KAR Auction Services, Inc.
Form 10-Q
November 04, 2016
Use these links to rapidly review the document
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2016
OR

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

Commission File Number: 001-34568

KAR Auction Services, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-8744739 (I.R.S. Employer Identification No.)

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (800) 923-3725

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

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

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

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

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

As of October 31, 2016, 138,162,233 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

Table of Contents

KAR Auction Services, Inc.
Table of Contents

Table of Contents

PART I
FINANCIAL INFORMATION
Item 1. Financial Statements
KAR Auction Services, Inc.
Consolidated Statements of Income
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenues				
ADESA Auction Services	$441.6	$351.4	$1,277.2	$1,024.4
IAA Salvage Services	261.0	246.2	795.4	732.8
AFC	71.2	69.1	218.0	200.2
Total operating revenues	773.8	666.7	2,290.6	1,957.4
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	443.7	378.1	1,293.3	1,096.7
Selling, general and administrative	146.3	128.5	434.3	373.5
Depreciation and amortization	60.5	54.1	175.9	156.8
Total operating expenses	650.5	560.7	1,903.5	1,627.0
Operating profit	123.3	106.0	387.1	330.4
Interest expense	36.3	24.4	100.8	67.2
Other (income) expense, net	0.8	(0.3)	(0.8)	(2.1)
Loss on extinguishment of debt	—	—	4.0	—
Income before income taxes	86.2	81.9	283.1	265.3
Income taxes	31.8	29.6	106.2	99.0
Net income	$54.4	$52.3	$176.9	$166.3
Net income per share				
Basic	$0.39	$0.37	$1.29	$1.18
Diluted	$0.39	$0.37	$1.27	$1.16
Dividends declared per common share	$0.29	$0.27	$0.87	$0.81

See accompanying notes to consolidated financial statements

Table of Contents

KAR Auction Services, Inc.
Consolidated Statements of Comprehensive Income
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$54.4	$52.3	$176.9	$166.3
Other comprehensive loss				
Foreign currency translation loss	(4.7)	(14.2)	(0.4)	(29.4)
Comprehensive income	$49.7	$38.1	$176.5	$136.9

See accompanying notes to consolidated financial statements

Table of Contents

KAR Auction Services, Inc.
Consolidated Balance Sheets
(In millions)
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$ 323.1	$ 155.0
Restricted cash	15.4	16.2
Trade receivables, net of allowances of $9.6 and $6.6	681.8	511.9
Finance receivables, net of allowances $9.8 and $9.0	1,775.6	1,632.0
Other current assets	138.4	131.0
Total current assets	2,934.3	2,446.1
Other assets		
Goodwill	2,008.3	1,795.9
Customer relationships, net of accumulated amortization of $687.2 and $619.3	461.8	417.7
Other intangible assets, net of accumulated amortization of $287.1 and $258.1	317.5	310.8
Other assets	36.8	34.1
Total other assets	2,824.4	2,558.5
Property and equipment, net of accumulated depreciation of $632.1 and $569.6	827.7	766.9
Total assets	$ 6,586.4	$ 5,771.5

See accompanying notes to consolidated financial statements

Table of Contents

KAR Auction Services, Inc.
Consolidated Balance Sheets
(In millions, except share and per share data)
(Unaudited)

	September 30, 2016	December 31, 2015
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 700.3	$ 608.4
Accrued employee benefits and compensation expenses	93.1	90.9
Accrued interest	1.2	0.8
Other accrued expenses	145.5	128.4
Income taxes payable	3.9	5.3
Dividends payable	40.1	37.2
Obligations collateralized by finance receivables	1,275.1	1,189.0
Current maturities of long-term debt	24.7	153.9
Total current liabilities	2,283.9	2,213.9
Non-current liabilities		
Long-term debt	2,371.8	1,711.2
Deferred income tax liabilities	289.4	300.8
Other liabilities	163.5	159.5
Total non-current liabilities	2,824.7	2,171.5
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, $0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none	—	—
Common stock, $0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
September 30, 2016: 138,125,402		
December 31, 2015: 137,795,296	1.4	1.4
Additional paid-in capital	1,442.8	1,407.6
Retained earnings	74.2	17.3
Accumulated other comprehensive loss	(40.6)	(40.2)
Total stockholders' equity	1,477.8	1,386.1
Total liabilities and stockholders' equity	$ 6,586.4	$ 5,771.5

See accompanying notes to consolidated financial statements

Table of Contents

KAR Auction Services, Inc.
Consolidated Statements of Stockholders' Equity
(In millions)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2015	137.8	$ 1.4	$ 1,407.6	$ 17.3	$ (40.2)	$ 1,386.1
Net income				176.9		176.9
Other comprehensive loss					(0.4)	(0.4)
Issuance of common stock under stock plans	1.1		13.8			13.8
Stock-based compensation expense			14.2			14.2
Excess tax benefit from stock-based compensation			7.1			7.1
Repurchase and retirement of common stock	(0.8)		—			—
Dividends earned under stock plans			0.1	(0.1)		—
Cash dividends declared to stockholders ($0.87 per share)				(119.9)		(119.9)
Balance at September 30, 2016	138.1	$ 1.4	$ 1,442.8	$ 74.2	$ (40.6)	$ 1,477.8

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.
Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2016	2015
Operating activities		
Net income	$ 176.9	$ 166.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	175.9	156.8
Provision for credit losses	23.5	12.4
Deferred income taxes	(11.8)	(14.4)
Amortization of debt issuance costs	6.5	5.3
Stock-based compensation	14.2	9.0
Excess tax benefit from stock-based compensation	(7.1)	(6.5)
Loss on disposal of fixed assets	0.1	1.3
Loss on extinguishment of debt	4.0	—
Other non-cash, net	6.4	2.8
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables and other assets	(178.5)	(164.0)
Accounts payable and accrued expenses	73.7	146.4
Net cash provided by operating activities	283.8	315.4
Investing activities		
Net increase in finance receivables held for investment	(158.7)	(177.1)
Acquisition of businesses, net of cash acquired	(354.5)	(115.2)
Purchases of property, equipment and computer software	(118.5)	(92.3)
Proceeds from the sale of property and equipment	—	0.1
Decrease in restricted cash	0.8	2.0
	(630.9)	(382.5)

Net cash used by investing activities		
Financing activities		
Net increase in book overdrafts	29.6	18.1
Net (decrease) increase in borrowings from lines of credit	(140.0)	130.5
Net increase in obligations collateralized by finance receivables	78.8	268.2
Proceeds from long-term debt	1,336.5	—
Payments for debt issuance costs/amendments	(19.5)	(10.9)
Payments on long-term debt	(654.4)	(16.9)
Payments on capital leases	(18.8)	(14.9)
Payments of contingent consideration and deferred acquisition costs	(3.6)	(1.2)
Initial net investment for interest rate caps	—	(2.2)
Issuance of common stock under stock plans	13.8	18.8
Excess tax benefit from stock-based compensation	7.1	6.5
Repurchase and retirement of common stock	—	(227.6)
Dividends paid to stockholders	(117.0)	(114.8)
Net cash provided by financing activities	512.5	53.6
Effect of exchange rate changes on cash	2.7	(14.1)
Net increase (decrease) in cash and cash equivalents	168.1	(27.6)
Cash and cash equivalents at beginning of period	155.0	152.9
Cash and cash equivalents at end of period	$ 323.1	$ 125.3
Cash paid for interest	$ 91.0	$ 58.2
Cash paid for taxes, net of refunds	$ 99.9	$ 102.0

See accompanying notes to consolidated financial statements

8

Table of Contents

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements
September 30, 2016 (Unaudited)

Note 1—Basis of Presentation and Nature of Operations

Defined Terms

Unless otherwise indicated or unless the context otherwise requires, the following terms used herein shall have the following meanings:

- "we," "us," "our" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries;
- "ADESA" or "ADESA Auctions" refer, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including OPENLANE, Inc. (together with OPENLANE, Inc.'s subsidiaries, "OPENLANE") and ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS"));
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries and other related entities, including PWI Holdings, Inc.;
- "Credit Agreement" refers to the Amended and Restated Credit Agreement, dated March 11, 2014, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent, as amended on March 9, 2016;
- "Credit Facility" refers to the three-year senior secured term loan B-1 facility ("Term Loan B-1"), the seven-year senior secured term loan B-2 facility ("Term Loan B-2"), the seven-year senior secured term loan B-3 facility ("Term Loan B-3"), the $300 million, five-year senior secured revolving credit facility (the "revolving credit facility") and the $250 million, five-year senior secured revolving credit facility (the "old revolving credit facility"), the terms of which are set forth in the Credit Agreement. Term Loan B-1 and the old revolving credit facility were extinguished in March 2016 with proceeds received from Term Loan B-3;
- "IAA" refers, collectively, to Insurance Auto Auctions, Inc., a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries and other related entities, including HBC Vehicle Services ("HBC"); and
- "KAR Auction Services" refers to KAR Auction Services, Inc. and not to its subsidiaries.

Business and Nature of Operations

As of September 30, 2016, we have a North American network of 76 ADESA whole car auction sites and 173 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes ADESA Remarketing Limited (formerly known as GRS), an online whole car vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services, which operates from 10 locations in the United Kingdom. Our auctions facilitate the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit Internet buyers to participate in physical auctions. ADESA and IAA are leading, national providers of wholesale and salvage vehicle auctions and related vehicle remarketing services for the automotive industry in North America. ADESA's online service offerings include customized private label solutions powered with software developed by its wholly-owned subsidiary, OPENLANE, that allow our institutional consignors (automobile manufacturers, captive finance companies and other institutions) to offer vehicles via the Internet prior to arrival at the physical auction. Remarketing services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA and IAA facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership of vehicles sold at the auctions. Generally, fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.

ADESA has the second largest used vehicle auction network in North America, based upon the number of used vehicles sold through auctions annually, and also provides services such as inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification, titling, administrative and collateral recovery services. ADESA is able to serve the diverse and multi-faceted needs of its customers through the wide range of services offered.

9

IAA is one of the leading providers of salvage vehicle auctions and related services. The salvage auctions facilitate the remarketing of damaged vehicles that are designated as total losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made, purchased vehicles and older model vehicles donated to charity or sold by dealers in salvage auctions. The salvage auction business specializes in providing services such as inbound transportation logistics, inspections, evaluations, salvage recovery services, titling and settlement administrative services.

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing is provided through 124 locations throughout the United States and Canada as of September 30, 2016. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, IAA, other used vehicle and salvage auctions and non-auction purchases. In addition to floorplan financing, AFC also provides independent used vehicle dealers with other related services and products, such as vehicle service contracts.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for annual financial statements. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. In the opinion of management, the consolidated financial statements reflect all adjustments, generally consisting of normal recurring accruals, necessary for a fair statement of our results of operations, cash flows and financial position for the periods presented. These consolidated financial statements and condensed notes to consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission on February 18, 2016. The 2015 year-end consolidated balance sheet data included in this Form 10-Q was derived from the audited financial statements referenced above and does not include all disclosures required by U.S. GAAP for annual financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates.

Unamortized Debt Issuance Costs

Debt issuance costs reflect the expenditures incurred in conjunction with term loan debt, the revolving credit facility and the U.S. and Canadian receivables purchase agreements. The debt issuance costs are being amortized to interest expense using the effective interest method or the straight-line method, as applicable, over the lives of the related debt issues.

We adopted Accounting Standards Update (“ASU”) 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, in the first quarter of 2016. The update required debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. The new guidance represents a change in accounting principle and required retrospective application. As shown in the table below, we have reclassified unamortized debt issuance costs previously reported as of December 31, 2015 (in millions):

	Originally Reported	Reclassified	As Adjusted
Unamortized debt issuance costs	$ 20.3	$ (20.3)	$ —
Obligations collateralized by finance receivables	1,201.2	(12.2)	1,189.0

Long-term debt	1,719.3	(8.1)	1,711.2

Table of Contents

New Accounting Standards

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-15 will have on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The update changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The new guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted beginning in annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The update changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-09 will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which replaces existing lease guidance. The ASU is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with an exception for leases that meet the definition of a short-term lease. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and the ASU is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which superseded the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new guidance provides clarification on the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosures to help financial statement users better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year. In accordance with the agreed upon delay, the new guidance is effective for the first annual reporting period and interim periods beginning after December 15, 2017, and will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Note 2—Acquisitions

In February 2016, ADESA signed a definitive agreement to acquire auctions owned by the Brasher family. In April 2016, ADESA completed the acquisition of Brasher's eight auctions, which strengthens ADESA's western U.S. footprint. In 2015, Brasher's had revenue of approximately $140 million. We entered into operating lease obligations related to various facilities through 2036. Initial annual lease payments for the various facilities are approximately $5 million per year.

