanet are similar in most material respects to those of Ritchie Bros. Management will conduct an additional review of IronPlanet's accounting policies to determine if differences in accounting policies require adjustment or reclassification of IronPlanet's results of operations, assets or liabilities to conform to Ritchie Bros.' accounting policies and classifications. As a result of that review, management may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on Ritchie Bros. future unaudited condensed consolidated financial statements.

The unaudited pro forma condensed combined financial information is preliminary, provided for illustrative purposes only and does not purport to represent what the combined actual condensed consolidated results of operations or unaudited condensed consolidated balance sheet would have been had the Transactions occurred on the dates assumed, nor are they indicative of the combined future condensed consolidated results of operations or financial position. The actual results reported in periods following the Transactions may differ significantly from those reflected in the unaudited pro forma condensed combined financial information presented herein for a number of reasons, including, but not limited to, differences between the assumptions used to prepare this unaudited pro forma condensed combined financial information and actual amounts, cost savings or associated costs to achieve such savings from operating efficiencies, synergies, debt refinancing, or other restructuring that may result from the Transactions. Non-recurring items related to the Transactions were not included in the unaudited pro forma condensed combined income statements.

Note 2. Calculation of Estimated Purchase Consideration

Estimated purchase consideration is as follows (in thousands of U.S. dollars):

	Purchase Consideration
Payment to stockholders ⁽ⁱ⁾	\$ 722,740
Payment of IronPlanet transaction costs	12,583
Repayment of IronPlanet indebtedness	36,000
Issuance of Ritchie Bros. unvested options ⁽ⁱⁱ⁾	4,926
Total estimated purchase consideration	\$ 776,249

- i. Payment to stockholders includes:
 - \$35,000,000 to be held in escrow for indemnity claims and for the representative as specified in the Merger Agreement.
 - \$42,934,000 due to vested option holders recorded as a liability on the unaudited pro forma condensed combined balance sheet, as this amount was not paid on the Acquisition Date. As a result of the Acquisition certain IronPlanet options vested in accordance with the terms of their related option award agreements and others were accelerated as a result of the Acquisition. Holders of vested IronPlanet options were entitled to the cash consideration per share calculated in accordance with the Merger Agreement.
 - \$1,526,000 due to stockholders to reflect the settlement of pre-existing relationships as well as a post-close working capital adjustment.
- ii. Holders of IronPlanet unvested equity interests as of the Acquisition Date were converted to Ritchie Bros. replacement awards subject to the same vesting schedule and restrictions as applied prior to the Acquisition. Reflects the value of Ritchie Bros. unvested options issued in connection with the Acquisition attributed to pre-combination services.

Additionally, with respect to options attributed to post-combination services, Ritchie Bros issued \$2,156,000 of replacement awards to holders of IronPlanet unvested equity interests and recognized an estimated liability of \$2,596,000 for accelerated stock options that will be cash settled as a result of the Acquisition. As both of these amounts relate to post-combination services, they are not included in purchase consideration and are reflected as an adjustment to retained earnings to reflect post combination expense on the unaudited pro forma condensed consolidated balance sheet.

Note 3: Preliminary Purchase Price Allocation

The following table sets forth a preliminary allocation of the estimated purchase consideration to the preliminary fair value of the identifiable tangible and intangible assets acquired and liabilities assumed of IronPlanet based on IronPlanet's March 31, 2017 balance sheet, with the excess recorded as goodwill (in thousands of U.S. dollars):

Provisional Purchase Price and Purchase Price Allocation for IronPlanet Acquisition

Assets acquired:	
Cash and cash equivalents	\$ 83,504
Restricted cash	3,000
Trade and other receivables	22,860
Inventory	2,409
Advances against auction contracts	2,014
Prepaid expenses and deposits	1,422
Property, plant and equipment	2,526
Income taxes receivable	198
Deferred tax assets	1,397
Other non-current assets	2,581
Intangible assets	188,000
Total assets acquired	<u>\$ 309,911</u>
Liabilities assumed:	
Auction proceeds payable	\$ 59,629
Trade and other payables	21,113
Income taxes payable	43
Deferred tax liabilities	22,823
Total liabilities assumed	<u>103,608</u>
Net assets acquired, excluding goodwill (a)	<u>206,303</u>
Total estimated purchase price (b)	<u>776,249</u>
Estimated goodwill (b-a)	<u>\$ 569,946</u>

The following is a discussion of the valuation methods used to determine the fair value of IronPlanet's significant assets acquired and liabilities assumed in connection with the preparation of this unaudited pro forma condensed combined financial information:

Intangible Assets: Preliminary identifiable intangible assets in the unaudited pro forma condensed combined financial information include trade names and trademarks, the technology platform, and seller relationships. Trade names and trademarks are considered indefinite-lived intangibles. All other intangibles are considered definite-lived intangible assets. Intangible assets are valued on a disaggregated basis using the following methods:

- *Trade names and trademarks.* The fair value of trade names and trademarks was assessed using the relief from royalty valuation technique under an income valuation approach. This technique estimates values based on the present value of license costs that are avoided by ownership of the asset. Significant assumptions included in the fair value assessment of trade names and trademarks include the royalty rate, which was determined by comparable trade names, and trademarks transactions and the perceived strength of the brands in the market.

Note 3: Preliminary Purchase Price Allocation (continued):

- *Technology platform.* The fair value of IronPlanet's technology platform was assessed using the relief from royalty valuation technique under an income valuation approach. This technique estimates values based on the present value of license costs that are avoided by ownership of the asset. A significant assumption included in the fair value assessment of the technology platform includes the royalty rate, which was determined by comparable technology transactions.
- *Seller relationships – Caterpillar dealers.* The fair value of the seller relationship with Caterpillar dealers was valued using the excess earnings valuation technique under an income valuation approach. This technique estimates the cash flows of the asset after applying adjustments to operating expenses and then deducting contributory asset charges.
- *Seller relationships – Department of Defense contract.* The fair value of this contract was valued using the excess earnings valuation technique under an income valuation approach. This technique estimates the cash flows of the asset after applying adjustments to operating expenses and then deducting contributory asset charges.
- *Seller relationships – other repeat sellers.* The fair value of the seller relationship with other sellers was valued using the excess earnings valuation technique under an income valuation approach. This technique estimates the cash flows of the asset after applying adjustments to operating expenses and then deducting contributory asset charges.

Other significant assumptions included in development of the preliminary valuations included estimated annual net cash flows for each intangible asset (including revenues, operating expenses, market participant synergies, net working capital requirements, and capital expenditures), the expected life of each intangible asset and the appropriate discount rate. Fair value determinations require significant judgment and are sensitive to changes in underlying inputs, and assumptions.

Deferred Tax Liabilities: Adjustments to record deferred taxes related to taxable and deductible temporary differences that arise from a difference between the tax basis and the recognized value of assets acquired and liabilities assumed in the acquisition. The deferred tax liabilities represent the deferred tax impact associated with the incremental differences in the book and the tax basis created from the preliminary purchase price allocation. Deferred taxes were established based on an assumed blended statutory tax rate of 39% and 26% for U.S. and Canada, respectively. The effective tax rate of the combined company could be different (either higher or lower) depending on post-acquisition activities, including intercompany loan restructuring, repatriation decisions, cash needs and the geographical mix of income, and the difference could be material.

In the United States, the Tax Reform Act of 1986 limits the use of net operating losses and tax credit carryforwards in certain situations where stock ownership changes occur. For purposes of this unaudited pro forma condensed combined financial information, it has been assumed that the applicable net operating losses could ultimately be utilized. Losses in certain foreign jurisdictions continue to have a valuation allowance against them as it is more likely than not that they will not be realized. The deferred tax assets and liabilities balances are preliminary and subject to change based upon the final determination.

Goodwill: Goodwill is calculated as the difference between the Acquisition Date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if circumstances indicate impairment.