In March 2016, ADESA signed a definitive agreement to acquire Sanford Auto Dealers Exchange ("SADE"). In May 2016, ADESA completed the acquisition of SADE, which expands ADESA's geographic footprint in central Florida.

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
September 30, 2016 (Unaudited)

In June 2016, the Company acquired GRS, a subsidiary of Greenhous Group Limited. GRS is an established online vehicle remarketing business in the U.K. The acquisition complements the Company's wide range of vehicle remarketing services and provides the opportunity to offer our full range of services in the U.K.

Certain of the purchase agreements included contingent payments related to vehicle volumes subsequent to the purchase date. The purchased assets included land, buildings, accounts receivable, operating equipment, customer relationships, tradenames, software, inventory and other intangible assets. Financial results for each acquisition have been included in our consolidated financial statements from the date of acquisition.

The aggregate purchase price for the businesses acquired in the first nine months of 2016, net of cash acquired, was approximately $355.8 million, which included estimated contingent payments with a fair value of $1.3 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $1.5 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $113.9 million to intangible assets, representing the fair value of acquired customer relationships of $106.8 million, software of $5.1 million, tradenames of $1.8 million and non-competes of $0.2 million, which are being amortized over their expected useful lives. The purchase accounting associated with these acquisitions is preliminary, subject to determination of working capital adjustments and a final valuation of intangibles. The Company does not expect adjustments to the purchase accounting will be material. The acquisitions resulted in aggregate goodwill of $218.3 million. The goodwill is recorded in the ADESA Auctions and AFC reportable segments. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's consolidated results for the nine months ended September 30, 2016.

Note 3—Stock and Stock-Based Compensation Plans

The KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan ("Omnibus Plan") is intended to provide equity or cash-based awards to our employees. Our stock-based compensation expense includes expense associated with KAR Auction Services, Inc. performance-based restricted stock units ("PRSUs"), service-based restricted stock units ("RSUs") and service options. We have classified the KAR Auction Services, Inc. PRSUs, RSUs and service options as equity awards.

The total income tax benefit recognized in the consolidated statement of income for PRSUs, RSUs and service options was approximately $1.7 million and $1.2 million for the three months ended September 30, 2016 and 2015, respectively, and $5.4 million and $3.4 million for the nine months ended September 30, 2016 and 2015, respectively.

The following table summarizes our stock-based compensation expense by type of award (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
PRSUs	$2.5	$1.7	$8.2	$4.6
RSUs	1.4	0.7	4.4	1.8
Service options	0.5	0.8	1.6	2.6
Total stock-based compensation expense	$4.4	$3.2	$14.2	$9.0

PRSUs and RSUs

In the first nine months of 2016, we granted a target amount of approximately 0.3 million PRSUs to certain executive officers and management of the Company. The PRSUs vest if and to the extent that the Company's three-year operating adjusted earnings per share attains certain specified goals. In addition, approximately 0.3 million RSUs were granted to certain executive officers and management of the Company. The RSUs are contingent upon continued employment and vest in three equal annual installments. The weighted average grant date fair value of the PRSUs and the RSUs was $34.81 per share and $34.84 per share, respectively, which was determined using the closing price of the Company's common stock on the dates of grant. The PRSU and RSU grants were made pursuant to the Company’s Policy on Granting Equity Awards.

Share Repurchase Program

In October 2014, the board of directors authorized a repurchase of up to $300 million of the Company's outstanding common stock, par value $0.01 per share, through October 28, 2016. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions. For the year ended December 31, 2015, we repurchased and retired a total of 744,900 shares of common stock in the open market at a weighted average price of $37.04 per share.

In August 2015, as part of the authorized program to repurchase common stock noted above, the Company entered into an accelerated share repurchase agreement under which it paid $200 million for an initial delivery of approximately 4.6 million shares of its common stock. The initial delivery of shares represented 90% of the shares anticipated to be repurchased based on current market prices at that time. The initial delivery of shares also resulted in an immediate reduction in the number of shares used to calculate the weighted average common shares outstanding for basic and diluted net income per share. The Company settled the accelerated share repurchase agreement in January 2016 and received approximately 0.8 million additional shares of its common stock based on an adjusted volume weighted average price of its stock over the period. In total, 5,413,274 shares were repurchased under the accelerated share repurchase agreement at an average repurchase price of $36.95 per share.

Note 4—Net Income Per Share

The following table sets forth the computation of net income per share (in millions except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$54.4	$52.3	$176.9	$166.3
Weighted average common shares outstanding	138.0	139.6	137.6	140.9
Effect of dilutive stock options and restricted stock awards	1.7	2.2	1.8	2.3
Weighted average common shares outstanding and potential common shares	139.7	141.8	139.4	143.2
Net income per share				
Basic	$0.39	$0.37	$1.29	$1.18
Diluted	$0.39	$0.37	$1.27	$1.16

Basic net income per share was calculated by dividing net income by the weighted average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income per share-diluted is determined through the application of the treasury stock method, whereby net proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per diluted share and PRSUs subject to performance conditions which have not yet been satisfied are excluded from the calculations. No options were excluded from the calculation of diluted net income per share for the three or nine months ended September 30, 2016 and 2015, respectively. In addition, approximately 0.5 million and approximately 0.3 million PRSUs were excluded from the calculation of diluted net income per share for the three months ended September 30, 2016 and 2015, respectively, and approximately 0.5 million and approximately 0.3 million were excluded from the calculation of diluted net income per share for the nine months ended September 30, 2016 and 2015, respectively. Total options outstanding at September 30, 2016 and 2015 were 2.9 million and 4.3 million, respectively.

Table of Contents
KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
September 30, 2016 (Unaudited)

Note 5—Finance Receivables and Obligations Collateralized by Finance Receivables
AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of $1.25 billion for U.S. finance receivables at September 30, 2016.
In March 2016, AFC and AFC Funding Corporation entered into Amendment No. 1 (the "Amendment") to the Sixth Amended and Restated Receivables Purchase Agreement (the “Receivables Purchase Agreement”). The Amendment increased AFC Funding's U.S. committed liquidity from $1.15 billion to $1.25 billion. The maturity date of the Receivables Purchase Agreement remains June 29, 2018. We capitalized approximately $0.8 million of costs in connection with the Amendment.
We also have an agreement for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables which expires on June 29, 2018. AFCI's committed facility is provided through a third party conduit (separate from the U.S. facility) and was C$125 million at September 30, 2016. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.
The following tables present quantitative information about delinquencies, credit losses less recoveries ("net credit losses") and components of securitized financial assets and other related assets managed. For purposes of this illustration, delinquent receivables are defined as receivables 31 days or more past due.

	September 30, 2016 Principal Amount of:		Net Credit Losses	Net Credit Losses
(in millions)	Receivables	Receivables Delinquent	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Floorplan receivables	$1,775.6	$ 9.2	$ 7.7	$ 18.3
Other loans	9.8	—	—	—
Total receivables managed	$1,785.4	$ 9.2	$ 7.7	$ 18.3

	December 31, 2015 Principal Amount of:		Net Credit Losses	Net Credit Losses
(in millions)	Receivables	Receivables Delinquent	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Floorplan receivables	$1,635.5	$ 7.0	$ 2.4	$ 9.7
Other loans	5.5	—	—	—
Total receivables managed	$1,641.0	$ 7.0	$ 2.4	$ 9.7

AFC's allowance for losses was $9.8 million and $9.0 million at September 30, 2016 and December 31, 2015, respectively.
As of September 30, 2016 and December 31, 2015, $1,762.6 million and $1,626.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the obligations collateralized by finance receivables. Obligations collateralized by finance receivables consisted of

the following:

	September 30, 2016	December 31, 2015
Obligations collateralized by finance receivables, gross	$ 1,284.2	$ 1,201.2
Unamortized securitization issuance costs	(9.1)	(12.2)
Obligations collateralized by finance receivables	$ 1,275.1	$ 1,189.0

Proceeds from the revolving sale of receivables to the bank facilities are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At September 30, 2016, we were in compliance with the covenants in the securitization agreements.

Note 6—Long-Term Debt

Long-term debt consisted of the following (in millions):

	Interest Rate *		Maturity	September 30, 2016	December 31, 2015
Term Loan B-1	LIBOR	+ 2.50%	March 11, 2017	$ —	$ 637.2
Term Loan B-2	Adjusted LIBOR	+ 3.1875%	March 11, 2021	1,087.6	1,098.0
Term Loan B-3	Adjusted LIBOR	+ 3.50%	March 9, 2023	1,343.2	—
Revolving credit facility	Adjusted LIBOR	+ 2.50%	March 9, 2021	—	—
Old revolving credit facility	LIBOR	+ 2.25%	March 11, 2019	—	140.0
Canadian line of credit	CAD Prime	+ 0.50%	Repayable upon demand	—	—
Total debt				2,430.8	1,875.2
Unamortized debt issuance costs/discounts				(34.3)	(10.1)
Current portion of long-term debt				(24.7)	(153.9)
Long-term debt				$ 2,371.8	$ 1,711.2

* The interest rates presented in the table above represent the rates in place at September 30, 2016.

Credit Facility

On March 9, 2016, we entered into an Incremental Commitment Agreement and First Amendment (the "First Amendment") to the Credit Agreement. The First Amendment provided for, among other things, (i) a new seven-year senior secured term loan facility ("Term Loan B-3") and (ii) a $300 million, five-year senior secured revolving credit facility (the "revolving credit facility"), which replaced the previously existing revolving credit facility (the "old revolving credit facility"). The proceeds received from Term Loan B-3 were used to repay in full Term Loan B-1 and the amount outstanding on the old revolving credit facility. No early termination penalties were incurred by the Company; however, we incurred a non-cash loss on the extinguishment of debt of $4.0 million in the first quarter of 2016. The loss was a result of the write-off of unamortized debt issuance costs associated with Term Loan B-1 and the old revolving credit facility. The First Amendment did not change the amount outstanding on Term Loan B-2, but did increase its interest rate margin. In addition, we capitalized approximately $18.0 million of debt issuance costs in connection with the First Amendment.

The Credit Facility is available for letters of credit, working capital, permitted acquisitions and general corporate purposes. The Credit Agreement provides that with respect to the revolving credit facility, up to $75 million is available for letters of credit and up to $75 million is available for swing line loans.

Term Loan B-2 was issued at a discount of $2.8 million and Term Loan B-3 was issued at a discount of $13.5 million. The discounts are being amortized using the effective interest method to interest expense over the respective terms of the loans. Both Term Loan B-2 and Term Loan B-3 are payable in quarterly installments equal to 0.25% of the original aggregate principal amounts of the term loans, respectively. Such payments commenced on June 30, 2014 for Term Loan B-2 and on June 30, 2016 for Term Loan B-3, with the balances payable at each respective maturity date.

The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to the net proceeds of certain debt offerings, certain asset sales and certain insurance recovery events. In addition, in accordance with the terms of the Credit Agreement, 50% of the net cash proceeds from the sale-leaseback of certain technology and capital equipment were used to prepay $4.4 million and $5.4 million of Term Loan B-2 and Term Loan B-3, respectively, for the nine months ended September 30, 2016. Each such prepayment is credited to prepay, on a pro rata basis, in order of maturity the unpaid amounts due on the first eight scheduled

15

quarterly installments of Term Loan B-2 and Term Loan B-3 and thereafter to the remaining scheduled quarterly installments of each term loan on a pro rata basis.

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and first priority perfected security interests in 100% of the equity interests of certain of the Company's and the Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the Company's and the Subsidiary Guarantors' first tier foreign subsidiaries and (b) perfected first priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions. The Credit Agreement contains affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with our affiliates. The Credit Agreement also requires us to maintain a maximum leverage ratio, provided there are revolving loans outstanding. We were in compliance with the covenants in the Credit Agreement at September 30, 2016.