Note 4. Adjustments to the unaudited pro forma condensed combined balance sheet

(A) Reflects the following adjustments:

- Cash paid for the Acquisition of \$726,863,000 including repayment of IronPlanet's indebtedness of \$36,000,000 and payment of \$12,583,000 of IronPlanet transaction costs; and
- Payment of transaction costs of \$18,382,000 related to the Acquisition, of which \$6,239,000 had been accrued by Ritchie Bros and IronPlanet as of March 31, 2017. The remaining \$12,143,000 of transaction costs were incurred between March 31, 2017 and the Acquisition Date.

Note 4. Adjustments to the unaudited pro forma condensed combined balance sheet (continued):

- (B) Reflects the settlement of a receivable from Ritchie Bros. to IronPlanet that was effectively settled as part of the Acquisition.
- (C) Reflects the step up in estimated fair value of an equity method investment of \$1,803,000, which is offset by the settlement of IronPlanet's interest rate swap receivable of \$48,000.
- (D) Reflects the estimated fair value of IronPlanet's identified intangible assets. The following table shows a preliminary estimate of the fair value of those intangible assets and their related average estimated useful lives (in thousands of U.S. dollars):

	Estimated Useful Life (in Years)	Preliminary Estimated Fair Value as of March 31, 2017
Trade name/trademarks	Indefinite	\$ 46,000
Technology platforms	7	48,000
Seller relationships - Caterpillar	13	38,000
Seller relationships - Department Of Defense contract	12	32,000
Seller relationships - other sellers	6	24,000
Total Intangible assets		\$ 188,000
Less: IronPlanet historical intangible assets net carrying value		(29,854)
Net adjustment		\$ 158,146

- (E) Reflects the elimination of IronPlanet's historical goodwill and the preliminary estimate of goodwill recognized as a result of the Acquisition, which represents the amount by which the estimated consideration transferred exceeds the fair value of IronPlanet's assets acquired and liabilities assumed. (Refer to Note 3 above)
- (F) Reflects an increase in deferred tax liabilities of \$60,238,000 and an increase in deferred tax assets of \$39,638,000 as shown below (in thousands of U.S. dollars):

Increase in deferred tax liability for an increase in book basis to identifiable intangible assets	\$ 61,677
Decrease to deferred tax liabilities to reflect the elimination of the historical goodwill deferred balance	(1,439)
Total deferred tax liabilities	\$ 60,238
Release of valuation allowance in United States against net deferred tax assets	\$ 14,563
Release of valuation allowance in Canada against net deferred tax assets	1,410
Increase to net operating loss carryforward due to stock based compensation, return to provision and transaction cost adjustments	27,101
Decrease to deferred tax assets to reflect elimination of historical warrant deferred balance	(1,348)
Decrease to deferred tax assets to reflect elimination of R&D credit	(1,009)
Decrease in deferred tax assets for an increase in book basis in stock based compensation expense	(1,079)
Total deferred tax assets	\$ 39,638
Total net pro forma adjustment - Deferred tax liabilities	\$ 21,996
Total net pro forma adjustment - Deferred tax assets	\$ 1,396

The deferred tax assets and liabilities were calculated using the local blended statutory tax rate for the applicable jurisdictions.

Note 4. Adjustments to the unaudited pro forma condensed combined balance sheet (continued):

(G) Reflects the following adjustments:

- Liability recorded by the Company of \$44,460,000 for cash consideration to be paid to stockholders in connection with the Acquisition;
- Liability recorded by the Company of \$2,596,000 for accelerated stock options that will be cash settled as a result of the Acquisition and relate to post-combination services;
- Increase in payroll tax liabilities of \$1,022,000 related to the acceleration of stock option compensation;
- Elimination of IronPlanet's convertible preferred stock warrant liability of \$5,574,000, which was settled as part of the consideration transferred in the Acquisition;
- Elimination of deferred rent of \$64,000 as the liability does not represent a future performance obligation for the combined entity;
- Decrease of \$6,239,000 related to the cash settlement of accrued transaction costs in connection with the Acquisition; and
- Elimination of \$100,000 payable to IronPlanet recorded on Ritchie Bros.' balance sheet.