As set forth in the Credit Agreement, Term Loan B-2 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.1875% (with an Adjusted LIBOR floor of 0.75% per annum), Term Loan B-3 at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.50% (with an Adjusted LIBOR floor of 0.75% per annum) and revolving loan borrowings at Adjusted LIBOR plus 2.50%. However, for specified types of borrowings, the Company may elect to make Term Loan B-2 borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.1875%, Term Loan B-3 at a Base Rate plus 2.50% and revolving loan borrowings at a Base Rate plus 1.50%. The rates on Term Loan B-2 and Term Loan B-3 were 4.06% and 4.38% at September 30, 2016, respectively. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio, which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate on the revolving credit facility will step down by 25 basis points. The Company also pays a commitment fee of 40 basis points, payable quarterly, on the average daily unused amount of the revolving credit facility. The fee may step down to 35 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

On September 30, 2016 there were no borrowings on the revolving credit facility and $140.0 million was drawn on the old revolving credit facility at December 31, 2015. In addition, we had related outstanding letters of credit in the aggregate amount of $29.7 million and $28.0 million at September 30, 2016 and December 31, 2015, respectively, which reduce the amount available for borrowings under the respective revolving credit facility.

Fair Value of Debt

As of September 30, 2016, the estimated fair value of our long-term debt amounted to $2,451.7 million. The estimates of fair value were based on broker-dealer quotes for our debt as of September 30, 2016. The estimates presented on long-term financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

Note 7—Derivatives

We are exposed to interest rate risk on our variable rate borrowings. Accordingly, interest rate fluctuations affect the amount of interest expense we are obligated to pay. We use interest rate derivatives with the objective of managing exposure to interest rate movements, thereby reducing the effect of interest rate changes and the effect they could have on future cash flows. Currently, interest rate cap agreements are used to accomplish this objective.

- In August 2015, we purchased three interest rate caps for an aggregate amount of approximately $1.5 million with an aggregate notional amount of $800 million to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR (i) exceeds 2.0% between August 19, 2015 (the effective date) and September 29, 2016 and (ii) exceeds 1.75% between September 30, 2016 and August 19, 2017 (the maturity date).
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In April 2015, we purchased two interest rate caps for an aggregate amount of approximately $0.7 million with an aggregate notional amount of $400 million to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR exceeds 1.5%. The interest rate cap agreements each had an effective date of April 16, 2015 and each matures on March 31, 2017.

We are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. ASC 815, Derivatives and Hedging, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks. The following table presents the fair value of our interest rate derivatives included in the consolidated balance sheets for the periods presented (in millions):

	Asset Derivatives			
	September 30, 2016		December 31, 2015	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
2015 Interest rate caps	Other assets	$ —	Other assets	$ 0.7

We have not designated any of the interest rate caps as hedges for accounting purposes. Accordingly, changes in the fair value of the interest rate caps are recognized as "Interest expense" in the consolidated statement of income. The following table presents the effect of the interest rate derivatives on our consolidated statements of income for the periods presented (in millions):

Derivatives Not Designated as Hedging Instruments	Location of Gain / (Loss) Recognized in Income on Derivatives	Amount of Gain / (Loss) Recognized in Income on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
2015 Interest rate caps	Interest expense	$ —	$ (1.3)	$ (0.7)	$ (1.5)

Note 8—Commitments and Contingencies

We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including litigation and environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Such matters are generally not, in the opinion of management, likely to have a material adverse effect on our financial condition, results of operations or cash flows. Legal fees are expensed as incurred. There has been no significant change in the legal and regulatory proceedings which were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Note 9—Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of the following (in millions):

	September 30, 2016	December 31, 2015
Foreign currency translation loss	$ (40.7)	$ (40.3)
Unrealized gain on postretirement benefit obligation, net of tax	0.1	0.1
Accumulated other comprehensive loss	$ (40.6)	$ (40.2)

Note 10—Segment Information

ASC 280, Segment Reporting, requires reporting of segment information that is consistent with the manner in which the chief operating decision maker operates and views the Company. Our operations are grouped into three operating segments: ADESA Auctions, IAA and AFC, which also serve as our reportable business segments. These reportable business segments offer different services and have fundamental differences in their operations.

The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate office, such as salaries, benefits and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense includes the interest expense incurred on capital leases and the corporate debt structure. Intercompany charges relate primarily to interest on intercompany debt or receivables and certain administrative costs allocated by the holding company.

Financial information regarding our reportable segments is set forth below for the three months ended September 30, 2016 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$441.6	$261.0	$71.2	$ —	$ 773.8
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	253.7	168.5	21.5	—	443.7
Selling, general and administrative	80.6	26.7	7.1	31.9	146.3
Depreciation and amortization	25.3	21.9	7.8	5.5	60.5
Total operating expenses	359.6	217.1	36.4	37.4	650.5
Operating profit (loss)	82.0	43.9	34.8	(37.4)	123.3
Interest expense	—	—	8.7	27.6	36.3
Other (income) expense, net	0.5	—	—	0.3	0.8
Intercompany expense (income)	11.7	9.4	(8.7)	(12.4)	—
Income (loss) before income taxes	69.8	34.5	34.8	(52.9)	86.2
Income taxes	26.3	12.5	13.2	(20.2)	31.8
Net income (loss)	$43.5	$22.0	$21.6	$ (32.7)	$ 54.4
Total assets	$2,981.5	$1,312.0	$2,205.6	$ 87.3	$ 6,586.4

Table of Contents
KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
September 30, 2016 (Unaudited)

Financial information regarding our reportable segments is set forth below for the three months ended September 30, 2015 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$351.4	$246.2	$69.1	$ —	$ 666.7
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	199.2	158.9	20.0	—	378.1
Selling, general and administrative	71.3	25.6	7.0	24.6	128.5
Depreciation and amortization	22.3	20.1	7.7	4.0	54.1
Total operating expenses	292.8	204.6	34.7	28.6	560.7
Operating profit (loss)	58.6	41.6	34.4	(28.6)	106.0
Interest expense	0.2	—	6.6	17.6	24.4
Other (income) expense, net	(1.2)	0.7	—	0.2	(0.3)
Intercompany expense (income)	14.0	9.6	(7.9)	(15.7)	—
Income (loss) before income taxes	45.6	31.3	35.7	(30.7)	81.9
Income taxes	16.0	11.4	13.6	(11.4)	29.6
Net income (loss)	$29.6	$19.9	$22.1	$ (19.3)	$ 52.3
Total assets	$2,450.4	$1,272.3	$1,917.7	$ 63.9	$ 5,704.3

Financial information regarding our reportable segments is set forth below for the nine months ended September 30, 2016 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,277.2	$795.4	$218.0	$ —	$ 2,290.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	721.3	509.3	62.7	—	1,293.3
Selling, general and administrative	237.8	78.9	21.9	95.7	434.3
Depreciation and amortization	72.6	64.4	23.4	15.5	175.9
Total operating expenses	1,031.7	652.6	108.0	111.2	1,903.5
Operating profit (loss)	245.5	142.8	110.0	(111.2)	387.1
Interest expense	0.2	—	24.7	75.9	100.8
Other (income) expense, net	(0.6)	(0.4)	—	0.2	(0.8)
Loss on extinguishment of debt	—	—	—	4.0	4.0
Intercompany expense (income)	40.2	28.6	(25.1)	(43.7)	—
Income (loss) before income taxes	205.7	114.6	110.4	(147.6)	283.1
Income taxes	76.7	42.5	41.8	(54.8)	106.2
Net income (loss)	$129.0	$72.1	$68.6	$ (92.8)	$ 176.9

Financial information regarding our reportable segments is set forth below for the nine months ended September 30, 2015 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,024.4	$732.8	$200.2	$ —	$ 1,957.4
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	578.1	460.6	58.0	—	1,096.7
Selling, general and administrative	207.3	72.6	21.0	72.6	373.5
Depreciation and amortization	63.8	59.1	23.2	10.7	156.8
Total operating expenses	849.2	592.3	102.2	83.3	1,627.0
Operating profit (loss)	175.2	140.5	98.0	(83.3)	330.4
Interest expense	0.6	—	17.2	49.4	67.2
Other (income) expense, net	(1.5)	0.9	(1.5)	—	(2.1)
Intercompany expense (income)	43.6	28.8	(17.4)	(55.0)	—
Income (loss) before income taxes	132.5	110.8	99.7	(77.7)	265.3
Income taxes	48.4	41.3	37.9	(28.6)	99.0
Net income (loss)	$84.1	$69.5	$61.8	$ (49.1)	$ 166.3

Note 11—Subsequent Event

On October 26, 2016, the board of directors authorized a repurchase of up to $500 million of the Company’s outstanding common stock, par value $0.01 per share, through October 26, 2019. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this report on Form 10-Q that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases, credit losses and capital expenditures; dividend declarations and payments; common stock repurchases; strategic initiatives, greenfields and acquisitions; our competitive position and retention of customers; and our continued investment in information technology, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 filed on February 18, 2016. Some of these factors include:

- increases in the number of used vehicles purchased on virtual auction platforms;
- business development activities, including greenfields, acquisitions and integration of acquired businesses;
- significant current competition and the introduction of new competitors;
- our ability to effectively maintain or update information and technology systems;
- our ability to implement and maintain measures to protect against cyber-attacks;
- changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;
- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- the ability of consumers to lease or finance the purchase of new and/or used vehicles;
- the ability to recover or collect from delinquent or bankrupt customers;
- economic conditions including fuel prices, commodity prices, foreign exchange rates and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- trends in the number of commercial vehicles being brought to auction, in particular off-lease volumes;
- changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;
- competitive pricing pressures;
- costs associated with the acquisition of businesses or technologies;
- our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;
- our ability to maintain our brand and protect our intellectual property;
- our ability to develop and implement information systems responsive to customer needs;
- the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;
- weather, including increased expenses as a result of catastrophic events;
- general business conditions;

Table of Contents

- our substantial amount of debt;
- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- any losses of key personnel;
- litigation developments;
- our self-insurance for certain risks;
- interruptions to service from our workforce;
- any impairment to our goodwill or other intangible assets;
- changes in effective tax rates;
- changes to accounting standards; and
- other risks described from time to time in our filings with the SEC.

Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements in this document are made as of the date on which they are made and we do not undertake to update our forward-looking statements.

Our future growth depends on a variety of factors, including our ability to increase vehicle sold volumes and loan transaction volumes, expand our product and service offerings, including information systems development, acquire and integrate additional business entities, manage expansion, control costs in our operations, introduce fee increases, and retain our executive officers and key employees. We cannot predict whether our growth strategy will be successful. In addition, we cannot predict what portion of overall sales will be conducted through online auctions or other remarketing methods in the future and what impact this may have on our auction business.

Overview

We provide whole car auction services and salvage auction services in North America and the United Kingdom. Our business is divided into three reportable business segments, each of which is an integral part of the vehicle remarketing industry: ADESA Auctions, IAA and AFC.

- The ADESA Auctions segment serves a domestic and international customer base through live and online auctions and through 76 whole car auction facilities in North America that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely or in person. Through ADESA.com, powered by OPENLANE technology, ADESA offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies and other institutions to offer vehicles via the Internet prior to arrival at the physical auction. Vehicles at ADESA's auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, new and used vehicle dealers and vehicle manufacturers and their captive finance companies to franchise and independent used vehicle dealers. ADESA also provides value-added ancillary services including inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification, titling, administrative and collateral recovery services. ADESA also includes ADESA Remarketing Limited (formerly known as GRS), an online whole car vehicle remarketing business in the United Kingdom.
- The IAA segment serves a domestic and international customer base through live and online auctions and through 173 salvage vehicle auction sites in the United States and Canada at September 30, 2016. IAA also includes HBC Vehicle Services ("HBC"), which operates from 10 locations in the United Kingdom. The salvage auctions facilitate the remarketing of damaged vehicles designated as total losses by insurance companies, charity donation vehicles, recovered stolen (or theft) vehicles and low value used vehicles. The salvage auction business specializes in providing services such as inbound transportation, titling, salvage recovery and claims settlement administrative services.
- The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At September 30, 2016, AFC conducted business at 124 locations in the United States and Canada. The Company also sells vehicle service contracts through Preferred Warranties, Inc. ("PWI").

Table of Contents

The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate office, such as salaries, benefits and travel costs for our management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense includes the interest expense incurred on capital leases and the corporate debt structure. Intercompany charges relate primarily to interest on intercompany debt or receivables and certain administrative costs allocated by the holding company.

Industry Trends

Whole Car

Used vehicles sold in North America through whole car auctions, including online only sales, were approximately 8.7 million, 9.2 million and 9.9 million in 2013, 2014 and 2015, respectively. We estimate that used vehicle auction volumes in North America, including online only volumes, will be over 10 million units in 2016, 2017 and 2018. Our estimates are based on information from the Bureau of Economic Analysis, IHS Automotive, Kontos Total Market Estimates, NAAA's 2015 Annual Review and management estimates. A primary driver of the anticipated improvement is more off-lease vehicles entering the market over the next three years.