(H) Reflects debt repayment of \$4,000,000 and an adjustment for unamortized debt issuance costs of \$28,000, related to the current portion of IronPlanet's historical debt.

(I) Reflects debt repayment of \$32,000,000 and an adjustment for unamortized debt issuance costs of \$906,000, related to IronPlanet's historical debt.

(J) Reflects elimination of long-term deferred rent of \$176,000 as the liability does not represent a future performance obligation for the combined entity.

(K) Reflects elimination of IronPlanet's historical convertible preferred stock that was settled as part of the cash consideration transferred in the Acquisition.

(L) Reflects elimination of IronPlanet's additional paid-in capital and fair value of replacement awards issued by Ritchie Bros. included in purchase consideration (in thousands of U.S. dollars):

Elimination of IronPlanet's additional paid-in capital	\$ (56,472)
Ritchie Bros. replacement awards (unvested options) attributable to post-combination services	2,156
Ritchie Bros. replacement awards (unvested options) attributable to pre-combination services	4,926
Total pro forma adjustment	\$ (49,390)

(M) Reflects adjustment to retained earnings to eliminate IronPlanet's accumulated deficit, gain on settlement of a payable to IronPlanet recorded historically by Ritchie Bros., and to record transaction costs and stock option compensation expense for cash-settled stock options that on the Acquisition Date (in thousands of U.S. dollars):

Eliminate IronPlanet's accumulated deficit	\$ 114,054
Settlement of payable to IronPlanet	100
Transaction costs	(12,143)
Stock option compensation expense for cash-settled stock options that accelerated on the Acquisition Date	(4,752)
Total pro forma adjustment	\$ 97,259

(N) Reflects elimination of IronPlanet's historical accumulated other comprehensive loss.

Note 4. Adjustments to the unaudited pro forma condensed combined balance sheet (continued):

(O) Reflects the following adjustments:

- Borrowings of \$327,616,000 under the Delayed Draw Facility;
- Repayment of \$59,593,000 on the Revolving Credit Facility;
- Cash payment of \$12,463,000 of debt issuance costs related to the Financing Transactions, for which the payment was contingent on the completion of the Acquisition; and
- The release of cash restricted for purposes of the Acquisition of \$500,000,000.

(P) Reflects the release of cash restricted for purposes of the Acquisition of \$500,000,000.

(Q) Reflects the following adjustments:

- Borrowings of \$327,616,000 under the Delayed Draw Facility, of which \$16,381,000 is classified as current portion of long-term debt and \$311,235,000 is reflected as long-term debt;
- Capitalization of \$12,796,000 of incremental debt issuance costs to long-term debt related to the Financing Transactions for which the payment was contingent on the completion of the Acquisition;
- Repayment of \$59,593,000 of long-term debt on the Revolving Credit Facility;
- Reclassification of the remaining long-term Revolving Credit Facility balance of \$40,982,000 to short-term debt;
- Reclassification of deferred debt issuance costs relating to the Delayed Draw Facility of \$1,206,000 to long-term debt; and
- Recording of \$333,000 of a liability for debt issuance costs paid by IronPlanet on behalf of Ritchie Bros. and settled in connection with the Acquisition.

Note 5. Adjustments to the unaudited condensed combined pro forma income statements