Salvage

Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. The percentage of claims resulting in total losses was approximately 16% in 2015 and 14% in 2014 and 2013. There is no central reporting system for the salvage vehicle auction industry that tracks the number of salvage vehicle auction volumes in any given year, which makes estimating industry volumes difficult. Fluctuations in used vehicle and commodity pricing (aluminum, steel, etc.) have an impact on proceeds received in the salvage vehicle auction industry. In times of rising prices, revenue and gross profit are positively impacted. If used vehicle and commodity prices decrease, as the industry has recently experienced, proceeds, revenue and gross profit at salvage auctions may be negatively impacted, which could adversely affect the level of profitability. For example, the average price per ton of crushed auto bodies in North America decreased from $312 in December 2013 to $198 in December 2014 to $115 in December 2015. This reduction in the price of crushed auto bodies has had an adverse impact on the value of salvage vehicles being sold in the salvage auction industry and resulted in reduced revenue per vehicle sold and gross profit. During 2016, the price per ton of crushed auto bodies in North America has ranged from $109 to $188 and finished September 2016 at $142.

Automotive Finance

AFC works with independent used vehicle dealers to improve their results by providing a comprehensive set of business and financial solutions that leverages its local branches, industry experience and scale, as well as KAR affiliations. Over the last few years, the U.S. independent used vehicle dealer base has rebounded from approximately 36,000 dealers in 2009 to about 37,000 dealers in 2015. During this time, AFC's North American dealer base grew from over 9,700 dealers in 2009 to over 14,400 dealers in 2015 and loan transactions, which includes both loans paid off and loans curtailed, grew from approximately 800,000 in 2009 to approximately 1,607,000 in 2015. As a result of this increased activity, AFC is experiencing increased competition.

Key challenges for the independent used vehicle dealer include demand for used vehicles, disruptions in pricing of used vehicle inventory and lack of access to consumer financing. These same challenges, to the extent they occur, could result in a material negative impact on AFC's results of operations. A significant decline in used vehicle sales would result in a decrease in consumer auto loan originations and an increased number of dealers defaulting on their loans. In addition, volatility in wholesale vehicle pricing impacts the value of recovered collateral on defaulted loans and the resulting severity of credit losses at AFC.

Seasonality

The volume of vehicles sold through our auctions generally fluctuates from quarter-to-quarter. This seasonality is caused by several factors including weather, the timing of used vehicles available for sale from selling customers, the availability and quality of salvage vehicles, holidays, and the seasonality of the retail market for used vehicles, which affects the demand side of the auction industry. Used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions. In addition, mild weather conditions and decreases in traffic volume can each lead to a decline in the available supply of salvage vehicles because fewer traffic accidents occur, resulting in fewer damaged vehicles overall. As a result, revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis. The fourth calendar quarter typically experiences lower used vehicle auction volume as well as additional costs associated with the holidays and winter weather.

Table of Contents

Sources of Revenues and Expenses

Our revenue is derived from auction fees and related services associated with our whole car and salvage auctions, and from dealer financing fees, interest income and other service revenue at AFC. Although auction revenues primarily include the auction services and related fees, our related receivables and payables include the gross value of the vehicles sold.

Our operating expenses consist of cost of services, selling, general and administrative and depreciation and amortization. Cost of services is composed of payroll and related costs, subcontract services, the cost of vehicles sold under purchase contracts, supplies, insurance, property taxes, utilities, service contract claims, maintenance and lease expense related to the auction sites and loan offices. Cost of services excludes depreciation and amortization. Selling, general and administrative expenses are composed of payroll and related costs, sales and marketing, information technology services and professional fees.

Results of Operations

Overview of Results of KAR Auction Services, Inc. for the Three Months Ended September 30, 2016 and 2015:

	Three Months Ended September 30,	
(Dollars in millions except per share amounts)	2016	2015
Revenues		
ADESA	$441.6	$351.4
IAA	261.0	246.2
AFC	71.2	69.1
Total revenues	773.8	666.7
Cost of services*	443.7	378.1
Gross profit*	330.1	288.6
Selling, general and administrative	146.3	128.5
Depreciation and amortization	60.5	54.1
Operating profit	123.3	106.0
Interest expense	36.3	24.4
Other (income) expense, net	0.8	(0.3)
Income before income taxes	86.2	81.9
Income taxes	31.8	29.6
Net income	$54.4	$52.3
Net income per share		
Basic	$0.39	$0.37
Diluted	$0.39	$0.37

* Exclusive of depreciation and amortization

Overview

For the three months ended September 30, 2016, we had revenue of $773.8 million compared with revenue of $666.7 million for the three months ended September 30, 2015, an increase of 16%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussed below.

Depreciation and Amortization

Depreciation and amortization increased $6.4 million, or 12%, to $60.5 million for the three months ended September 30, 2016, compared with $54.1 million for the three months ended September 30, 2015. The increase in depreciation and amortization was primarily the result of certain assets placed in service over the last twelve months and depreciation and amortization for the assets of businesses acquired in 2015 and 2016.

Interest Expense

Interest expense increased $11.9 million, or 49%, to $36.3 million for the three months ended September 30, 2016, compared with $24.4 million for the three months ended September 30, 2015. The increase was primarily attributable to the

24

Table of Contents

interest associated with the new Term Loan B-3 and the increase in interest rate on Term Loan B-2. In addition, there was an increase in interest expense at AFC of approximately $2.1 million, which resulted from an increase in the average portfolio financed for the three months ended September 30, 2016 as compared with the three months ended September 30, 2015.

Income Taxes

We had an effective tax rate of 36.9% for the three months ended September 30, 2016, compared with an effective tax rate of 36.1% for the three months ended September 30, 2015.

Impact of Foreign Currency

The strengthening of the Canadian dollar has impacted the reporting of our Canadian operations in U.S. dollars. For the three months ended September 30, 2016, fluctuations in the Canadian exchange rate increased revenue by $0.3 million, operating profit by $0.1 million and did not impact net income or net income per diluted share.

ADESA Results

	Three Months Ended September 30,	
(Dollars in millions)	2016	2015
ADESA revenue	$441.6	$351.4
Cost of services*	253.7	199.2
Gross profit*	187.9	152.2
Selling, general and administrative	80.6	71.3
Depreciation and amortization	25.3	22.3
Operating profit	$82.0	$58.6

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $90.2 million, or 26%, to $441.6 million for the three months ended September 30, 2016, compared with $351.4 million for the three months ended September 30, 2015. The increase in revenue was primarily a result of a 17% increase in the number of vehicles sold (6% increase excluding acquisitions), as well as a 7% increase in revenue per vehicle sold. Businesses acquired in the last 12 months accounted for an increase in revenue of $35.4 million.

The increase in volume sold was primarily attributable to a 22% increase in institutional volume (13% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 10% increase in dealer consignment units sold (4% decrease excluding acquisitions) for the three months ended September 30, 2016 compared with the three months ended September 30, 2015. Online sales volume for ADESA represented approximately 40% of the total vehicles sold in the third quarter of 2016, compared with approximately 38% in the third quarter of 2015. "Online sales" includes the following: (i) selling vehicles directly from a dealership or other interim storage location (upstream selling); (ii) online solutions that offer vehicles for sale while in transit to auction locations (midstream selling); (iii) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock®); and (iv) bulletin-board or real-time online auctions (DealerBlock®). Both the upstream and midstream selling represent online only sales, which accounted for approximately 63% of ADESA's online sales volume. ADESA sold approximately 180,000 and 146,000 vehicles through its online only offerings in the third quarter of 2016 and 2015, respectively, of which approximately 101,000 and 90,000 represented vehicle sales to grounding dealers in the third quarter of 2016 and 2015, respectively. For the three months ended September 30, 2016, dealer consignment vehicles represented approximately 50% of used vehicles sold at ADESA physical auction locations, compared with approximately 52% for the three months ended September 30, 2015. Vehicles sold at physical auction locations increased 15% (1% increase excluding acquisitions) in the third quarter of 2016, compared with the third quarter of 2015. The used vehicle conversion percentage at North American physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, increased to 57.2% for the three months ended September 30, 2016, compared with 56.9% for the three months ended September 30, 2015.

Total revenue per vehicle sold increased 7% to approximately $603 for the three months ended September 30, 2016, compared with approximately $561 for the three months ended September 30, 2015. Physical auction revenue per vehicle sold increased $59 or 8%, to $758 for the three months ended September 30, 2016, compared with $699 for the three months ended September 30, 2015. Physical auction revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin ancillary and other related services revenue. Online only auction revenue per vehicle sold increased $17 to $127 for the three months ended September 30, 2016, compared with $110 for the three months ended September 30, 2015. The increase in online only auction revenue per vehicle sold was attributable to an increase in purchased vehicles associated with the ADESA Assurance Program and an increase in the mix of cars sold in closed sales to non-grounding dealers. Excluding vehicles purchased as part of the ADESA Assurance Program, revenue per vehicle would have been $108 and $102 for the three months ended September 30, 2016 and 2015, respectively.

Gross Profit

For the three months ended September 30, 2016, gross profit for ADESA increased $35.7 million, or 23%, to $187.9 million, compared with $152.2 million for the three months ended September 30, 2015. Gross profit for ADESA was 42.5% of revenue for the three months ended September 30, 2016, compared with 43.3% of revenue for the three months ended September 30, 2015. The increase in gross profit for the three months ended September 30, 2016, compared with the three months ended September 30, 2015, was primarily the result of the increase in revenue. The decrease in gross profit percentage was primarily the result of the increase in cost of services, which was attributable to an increase in lower margin ancillary and other related services.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $9.3 million, or 13%, to $80.6 million for the three months ended September 30, 2016, compared with $71.3 million for the three months ended September 30, 2015, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $8.6 million, compensation expense of $3.1 million, professional fees of $1.1 million and other miscellaneous expenses aggregating $1.0 million, partially offset by a decrease in marketing expenses of $1.8 million, a decrease in incentive-based compensation expense of $1.5 million and the loss on disposal of certain assets in 2015 of $1.2 million.

IAA Results

	Three Months Ended September 30,	
(Dollars in millions)	2016	2015
IAA revenue	$261.0	$246.2
Cost of services*	168.5	158.9
Gross profit*	92.5	87.3
Selling, general and administrative	26.7	25.6
Depreciation and amortization	21.9	20.1
Operating profit	$43.9	$41.6

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $14.8 million, or 6%, to $261.0 million for the three months ended September 30, 2016, compared with $246.2 million for the three months ended September 30, 2015, and included an increase in revenue of $2.5 million from HBC. The increase in revenue was a result of an increase in vehicles sold of approximately 5% (5% increase excluding HBC) and an increase in revenue per vehicle sold of approximately 1% for the three months ended September 30, 2016. IAA's North American same-store total loss vehicle inventory increased approximately 22% at September 30, 2016, as compared to September 30, 2015, in part related to recent catastrophic events. Vehicles sold under purchase agreements were approximately 7% (6% excluding HBC) of total salvage vehicles sold for the three months ended September 30, 2016 and 2015. Online sales volumes for IAA for the three months ended September 30, 2016 and 2015 represented over half of the total vehicles sold by IAA.

Gross Profit

For the three months ended September 30, 2016, gross profit at IAA increased to $92.5 million, or 35.4% of revenue, compared with $87.3 million, or 35.5% of revenue, for the three months ended September 30, 2015. The increase in gross profit was mainly attributable to a 6% increase in revenue, partially offset by a 6% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. Excluding HBC, IAA's gross profit margin was 36.6% for the three months ended September 30, 2016 and 2015. For the three months ended September 30, 2016 and 2015, HBC had

Table of Contents

revenue of approximately $12.3 million and $9.8 million, respectively, and cost of services of approximately $10.8 million and $9.1 million, respectively, as the majority of HBC's vehicles are sold under purchase contracts.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $1.1 million, or 4%, to $26.7 million for the three months ended September 30, 2016, compared with $25.6 million for the three months ended September 30, 2015. The increase in selling, general and administrative expenses was primarily attributable to increases in professional fees of $0.4 million, stock-based compensation expense of $0.3 million and other miscellaneous expenses aggregating $0.4 million.

AFC Results

	Three Months Ended September 30,	
(Dollars in millions except volumes and per loan amounts)	2016	2015
AFC revenue		
Interest and fee income	$68.4	$62.2
Other revenue	2.7	2.5
Provision for credit losses	(8.0)	(2.7)
Other service revenue	8.1	7.1
Total AFC revenue	71.2	69.1
Cost of services*	21.5	20.0
Gross profit*	49.7	49.1
Selling, general and administrative	7.1	7.0
Depreciation and amortization	7.8	7.7
Operating profit	$34.8	$34.4
Loan transactions	425,993	405,116
Revenue per loan transaction, excluding "Other service revenue"	$148	$153

* Exclusive of depreciation and amortization

Revenue

For the three months ended September 30, 2016, AFC revenue increased $2.1 million, or 3%, to $71.2 million, compared with $69.1 million for the three months ended September 30, 2015. The increase in revenue was the result of a 5% increase in loan transactions and an increase of 14% in "Other service revenue" generated by PWI. In addition, managed receivables increased to $1,785.4 million at September 30, 2016 from $1,529.6 million at September 30, 2015.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $5, or 3%, primarily as a result of an increase in the provision for credit losses, a decrease in interest yield and a decrease in floorplan fee income, partially offset by increases in average loan values, other revenue and average portfolio duration. Revenue per loan transaction excludes "Other service revenue."

The provision for credit losses has increased to 1.8% from 0.7% of the average managed receivables for the three months ended September 30, 2016 compared with the three months ended September 30, 2015. In the current credit environment, the provision for credit losses is expected to be approximately 1.5% to 2%, annually, of the average managed receivables balance.

Gross Profit

For the three months ended September 30, 2016, gross profit for the AFC segment increased $0.6 million, or 1%, to $49.7 million, or 69.8% of revenue, compared with $49.1 million, or 71.1% of revenue, for the three months ended September 30, 2015, primarily as a result of a 3% increase in revenue, partially offset by an 8% increase in cost of services. The floorplan lending business gross profit margin percentage decreased from 77.4% to 76.7% as a result of lower revenue per loan transaction. The gross profit margin percentage in the warranty service contract business improved.

27

Table of Contents

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $0.1 million, or 1%, to $7.1 million for the three months ended September 30, 2016, compared with $7.0 million for the three months ended September 30, 2015.

Holding Company Results

(Dollars in millions)	Three Months Ended September 30, 2016	2015
Selling, general and administrative	$31.9	$24.6
Depreciation and amortization	5.5	4.0
Operating loss	$(37.4)	$(28.6)

Selling, General and Administrative

For the three months ended September 30, 2016, selling, general and administrative expenses at the holding company increased $7.3 million, or 30%, to $31.9 million, compared with $24.6 million for the three months ended September 30, 2015, primarily as a result of increases in compensation expense of $2.9 million, professional fees of $2.9 million, stock-based compensation expense of $0.7 million, the loss on disposal of certain assets of $0.7 million and other miscellaneous expenses aggregating $1.2 million, partially offset by a decrease in medical expenses of $1.1 million. The Company has increased Holding Company expenses to support the growing businesses of KAR. The increase in expenses relate to costs associated with talent management, technology and support of strategic initiatives.

Overview of Results of KAR Auction Services, Inc. for the Nine Months Ended September 30, 2016 and 2015:

(Dollars in millions except per share amounts)	Nine Months Ended September 30, 2016	2015
Revenues		
ADESA	$1,277.2	$1,024.4
IAA	795.4	732.8
AFC	218.0	200.2
Total revenues	2,290.6	1,957.4
Cost of services*	1,293.3	1,096.7
Gross profit*	997.3	860.7
Selling, general and administrative	434.3	373.5
Depreciation and amortization	175.9	156.8
Operating profit	387.1	330.4
Interest expense	100.8	67.2
Other income, net	(0.8)	(2.1)
Loss on extinguishment of debt	4.0	—
Income before income taxes	283.1	265.3
Income taxes	106.2	99.0
Net income	$176.9	$166.3
Net income per share		
Basic	$1.29	$1.18
Diluted	$1.27	$1.16

* Exclusive of depreciation and amortization

Table of Contents

Overview

For the nine months ended September 30, 2016, we had revenue of $2,290.6 million compared with revenue of $1,957.4 million for the nine months ended September 30, 2015, an increase of 17%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussed below.

Depreciation and Amortization

Depreciation and amortization increased $19.1 million, or 12%, to $175.9 million for the nine months ended September 30, 2016, compared with $156.8 million for the nine months ended September 30, 2015. The increase in depreciation and amortization was primarily the result of certain assets placed in service over the last twelve months and depreciation and amortization for the assets of businesses acquired in 2015 and 2016.

Interest Expense

Interest expense increased $33.6 million, or 50%, to $100.8 million for the nine months ended September 30, 2016, compared with $67.2 million for the nine months ended September 30, 2015. The increase was primarily attributable to the interest associated with the new Term Loan B-3, the increase in interest rate on Term Loan B-2, as well as the interest associated with outstanding revolver borrowings prior to the completion of the debt refinancing in March 2016. In addition, there was an increase in interest expense at AFC of approximately $7.5 million, which resulted from an increase in the average portfolio financed for the nine months ended September 30, 2016 as compared with the nine months ended September 30, 2015.

Loss on Extinguishment of Debt

In March 2016, we amended our Credit Agreement and recorded a $4.0 million pretax charge resulting from the write-off of unamortized debt issue costs associated with Term Loan B-1 and unamortized debt issue costs associated with the old revolving credit facility.

Income Taxes

We had an effective tax rate of 37.5% for the nine months ended September 30, 2016, compared with an effective tax rate of 37.3% for the nine months ended September 30, 2015.

Impact of Foreign Currency

The strengthening of the U.S. dollar has impacted the reporting of our Canadian operations in U.S. dollars. For the nine months ended September 30, 2016, fluctuations in the Canadian exchange rate decreased revenue by $12.0 million, operating profit by $4.2 million, net income by $2.3 million and net income per diluted share by $0.02.

ADESA Results

	Nine Months Ended September 30,	
(Dollars in millions)	2016	2015
ADESA revenue	$1,277.2	$1,024.4
Cost of services*	721.3	578.1
Gross profit*	555.9	446.3
Selling, general and administrative	237.8	207.3
Depreciation and amortization	72.6	63.8
Operating profit	$245.5	$175.2

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $252.8 million, or 25%, to $1,277.2 million for the nine months ended September 30, 2016, compared with $1,024.4 million for the nine months ended September 30, 2015. The increase in revenue was primarily a result of a 17% increase in the number of vehicles sold (10% increase excluding acquisitions), as well as a 6% increase in revenue per vehicle sold. Businesses acquired in the last 12 months accounted for an increase in revenue of $93.5 million. Revenue decreased $8.6 million due to fluctuations in the Canadian exchange rate.

29

The increase in volume sold was primarily attributable to a 23% increase in institutional volume (17% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 9% increase in dealer consignment units sold (0% change excluding acquisitions) for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015. Online sales volume for ADESA represented approximately 39% of the total vehicles sold in the first nine months of 2016, compared with approximately 40% in the first nine months of 2015. Upstream and midstream selling represent online only sales, which accounted for approximately 63% of ADESA's online sales volume. ADESA sold approximately 566,000 and 440,000 vehicles through its online only offerings in the first nine months of 2016 and 2015, respectively, of which approximately 298,000 and 272,000 represented vehicle sales to grounding dealers in the first nine months of 2016 and 2015, respectively. For the nine months ended September 30, 2016, dealer consignment vehicles represented approximately 48% of used vehicles sold at ADESA physical auction locations, compared with approximately 50% for the nine months ended September 30, 2015. Vehicles sold at physical auction locations increased 14% (5% increase excluding acquisitions) in the first nine months of 2016, compared with the first nine months of 2015. The used vehicle conversion percentage at North American physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions was 59.0% for the nine months ended September 30, 2016 and 2015. Total revenue per vehicle sold increased 6% to approximately $585 for the nine months ended September 30, 2016, compared with approximately $551 for the nine months ended September 30, 2015, and included the impact of a decrease in revenue per vehicle sold of $4 due to fluctuations in the Canadian exchange rate. Physical auction revenue per vehicle sold increased $57 or 8%, to $746 for the nine months ended September 30, 2016, compared with $689 for the nine months ended September 30, 2015. Physical auction revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin ancillary and other related services revenue, including revenue from certain businesses acquired, partially offset by a decrease in physical auction revenue per vehicle sold of $5 due to fluctuations in the Canadian exchange rate. Online only auction revenue per vehicle sold increased $17 to $122 for the nine months ended September 30, 2016, compared with $105 for the nine months ended September 30, 2015. The increase in online only auction revenue per vehicle sold was attributable to an increase in purchased vehicles associated with the ADESA Assurance Program and an increase in the mix of cars sold in closed sales to non-grounding dealers, partially offset by a decrease in online only auction revenue per vehicle sold of $1 due to fluctuations in the Canadian exchange rate. Excluding vehicles purchased as part of the ADESA Assurance Program, revenue per vehicle would have been $109 and $101 for the nine months ended September 30, 2016 and 2015, respectively.

Gross Profit

For the nine months ended September 30, 2016, gross profit for ADESA increased $109.6 million, or 25%, to $555.9 million, compared with $446.3 million for the nine months ended September 30, 2015. Gross profit for ADESA was 43.5% of revenue for the nine months ended September 30, 2016, compared with 43.6% of revenue for the nine months ended September 30, 2015. The decrease in gross profit percentage was primarily the result of the increase in cost of services, which was attributable to an increase in lower margin ancillary and other related services, partially offset by fluctuations in the Canadian exchange rate.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $30.5 million, or 15%, to $237.8 million for the nine months ended September 30, 2016, compared with $207.3 million for the nine months ended September 30, 2015, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $19.3 million, compensation expense of $9.0 million, incentive-based compensation expense of $1.6 million, supply expenses of $1.3 million, benefit-related expenses of $1.2 million, professional fees of $1.2 million and other miscellaneous expenses aggregating $3.3 million, partially offset by a decrease in marketing expenses of $2.8 million, the loss on disposal of certain assets in 2015 of $2.0 million and fluctuations in the Canadian exchange rate of $1.6 million.

Table of Contents

IAA Results

(Dollars in millions)	Nine Months Ended September 30, 2016	2015
IAA revenue	$795.4	$732.8
Cost of services*	509.3	460.6
Gross profit*	286.1	272.2
Selling, general and administrative	78.9	72.6
Depreciation and amortization	64.4	59.1
Operating profit	$142.8	$140.5

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $62.6 million, or 9%, to $795.4 million for the nine months ended September 30, 2016, compared with $732.8 million for the nine months ended September 30, 2015, and included an increase in revenue of $25.5 million from HBC (HBC was acquired in June 2015). The increase in revenue was a result of an increase in vehicles sold of approximately 8% (7% increase excluding HBC) for the nine months ended September 30, 2016, partially offset by a decrease in revenue of $2.7 million due to fluctuations in the Canadian exchange rate. Revenue per vehicle sold was consistent year over year. Vehicles sold under purchase agreements were approximately 7% (5% excluding HBC) and 7% (6% excluding HBC) of total salvage vehicles sold for the nine months ended September 30, 2016 and 2015, respectively. Online sales volumes for IAA for the nine months ended September 30, 2016 and 2015 represented over half of the total vehicles sold by IAA.

Gross Profit

For the nine months ended September 30, 2016, gross profit at IAA increased to $286.1 million, or 36.0% of revenue, compared with $272.2 million, or 37.1% of revenue, for the nine months ended September 30, 2015. The increase in gross profit was mainly attributable to a 9% increase in revenue, partially offset by an 11% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. Excluding HBC, IAA's gross profit margin was 37.3% and 37.7% for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, HBC had revenue of approximately $39.6 million and $14.0 million, respectively, and cost of services of approximately $35.7 million and $13.0 million, respectively, as the majority of HBC's vehicles are sold under purchase contracts. HBC accounted for a 0.8% decrease in IAA's gross profit margin percentage for the nine months ended September 30, 2016.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $6.3 million, or 9%, to $78.9 million for the nine months ended September 30, 2016, compared with $72.6 million for the nine months ended September 30, 2015. The increase in selling, general and administrative expenses was primarily attributable to an increase in expenses at HBC of $1.6 million, increases in stock-based compensation expense of $1.0 million, bad debt expense of $1.0 million, telecom costs of $0.8 million, employee related expenses of $0.6 million, benefit-related expenses of $0.6 million, incentive-based compensation of $0.5 million and other miscellaneous expenses aggregating $0.9 million, partially offset by a decrease in travel expenses of $0.7 million.