- (A) Non-cash customer equity incentive costs were incurred by IronPlanet in connection with its acquisition of Cat Acquisition Services in April 2015. These customer equity incentives include (i) earnout payments of common stock issuable to Caterpillar Inc. and certain independent Caterpillar dealers upon achievement of targets for Gross Merchandise Volume sold through IronPlanet's marketplace that is attributable to those parties and (ii) the value of discounts on purchased shares in connection with a right for certain independent Caterpillar dealers to purchase limited amounts of IronPlanet preferred stock at a discount. These equity issuances were accounted for as consideration provided by a vendor to a customer as an incentive to use IronPlanet's marketplace and accordingly, the fair value of the equity incentive was recorded as a reduction of revenue. IronPlanet's customer equity incentive program expires at the end of fiscal 2016. No adjustment to the historical amounts recorded in IronPlanet's statement of operations has been made in these unaudited condensed combined pro forma statements of operations.
- (B) Reflects the net impact to stock option compensation expense expected to be incurred by the Company based on the preliminary estimated fair values and vesting periods of equity awards issued by Ritchie Bros. to IronPlanet employees to replace their historical unvested equity awards as a result of the Acquisition offset by the elimination of \$4,421,000 of costs incurred in fiscal 2016 in connection with IronPlanet's abandoned initial public offering ("IPO") and \$509,000 of stock option compensation and severance charges related to the termination of an employee in connection with the Acquisition that were recognized in IronPlanet's historical statement of operations during the year ended December 31, 2016 (in thousands of U.S. dollars):

Note 5. Adjustments to the unaudited condensed combined pro forma statements of operation (continued):

	12 months ended	
	December 31,	3 months ended
	2016	March 31, 2017
Total projected stock option compensation expense for replacement awards	\$ 4,175	\$ 406
Less: Stock option compensation and severance related to terminations	(509)	-
Less: IronPlanet historical stock option compensation expense	(2,781)	(1,254)
Total pro forma adjustment- stock based compensation expense	885	(848)
Elimination of capitalized IPO costs	(4,421)	-
Total pro forma adjustment	\$ (3,536)	\$ (848)

(C) Reflects elimination of \$10,363,000 and \$10,445,000 of transaction costs related to the Acquisition which were recognized in IronPlanet's and Ritchie Bros.' historical statement of operations, during the year ended December 31, 2016 and three months ended March 31, 2017.

(D) Reflects the elimination of historical amortization expense related to IronPlanet's existing intangible assets and additional amortization of acquired intangible assets based on the preliminary estimated fair value and useful lives expected to be recorded as a result of the Acquisition. For estimated intangible asset values and the associated useful lives, see footnote (D) in Note 4 (in thousands of U.S. dollars).

	12 months ended	
	December 31, 2016	3 months ended
		March 31, 2017
Amortization expense of acquired intangible assets at fair value	\$ 16,447	\$ 4,112
Elimination of historical amortization expense	(6,765)	(1,602)
Total pro forma adjustment	\$ 9,682	\$ 2,510

(E) Represents the removal of IronPlanet's historical interest expense related to debt repaid in connection with the Acquisition.

(F) Reflects adjustments to remove \$3,153,000 and \$249,000 recorded for changes in fair value of IronPlanet's convertible preferred stock warrant liability during the year ended December 31, 2016 and three months ended March 31, 2017, which was settled in connection with the Acquisition.

(G) Reflects the estimated tax effects at the estimated applicable statutory rate for the year ended December 31, 2016 and three months ended March 31, 2017. Pro forma tax (benefit) expense also reflects the tax benefit recognized on historical IronPlanet losses before taxes assuming the release of IronPlanet's valuation allowance in the United States and Canada as of January 1, 2016. Tax synergies on an executed intercompany loan agreement have been included. These rates represent the estimated combined statutory U.S. federal, state, and foreign statutory rates. The effective tax rate of the combined company could be significantly different (either higher or lower) depending on post-acquisition activities including, repatriation decisions, cash needs and the geographical mix of income.

Note 5. Adjustments to the unaudited condensed combined pro forma statements of operation (continued):

(H) In connection with the Acquisition, Ritchie Bros. executed the following financing transactions:

- Entered into the Revolving Credit Facilities, including the termination of previous debt facilities;
- Completed its offering of \$500,000,000 of 5.375% Senior Notes due 2025.
- Borrowed \$327,616,000 under the Delayed Draw Facility;
- Capitalized \$12,796,000 of incremental debt issuance costs to long-term debt related to the Financing Transactions for which the payment was contingent on the completion of the Acquisition; and
- Repaid \$59,593,000 of long-term debt on the Revolving Credit Facility.