Table of Contents

AFC Results

(Dollars in millions except volumes and per loan amounts)	Nine Months Ended September 30, 2016	2015
AFC revenue		
Interest and fee income	$205.5	$ 182.9
Other revenue	7.7	7.0
Provision for credit losses	(19.0)	(10.5)
Other service revenue	23.8	20.8
Total AFC revenue	218.0	200.2
Cost of services*	62.7	58.0
Gross profit*	155.3	142.2
Selling, general and administrative	21.9	21.0
Depreciation and amortization	23.4	23.2
Operating profit	$110.0	$ 98.0
Loan transactions	1,301,070	1,198,473
Revenue per loan transaction, excluding "Other service revenue"	$149	$ 150

* Exclusive of depreciation and amortization

Revenue

For the nine months ended September 30, 2016, AFC revenue increased $17.8 million, or 9%, to $218.0 million, compared with $200.2 million for the nine months ended September 30, 2015. The increase in revenue was the result of a 9% increase in loan transactions and an increase of 14% in "Other service revenue" generated by PWI. The increase in revenue and decrease in revenue per loan transaction included the impact of a decrease in revenue of $0.6 million due to fluctuations in the Canadian exchange rate. In addition, managed receivables increased to $1,785.4 million at September 30, 2016 from $1,529.6 million at September 30, 2015.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $1, or less than 1%, primarily as a result of an increase in the provision for credit losses, a decrease in floorplan fee income and a decrease in interest yield, partially offset by increases in average loan values, other revenue and average portfolio duration. Revenue per loan transaction excludes "Other service revenue."

The provision for credit losses has increased to 1.5% from 1.0% of the average managed receivables for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015. In the current credit environment, the provision for credit losses is expected to be approximately 1.5% to 2%, annually, of the average managed receivables balance.

Gross Profit

For the nine months ended September 30, 2016, gross profit for the AFC segment increased $13.1 million, or 9%, to $155.3 million, or 71.2% of revenue, compared with $142.2 million, or 71.0% of revenue, for the nine months ended September 30, 2015, primarily as a result of a 9% increase in revenue, partially offset by an 8% increase in cost of services. The floorplan lending business gross profit margin percentage increased from 77.5% to 78.0%. The gross profit margin percentage in the warranty service contract business also improved.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $0.9 million, or 4%, to $21.9 million for the nine months ended September 30, 2016, compared with $21.0 million for the nine months ended September 30, 2015. The increase was primarily attributable to increases in stock-based compensation expense, information technology costs and other miscellaneous expenses, partially offset by a decrease in selling, general and administrative costs at PWI.

Table of Contents

Holding Company Results

(Dollars in millions)	Nine Months Ended September 30, 2016	2015
Selling, general and administrative	$95.7	$72.6
Depreciation and amortization	15.5	10.7
Operating loss	$(111.2)	$(83.3)

Selling, General and Administrative

For the nine months ended September 30, 2016, selling, general and administrative expenses at the holding company increased $23.1 million, or 32%, to $95.7 million, compared with $72.6 million for the nine months ended September 30, 2015, primarily as a result of increases in compensation expense of $5.7 million, other professional fees of $5.4 million, stock-based compensation expense of $3.1 million, medical expenses of $2.8 million, information technology costs of $2.1 million, incentive-based compensation expense of $1.9 million, acquisition-related professional fees of $1.8 million and other miscellaneous expenses aggregating $0.3 million. The Company has increased Holding Company expenses to support the growing businesses of KAR. The increase in expenses relate to costs associated with talent management, technology and support of strategic initiatives.

LIQUIDITY AND CAPITAL RESOURCES

We believe that the significant indicators of liquidity for our business are cash on hand, cash flow from operations, working capital and amounts available under our Credit Facility. Our principal sources of liquidity consist of cash generated by operations and borrowings under our revolving credit facility.

(Dollars in millions)	September 30, 2016	December 31, 2015	September 30, 2015
Cash and cash equivalents	$ 323.1	$ 155.0	$ 125.3
Restricted cash	15.4	16.2	15.0
Working capital	650.4	232.2	250.2
Amounts available under Credit Facility*	300.0	110.0	119.5
Cash flow from operations for the nine months ended	283.8		315.4

* There were related outstanding letters of credit totaling approximately $29.7 million, $28.0 million and $28.6 million at September 30, 2016, December 31, 2015 and September 30, 2015, respectively, which reduced the amount available for borrowings under the revolving credit facility.

We regularly evaluate alternatives for our capital structure and liquidity given our expected cash flows, growth and operating capital requirements as well as capital market conditions.

Working Capital

A substantial amount of our working capital is generated from the payments received for services provided. The majority of our working capital needs are short-term in nature, usually less than a week in duration. Due to the decentralized nature of the business, payments for most vehicles purchased are received at each auction and branch. Most of the financial institutions place a temporary hold on the availability of the funds deposited that generally can range up to two business days, resulting in cash in our accounts and on our balance sheet that is unavailable for use until it is made available by the various financial institutions. There are outstanding checks (book overdrafts) to sellers and vendors included in current liabilities. Because a portion of these outstanding checks for operations in the U.S. are drawn upon bank accounts at financial institutions other than the financial institutions that hold the cash, we cannot offset all the cash and the outstanding checks on our balance sheet. Changes in working capital vary from quarter-to-quarter as a result of the timing of collections and disbursements of funds to consignors from auctions held near period end. The significant increase in working capital from December 31, 2015 to September 30, 2016 was primarily a result of the cash provided from the refinancing of our debt in the first quarter of 2016.

Table of Contents

Our available cash, which excludes cash in transit, was $227.9 million at September 30, 2016. Of this amount, approximately $84.0 million was held by our foreign subsidiaries. If the portion of funds held by our foreign subsidiaries that are considered to be permanently reinvested were to be repatriated, tax expense would need to be accrued at the U.S. statutory rate, net of any applicable foreign tax credits. Such foreign tax credits would substantially offset any U.S. taxes that would be due in the event cash held by our foreign subsidiaries was repatriated.
AFC offers short-term inventory-secured financing, also known as floorplan financing, to independent used vehicle dealers. Financing is primarily provided for terms of 30 to 90 days. AFC principally generates its funding through the sale of its receivables. The receivables sold pursuant to the securitization agreements are accounted for as secured borrowings. For further discussion of AFC's securitization arrangements, see "Securitization Facilities."

Credit Facilities

On March 9, 2016, we entered into an Incremental Commitment Agreement and First Amendment (the "First Amendment") to the Credit Agreement. The First Amendment provided for, among other things, (i) a new seven-year senior secured term loan facility ("Term Loan B-3") and (ii) a $300 million, five-year senior secured revolving credit facility (the "revolving credit facility"), which replaced the previously existing revolving credit facility (the "old revolving credit facility"). The proceeds received from Term Loan B-3 were used to repay in full Term Loan B-1 and the amount outstanding on the old revolving credit facility. No early termination penalties were incurred by the Company; however, we incurred a non-cash loss on the extinguishment of debt of $4.0 million in the first quarter of 2016. The loss was a result of the write-off of unamortized debt issuance costs associated with Term Loan B-1 and the old revolving credit facility. The First Amendment did not change the amount outstanding on Term Loan B-2, but did increase its interest rate margin. In addition, we capitalized approximately $18.0 million of debt issuance costs in connection with the First Amendment.
The Credit Facility is available for letters of credit, working capital, permitted acquisitions and general corporate purposes. The Credit Agreement provides that with respect to the revolving credit facility, up to $75 million is available for letters of credit and up to $75 million is available for swing line loans.
Term Loan B-2 was issued at a discount of $2.8 million and Term Loan B-3 was issued at a discount of $13.5 million. The discounts are being amortized using the effective interest method to interest expense over the respective terms of the loans. Both Term Loan B-2 and Term Loan B-3 are payable in quarterly installments equal to 0.25% of the original aggregate principal amounts of the term loans, respectively. Such payments commenced on June 30, 2014 for Term Loan B-2 and on June 30, 2016 for Term Loan B-3, with the balances payable at each respective maturity date. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to the net proceeds of certain debt offerings, certain asset sales and certain insurance recovery events. In addition, in accordance with the terms of the Credit Agreement, 50% of the net cash proceeds from the sale-leaseback of certain technology and capital equipment were used to prepay $4.4 million and $5.4 million of Term Loan B-2 and Term Loan B-3, respectively, for the nine months ended September 30, 2016. Each such prepayment is credited to prepay, on a pro rata basis, in order of maturity the unpaid amounts due on the first eight scheduled quarterly installments of Term Loan B-2 and Term Loan B-3 and thereafter to the remaining scheduled quarterly installments of each term loan on a pro rata basis.
As set forth in the Credit Agreement, Term Loan B-2 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.1875% (with an Adjusted LIBOR floor of 0.75% per annum), Term Loan B-3 at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.50% (with an Adjusted LIBOR floor of 0.75% per annum) and revolving loan borrowings at Adjusted LIBOR plus 2.50%. However, for specified types of borrowings, the Company may elect to make Term Loan B-2 borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.1875%, Term Loan B-3 at a Base Rate plus 2.50% and revolving loan borrowings at a Base Rate plus 1.50%. The rates on Term Loan B-2 and Term Loan B-3 were 4.06% and 4.38% at September 30, 2016, respectively. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio, which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate on the revolving credit facility will step down by 25 basis points. The Company also pays a commitment fee of 40 basis points, payable quarterly, on the average daily unused amount of the revolving credit facility. The fee may step down to 35 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

On September 30, 2016, $1,087.6 million was outstanding on Term Loan B-2, $1,343.2 million was outstanding on Term Loan B-3 and there were no borrowings on the revolving credit facility. In addition, there were related outstanding letters of credit in the aggregate amount of $29.7 million at September 30, 2016, which reduce the amount available for borrowings under the Credit Facility. Our Canadian operations also have a C$8 million line of credit which was undrawn as of September 30, 2016. However, there were related letters of credit outstanding totaling approximately C$0.9 million at September 30, 2016, which reduce credit available under the Canadian line of credit. The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors,

Table of Contents

including but not limited to: (a) pledges of and first priority perfected security interests in 100% of the equity interests of certain of the Company's and the Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the Company's and the Subsidiary Guarantors' first tier foreign subsidiaries and (b) perfected first priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions.

The Credit Agreement contains certain restrictive loan covenants, including, among others, a financial covenant requiring that a maximum consolidated senior secured leverage ratio be satisfied as of the last day of each fiscal quarter if revolving loans are outstanding, and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, consummate change of control transactions, dispose of assets, pay dividends, make investments and engage in certain transactions with affiliates. The senior secured leverage ratio is calculated as total senior secured debt divided by the last four quarters consolidated Adjusted EBITDA. Senior secured debt includes term loan borrowings, revolving loans and capital lease liabilities less available cash as defined in the Credit Agreement. Consolidated Adjusted EBITDA is EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude among other things (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock-based compensation expense; (e) certain other non-cash amounts included in the determination of net income; (f) charges and revenue reductions resulting from purchase accounting; (g) minority interest; (h) expenses associated with the consolidation of salvage operations; (i) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (j) expenses realized upon the termination of employees and the termination or cancellation of leases, software licenses or other contracts in connection with the operational restructuring and business improvement efforts; (k) expenses incurred in connection with permitted acquisitions; (l) any impairment charges or write-offs of intangibles; and (m) any extraordinary, unusual or non-recurring charges, expenses or losses.

Certain covenants contained within the Credit Agreement are critical to an investor's understanding of our financial liquidity, as the failure to maintain compliance with these covenants could result in a default and allow our lenders to declare all amounts borrowed immediately due and payable. The maximum consolidated senior secured leverage ratio is required to be met when there are revolving loans outstanding under our Credit Agreement. For the quarter ended September 30, 2016 the ratio could not exceed 3.75 to 1.0 and it steps down to 3.5 to 1.0 at September 30, 2017. Our actual consolidated senior secured leverage ratio, including capital lease obligations of $49.3 million, was 3.08 to 1.0 at September 30, 2016, excluding pro forma Adjusted EBITDA for businesses acquired in the last twelve months.

In addition, the Credit Agreement contains certain financial and operational restrictions that limit our ability to pay dividends and other distributions, make certain acquisitions or investments, incur indebtedness, grant liens and sell assets. The covenants in the Credit Agreement affect our operating flexibility by, among other things, restricting our ability to incur expenses and indebtedness that could be used to grow the business, as well as to fund general corporate purposes. We were in compliance with the covenants in the Credit Agreement at September 30, 2016.