The table below depicts the related adjustment to interest expense for the periods presented (in thousands of U.S. dollars) as if all of the above transactions occurred on January 1, 2016:

	12 months ended December 31, 2016	3 months ended March 31, 2017
Cash interest expense on the New Credit Facilities and the senior notes		
Senior Notes	\$ 26,875	\$ 6,719
Revolving Credit Facility	1,558	390
Delayed Draw Term Loan Facility	10,342	2,638
Total cash interest expense on the New Credit Facilities and the senior notes	<u>38,775</u>	<u>9,747</u>
Amortization of deferred financing fees on the New Credit Facilities and the Senior Notes		
Senior Notes	1,740	435
Revolving Credit Facility	929	232
Delayed Draw Term Loan Facility	1,153	279
Total amortization of deferred financing fees on the New Credit Facilities and the Senior Notes	<u>3,822</u>	<u>946</u>
Total interest expense on the new debt	<u>42,597</u>	<u>10,693</u>
Less:		
Ritchie Bros. interest expense on historical indebtedness	<u>(5,324)</u>	<u>(8,028)</u>
Total interest expense on existing indebtedness	<u>(5,324)</u>	<u>(8,028)</u>
Total pro forma increase to interest expense	<u>\$ 37,273</u>	<u>\$ 2,665</u>

Debt issuance costs related to the Revolving Credit Facility, the Delayed Draw Term Loan Facility, and Senior Notes, are being amortized to interest expense using the straight-line method over the term of the respective facility or notes.

A 1/8% increase or decrease in the interest rate of borrowings under the Revolving Credit Facility and Delayed Draw Facility, which utilize a floating rate, would impact interest expense in the unaudited pro forma condensed combined income statements for each period as follows (in thousands of U.S. dollars):

	12 months ended December 31, 2016	3 months ended March 31, 2017
Change in interest expense assuming:		
Increase of 0.125%	\$ 484	\$ 118
Decrease of 0.125%	(484)	(118)

Note 5. Adjustments to the unaudited condensed combined pro forma statements of operation (continued):

- (I) Reflects the removal of debt extinguishment costs related to the termination of prior credit facilities in connection with the Financing Transactions.
- (J) Basic earnings per share has been calculated by dividing the net income attributable to stockholders of Ritchie Bros. by the weighted average number of common shares outstanding. Diluted earnings per share has been calculated after giving effect to outstanding dilutive options calculated by adjusting the net income attributable to stockholders of Ritchie Bros. and the weighted average number of shares outstanding for all dilutive shares.

The unaudited pro forma weighted average number of diluted shares outstanding is calculated by adding the effect of dilutive securities to the unaudited pro forma weighted average number of basic shares outstanding. The significant components of the effect of dilutive securities are comprised of replacement stock options for IronPlanet unvested options holders that were exchanged in the Acquisition for Ritchie Bros. unvested stock options. The dilutive effects of options were calculated using the treasury stock method.

The following tables reconcile the weighted average number of shares used to calculate pro forma basic and diluted earnings per share for the periods presented (in thousands of U.S. dollars, except per share data):

	12 months ended	3 months ended
	December 31, 2016	March 31, 2017
Pro Forma Diluted Weighted-Average Shares—Basic		
Historical and pro forma weighted-average shares outstanding—basic	106,630	106,852
Pro forma net income attributable to stockholders	\$ 66,686	\$ 17,994
Pro forma earnings per share—basic	\$ 0.63	\$ 0.17

	12 months ended	3 months ended
	December 31, 2016	March 31, 2017
Pro Forma Diluted Weighted-Average Shares—Diluted		
Historical weighted-average shares outstanding—diluted	107,458	107,789
Dilutive impact of Ritchie Bros. replacement awards for unvested IronPlanet Options	300	376
Pro forma weighted-average shares—diluted	107,758	108,165
Pro forma net income attributable to stockholders	\$ 66,686	\$ 17,994
Pro forma earnings per share—diluted	\$ 0.62	\$ 0.17