We believe our sources of liquidity from our cash and cash equivalents on hand, working capital, cash provided by operating activities, and availability under our credit facility are sufficient to meet our short and long-term operating needs for the foreseeable future. In addition, we believe the previously mentioned sources of liquidity will be sufficient to fund our capital requirements, debt service payments, announced acquisitions and dividends for the next twelve months.

Securitization Facilities

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to AFC Funding Corporation. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of $1.25 billion for U.S. finance receivables at September 30, 2016.

In March 2016, AFC and AFC Funding Corporation entered into Amendment No. 1 (the "Amendment") to the Sixth Amended and Restated Receivables Purchase Agreement (the “Receivables Purchase Agreement”). The Amendment increased AFC Funding's U.S. committed liquidity from $1.15 billion to $1.25 billion. The maturity date of the Receivables Purchase Agreement remains June 29, 2018. We capitalized approximately $0.8 million of costs in

connection with the Amendment.
We also have an agreement for the securitization of AFCI's receivables which expires on June 29, 2018. AFCI's committed facility is provided through a third party conduit (separate from the U.S. facility) and was C$125 million at September 30, 2016. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.
AFC managed total finance receivables of $1,785.4 million and $1,641.0 million at September 30, 2016 and December 31, 2015, respectively. AFC's allowance for losses was $9.8 million and $9.0 million at September 30, 2016 and December 31, 2015, respectively.

Table of Contents

As of September 30, 2016 and December 31, 2015, $1,762.6 million and $1,626.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $1,275.1 million and $1,189.0 million of obligations collateralized by finance receivables at September 30, 2016 and December 31, 2015, respectively. There were unamortized securitization issuance costs of approximately $9.1 million and $12.2 million at September 30, 2016 and December 31, 2015, respectively. After the occurrence of a termination event, as defined in the U.S. securitization agreement, the banks may, and could, cause the stock of AFC Funding Corporation to be transferred to the bank facility, though as a practical matter the bank facility would look to the liquidation of the receivables under the transaction documents as their primary remedy.

Proceeds from the revolving sale of receivables to the bank facilities are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At September 30, 2016, we were in compliance with the covenants in the securitization agreements.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States, or GAAP. They are not measurements of our financial performance under GAAP and should not be considered substitutes for net income (loss) or any other performance measures derived in accordance with GAAP.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for the items of income and expense and expected incremental revenue and cost savings, as described above in the discussion of certain restrictive loan covenants under "Credit Facilities."

Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors about one of the principal measures of performance used by our creditors. In addition, management uses EBITDA and Adjusted EBITDA to evaluate our performance. EBITDA and Adjusted EBITDA have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. These measures may not be comparable to similarly titled measures reported by other companies.

The following tables reconcile EBITDA and Adjusted EBITDA to net income (loss) for the periods presented:

	Three Months Ended September 30, 2016				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$43.5	$22.0	$21.6	$ (32.7)	$ 54.4
Add back:					
Income taxes	26.3	12.5	13.2	(20.2)	31.8
Interest expense, net of interest income	(0.2)	—	8.7	27.6	36.1
Depreciation and amortization	25.3	21.9	7.8	5.5	60.5
Intercompany interest	9.4	9.4	(8.7)	(10.1)	—
EBITDA	104.3	65.8	42.6	(29.9)	182.8
Intercompany charges	2.3	—	—	(2.3)	—
Non-cash stock-based compensation	1.1	0.6	0.5	2.5	4.7
Acquisition related costs	1.2	0.1	—	—	1.3
Securitization interest	—	—	(7.2)	—	(7.2)
Minority interest	1.1	—	—	—	1.1
(Gain)/Loss on asset sales	0.4	0.1	—	0.8	1.3
Other	1.2	(0.4)	—	—	0.8
Total addbacks	7.3	0.4	(6.7)	1.0	2.0
Adjusted EBITDA	$111.6	$66.2	$35.9	$ (28.9)	$ 184.8

Table of Contents

	Three Months Ended September 30, 2015				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$29.6	$19.9	$22.1	$ (19.3)	$ 52.3
Add back:					
Income taxes	16.0	11.4	13.6	(11.4)	29.6
Interest expense, net of interest income	0.1	—	6.6	17.6	24.3
Depreciation and amortization	22.3	20.1	7.7	4.0	54.1
Intercompany interest	12.2	9.4	(7.9)	(13.7)	—
EBITDA	80.2	60.8	42.1	(22.8)	160.3
Intercompany charges	1.8	0.2	—	(2.0)	—
Non-cash stock-based compensation	1.0	0.3	0.3	1.9	3.5
Acquisition related costs	0.4	—	—	0.3	0.7
Securitization interest	—	—	(5.1)	—	(5.1)
Minority interest	(0.1)	(0.1)	—	—	(0.2)
(Gain)/Loss on asset sales	1.8	—	—	—	1.8
Other	0.8	0.7	0.6	—	2.1
Total addbacks	5.7	1.1	(4.2)	0.2	2.8
Adjusted EBITDA	$85.9	$61.9	$37.9	$ (22.6)	$ 163.1

	Nine Months Ended September 30, 2016				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$129.0	$72.1	$68.6	$ (92.8)	$ 176.9
Add back:					
Income taxes	76.7	42.5	41.8	(54.8)	106.2
Interest expense, net of interest income	(0.1)	—	24.7	75.9	100.5
Depreciation and amortization	72.6	64.4	23.4	15.5	175.9
Intercompany interest	32.4	28.3	(25.1)	(35.6)	—
EBITDA	310.6	207.3	133.4	(91.8)	559.5
Intercompany charges	7.8	0.3	—	(8.1)	—
Non-cash stock-based compensation	3.4	1.9	1.4	8.4	15.1
Loss on extinguishment of debt	—	—	—	4.0	4.0
Acquisition related costs	3.6	0.2	0.1	3.3	7.2
Securitization interest	—	—	(20.3)	—	(20.3)
Minority interest	2.7	—	—	—	2.7
(Gain)/Loss on asset sales	1.1	0.2	—	0.8	2.1
Other	2.3	(1.2)	—	—	1.1
Total addbacks	20.9	1.4	(18.8)	8.4	11.9
Adjusted EBITDA	$331.5	$208.7	$114.6	$ (83.4)	$ 571.4

Table of Contents

	Nine Months Ended September 30, 2015				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$84.1	$69.5	$61.8	$ (49.1)	$ 166.3
Add back:					
Income taxes	48.4	41.3	37.9	(28.6)	99.0
Interest expense, net of interest income	0.4	—	17.2	49.4	67.0
Depreciation and amortization	63.8	59.1	23.2	10.7	156.8
Intercompany interest	37.6	28.2	(17.4)	(48.4)	—
EBITDA	234.3	198.1	122.7	(66.0)	489.1
Intercompany charges	6.0	0.6	—	(6.6)	—
Non-cash stock-based compensation	2.9	0.8	1.0	5.1	9.8
Acquisition related costs	2.1	0.1	—	1.6	3.8
Securitization interest	—	—	(13.2)	—	(13.2)
Minority interest	0.6	(0.3)	—	—	0.3
(Gain)/Loss on asset sales	3.2	—	—	—	3.2
Other	1.9	0.2	0.1	0.1	2.3
Total addbacks	16.7	1.4	(12.1)	0.2	6.2
Adjusted EBITDA	$251.0	$199.5	$110.6	$ (65.8)	$ 495.3

Certain of our loan covenant calculations utilize financial results for the most recent four consecutive fiscal quarters. The following table reconciles EBITDA and Adjusted EBITDA to net income (loss) for the periods presented:

	Three Months Ended				Twelve Months Ended
(Dollars in millions)	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	September 30, 2016
Net income (loss)	$48.3	$60.7	$61.8	$ 54.4	$ 225.2
Add back:					
Income taxes	26.9	36.7	37.7	31.8	133.1
Interest expense, net of interest income	23.8	28.7	35.7	36.1	124.3
Depreciation and amortization	56.0	56.4	59.0	60.5	231.9
EBITDA	155.0	182.5	194.2	182.8	714.5
Non-cash stock-based compensation	2.9	5.5	4.9	4.7	18.0
Loss on extinguishment of debt	—	4.0	—	—	4.0
Acquisition related costs	1.0	2.6	3.3	1.3	8.2
Securitization interest	(5.5)	(6.4)	(6.7)	(7.2)	(25.8)
Minority interest	(0.9)	0.6	1.0	1.1	1.8
(Gain)/Loss on asset sales	0.3	0.4	0.4	1.3	2.4
Severance and retention	0.9	0.3	0.5	0.7	2.4
Other	0.8	—	(0.5)	0.1	0.4
Total addbacks	(0.5)	7.0	2.9	2.0	11.4
Adjusted EBITDA	$154.5	$189.5	$197.1	$ 184.8	$ 725.9

Table of Contents

Summary of Cash Flows

(Dollars in millions)	Nine Months Ended September 30, 2016	2015
Net cash provided by (used by):		
Operating activities	$283.8	$315.4
Investing activities	(630.9)	(382.5)
Financing activities	512.5	53.6
Effect of exchange rate on cash	2.7	(14.1)
Net increase (decrease) in cash and cash equivalents	$168.1	$(27.6)

Cash flow from operating activities was $283.8 million for the nine months ended September 30, 2016, compared with $315.4 million for the nine months ended September 30, 2015. The decrease in operating cash flow was primarily attributable to changes in operating assets and liabilities as a result of the timing of collections and the disbursement of funds to consignors for auctions held near period-ends, partially offset by a net increase in non-cash adjustments to net income and increased profitability.

Net cash used by investing activities was $630.9 million for the nine months ended September 30, 2016, compared with $382.5 million for the nine months ended September 30, 2015. The increase in net cash used by investing activities was primarily attributable to:

- an increase in cash used for acquisitions of approximately $239.3; and
- an increase in capital expenditures of approximately $26.2 million. For a discussion of the Company's capital expenditures, see “Capital Expenditures” below;

partially offset by:

- a decrease in the additional finance receivables held for investment of approximately $18.4 million.

Net cash provided by financing activities was $512.5 million for the nine months ended September 30, 2016, compared with $53.6 million for the nine months ended September 30, 2015. The increase in net cash from financing activities was primarily attributable to:

- the debt refinancing and payment activities in the first quarter of 2016, for which the Company received approximately $558.9 million of cash after the repayment and rollover of debt; and
- a $227.6 million decrease in cash used for the repurchase and retirement of common stock;

partially offset by:

- a decrease in the additional obligations collateralized by finance receivables of approximately $189.4 million; and
- an increase in payments for debt issuance costs of $8.6 million.

Capital Expenditures

Capital expenditures for the nine months ended September 30, 2016 and 2015 approximated $118.5 million and $92.3 million, respectively. Included in the capital expenditures for the first nine months of 2016 was approximately $20.3 million for the greenfield development of ADESA Chicago. Capital expenditures were funded primarily from internally generated funds. We continue to invest in our core information technology capabilities and capacity expansion. Capital expenditures are expected to be approximately $155 million for fiscal year 2016. Anticipated capital expenditures are primarily attributable to ongoing information system projects, upkeep, improvements and expansion at vehicle auction facilities and improvements in information technology systems and infrastructure. Future capital expenditures could vary substantially based on capital project timing, the opening of new auction facilities, capital expenditures related to acquired businesses and the initiation of new information systems projects to support our business strategies.

Table of Contents

Dividends

Subject to board of director approval, we expect to pay a quarterly dividend of $0.32 per share in 2017 using cash flow from operations, representing an annualized dividend of $1.28 per share. The following dividend information has been released for 2016:

- On November 5, 2015, the Company announced a cash dividend of $0.27 per share that was paid on January 7, 2016, to stockholders of record at the close of business on December 22, 2015.
- On February 17, 2016, the Company announced a cash dividend of $0.29 per share that was paid on April 5, 2016, to stockholders of record at the close of business on March 23, 2016.
- On May 3, 2016, the Company announced a cash dividend of $0.29 per share that was paid on July 5, 2016, to stockholders of record at the close of business on June 22, 2016.
- On August 2, 2016, the Company announced a cash dividend of $0.29 per share that was paid on October 4, 2016, to stockholders of record at the close of business on September 21, 2016.
- On November 3, 2016, the Company announced a cash dividend of $0.32 per share that is payable on January 6, 2017, to stockholders of record at the close of business on December 21, 2016.

Future dividend decisions will be based on and affected by a variety of factors, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our Credit Agreement and AFC's securitization facilities, capital requirements and other factors that our board of directors deems relevant. No assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

Acquisitions

In February 2016, ADESA signed a definitive agreement to acquire auctions owned by the Brasher family. In April 2016, ADESA completed the acquisition of Brasher's eight auctions, which strengthens ADESA's western U.S. footprint. In 2015, Brasher's had revenue of approximately $140 million. We entered into operating lease obligations related to various facilities through 2036. Initial annual lease payments for the various facilities are approximately $5 million per year.

In March 2016, ADESA signed a definitive agreement to acquire Sanford Auto Dealers Exchange ("SADE"). In May 2016, ADESA completed the acquisition of SADE, which expands ADESA's geographic footprint in central Florida.

In June 2016, the Company acquired GRS Remarketing Limited ("GRS"), a subsidiary of Greenhous Group Limited. GRS is an established online vehicle remarketing business in the U.K. The acquisition complements the Company's wide range of vehicle remarketing services and provides the opportunity to offer our full range of services in the U.K.

Certain of the purchase agreements included contingent payments related to vehicle volumes subsequent to the purchase date. The purchased assets included land, buildings, accounts receivable, operating equipment, customer relationships, tradenames, software, inventory and other intangible assets. Financial results for each acquisition have been included in our consolidated financial statements from the date of acquisition.

The aggregate purchase price for the businesses acquired in the first nine months of 2016, net of cash acquired, was approximately $355.8 million, which included estimated contingent payments with a fair value of $1.3 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $1.5 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $113.9 million to intangible assets, representing the fair value of acquired customer relationships of $106.8 million, software of $5.1 million, tradenames of $1.8 million and non-competes of $0.2 million, which are being amortized over their expected useful lives. The purchase accounting associated with these acquisitions is preliminary, subject to determination of working capital adjustments and a final valuation of intangibles. The Company does not expect adjustments to the purchase accounting will be material. The acquisitions resulted in aggregate goodwill of $218.3 million. The goodwill is recorded in the ADESA Auctions and AFC reportable segments. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company’s consolidated results for the nine months ended September 30, 2016.

Table of Contents

Contractual Obligations

The Company's contractual cash obligations for long-term debt, interest payments related to long-term debt, capital lease obligations and operating leases are summarized in the table of contractual obligations in our Annual Report on Form 10-K for the year ended December 31, 2015. Since December 31, 2015, there have been no material changes to the contractual obligations of the Company, with the exception of the following:

- In March 2016, we amended our Credit Agreement, which resulted in an increase in interest rates on our debt. As such, our future interest payments related to long-term debt will be higher than projected at December 31, 2015. In addition, the amendment increased our outstanding debt by approximately $572 million since December 31, 2015 and extended the maturity on approximately $1.35 billion of our debt to 2023.
- In the first nine months of 2016, 50% of the net cash proceeds from the sale-leaseback of certain technology and capital equipment were used to prepay $4.4 million and $5.4 million of Term Loan B-2 and Term Loan B-3, respectively.
- Operating lease obligations change in the ordinary course of business. We lease most of our auction facilities, as well as other property and equipment under operating leases. Future operating lease obligations will continue to change if renewal options are exercised and/or if we enter into additional operating lease agreements. In connection with the acquisition of Brasher's, we entered into operating lease obligations through 2036, with initial annual lease payments of approximately $5 million per year.

See Note 2 and Note 6 to the Consolidated Financial Statements, included elsewhere in this Quarterly Report on Form 10-Q, for additional information about the items described above. Our contractual cash obligations as of December 31, 2015, are discussed in the "Contractual Obligations" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC").

Critical Accounting Estimates

Our critical accounting estimates are discussed in the "Critical Accounting Estimates" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC. A summary of significant accounting policies is discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, which includes audited financial statements.

Off-Balance Sheet Arrangements

As of September 30, 2016, we had no off-balance sheet arrangements pursuant to Item 303(a)(4) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

New Accounting Standards

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-15 will have on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The update changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The new guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted beginning in annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The update changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance is effective for annual periods

Table of Contents

beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-09 will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which replaces existing lease guidance. The ASU is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with an exception for leases that meet the definition of a short-term lease. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and the ASU is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which superseded the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. The new guidance provides clarification on the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosures to help financial statement users better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of ASU 2014-09 by one year. In accordance with the agreed upon delay, the new guidance is effective for the first annual reporting period and interim periods beginning after December 15, 2017, and will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, United Kingdom and Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. We have not entered into any foreign exchange contracts to hedge changes in the Canadian dollar, British pound or Mexican peso. Canadian currency translation did not affect net income for the three months ended September 30, 2016 and negatively affected net income by $2.3 million for the nine months ended September 30, 2016. A 1% change in the average Canadian exchange rate for the three and nine months ended September 30, 2016 would have impacted net income by approximately $0.2 million and $0.6 million, respectively. Currency exposure of our U.K. and Mexican operations is not material to the results of operations.

Interest Rates

We are exposed to interest rate risk on our variable rate borrowings. Accordingly, interest rate fluctuations affect the amount of interest expense we are obligated to pay. We currently use interest rate cap agreements to manage our exposure to interest rate changes. We have not designated any of the interest rate caps as hedges for accounting purposes. Accordingly, changes in the fair value of the interest rate caps are recognized as "Interest expense" in the consolidated statement of income.

In August 2015, we purchased three interest rate caps for an aggregate amount of approximately $1.5 million with an aggregate notional amount of $800 million to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR (i) exceeds 2.0% between August 19, 2015 (the effective date) and September 29, 2016 and (ii) exceeds 1.75% between September 30, 2016 and August 19, 2017 (the maturity date).

In April 2015, we purchased two interest rate caps for approximately $0.7 million with an aggregate notional amount of $400 million to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR exceeds 1.5%. The interest rate cap agreements cap three-month LIBOR at 1.5%, had an effective date of April 16, 2015 and mature on March 31, 2017.

Taking our interest rate caps into account, a sensitivity analysis of the impact on our variable rate corporate debt instruments to a hypothetical 100 basis point increase in short-term rates (LIBOR) for the three and nine months ended September 30, 2016 would have resulted in an increase in interest expense of approximately $5.8 million and $16.4 million, respectively.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II
OTHER INFORMATION
Item 1. Legal Proceedings
We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Such litigation is generally not, in the opinion of management, likely to have a material adverse effect on our financial condition, results of operations or cash flows. Legal and regulatory proceedings which could be material are discussed below.
Certain legal proceedings in which the Company is involved are discussed in Note 16 to the consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015 and Part I, Item 3 of the same Annual Report. Unless otherwise indicated, all proceedings discussed in the Annual Report remain outstanding.
IAA—Lower Duwamish Waterway
Since June 2004, IAA has operated a branch on property it leases in Tukwila, Washington just south of Seattle. The property is located adjacent to a Superfund site known as the Lower Duwamish Waterway Superfund Site ("LDW Site"). The LDW Site had been designated a Superfund site in 2001, three years prior to IAA's tenancy. On March 25, 2008, the United States Environmental Protection Agency, or the "EPA," issued IAA a General Notice of Potential Liability, or "General Notice," pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act, or "CERCLA," related to the LDW Site. On November 7, 2012, the EPA issued IAA a Second General Notice of Potential Liability, or "Second General Notice," for the LDW Site. The EPA's website indicates that the EPA has issued general notice letters to approximately 116 entities, and has issued Section 104(e) Requests to more than 300 entities related to the LDW Site. In the General Notice and Second General Notice, the EPA informed IAA that the EPA believes IAA may be a Potentially Responsible Party, or "PRP," but the EPA did not specify the factual basis for this assertion. At this time, the EPA still has not specified the factual basis for this assertion and has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. Four PRPs, The Boeing Company, the City of Seattle, the Port of Seattle and King County - the Lower Duwamish Waterway Group ("LDWG"), have funded a remedial investigation and feasibility study related to the cleanup of the LDW Site. In December 2014, the EPA issued a Record of Decision (ROD), detailing the final cleanup plan for the LDW Site. The ROD estimates the cost of cleanup to be $342 million, with the plan involving dredging of 105 acres, capping 24 acres, and enhanced natural recovery of 48 acres. The estimated length of the cleanup is 17 years, including 7 years of active remediation, and 10 years of monitored natural recovery. IAA is aware that certain authorities may bring natural resource damage claims against PRPs. On February 11, 2016, IAA received a Notice of Intent letter from the United States National Oceanic and Atmospheric Administration informing IAA that the Elliott Bay Trustee Council are beginning to conduct an injury assessment for natural resource damages in the LDW. The Notice of Intent indicates that the decision of the trustees to proceed with this natural resources injury assessment followed a pre-assessment screen performed by the trustees. More recently, in a letter dated August 16, 2016, EPA issued a status update to the PRPs at the LDW Site. The letter stated that EPA expects the bulk of the pre-remedial design work currently being performed by the LDWG to be completed by the beginning of 2018, with the Remedial Design/Remedial Action ("RD/RA")phase to follow. EPA expects to initiate RD/RA negotiations with all PRPs beginning in early 2018. At this time, however, the Company does not have adequate information to determine IAA's responsibility, if any, for contamination at this site, or to estimate IAA's loss as a result of this potential liability.
In addition, the Washington State Department of Ecology ("Ecology") is working with the EPA in relation to the LDW Site, primarily to investigate and address sources of potential contamination contributing to the LDW Site. In 2007, IAA installed a stormwater capture and filtration system designed to treat sources of potential contamination before discharge to the LDW site. The immediate-past property owner, the former property owner and IAA have had discussions with Ecology concerning possible source control measures, including an investigation of the water and soils entering the stormwater system, an analysis of the source of contamination identified within the system, if any, and possible repairs and upgrades to the stormwater system if required. Additional source control measures, if any, are

not expected to have a material adverse effect on future recurring operating costs.

Item 1A. Risk Factors

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information about purchases by KAR Auction Services of its shares of common stock during the quarter ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) (2) (Dollars in millions)
July 1 - July 31	—		—	$ 72.4
August 1 - August 31	—		—	72.4
September 1 - September 30	—		—	72.4
Total	—		—	

(1) In October 2014, the board of directors authorized a repurchase of up to $300 million of the Company’s outstanding common stock, par value $0.01 per share, through October 28, 2016. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Exchange Act. The timing and amount of any repurchases is subject to market and other conditions.

(2) On October 26, 2016, the board of directors authorized a repurchase of up to $500 million of the Company’s outstanding common stock, par value $0.01 per share, through October 26, 2019. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions.

Item 6. Exhibits

a) Exhibits—the exhibit list in the Exhibit Index is incorporated herein by reference as the list of exhibits required as part of this report.

In reviewing the agreements included as exhibits to this Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about KAR Auction Services, ADESA, IAA, AFC or other parties to the agreements.

The agreements included or incorporated by reference as exhibits to this Quarterly Report on Form 10-Q contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Quarterly Report on Form 10-Q not misleading.

Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and KAR Auction Services, Inc.'s other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

Table of Contents

SIGNATURES

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

		KAR Auction Services, Inc.
		(Registrant)
Date:	November 4, 2016	/s/ ERIC M. LOUGHMILLER
		Eric M. Loughmiller
		Executive Vice President and Chief Financial Officer
		(Duly Authorized Officer and Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1a	Asset Purchase Agreement, dated as of February 17, 2016, by and among ADESA, Inc., Brasher's Reno Auto Auction, L.L.C., BIAA, L.L.C., Brasher's Auto Auctions, West Coast Auto Auctions, Inc. and the other parties thereto	8-K	001-34568	2.1	2/18/2016	
2.1b	First Amendment to Asset Purchase Agreement, dated as of April 1, 2016, to that certain Asset Purchase Agreement dated as of February 17, 2016, by and among ADESA, Inc., Brasher's Reno Auto Auction, L.L.C., BIAA, L.L.C., Brasher's Auto Auctions, West Coast Auto Auctions, Inc. and the other parties thereto	10-Q	001-34568	2.1b	5/4/2016	
2.2	Asset Purchase Agreement, dated as of February 17, 2016, by and among ADESA, Inc., Brasher's Auto Auctions and the other parties thereto	8-K	001-34568	2.2	2/18/2016	
2.3	Asset Purchase Agreement, dated as of February 17, 2016, by and among ADESA, Inc., West Coast Auto Auctions, Inc., Brasher's Cascade Auto Auction, Inc., Brasher's Northwest Auto Auction, Inc., Brasher's Sacramento Auto Auction, Inc., Brasher's Fresno Auto Auction, Inc. and the other parties thereto	8-K	001-34568	2.3	2/18/2016	
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	10-Q	001-34568	3.1	8/3/2016	
3.2	Second Amended and Restated By-Laws of KAR Auction Services, Inc.	8-K	001-34568	3.1	11/4/2014	
4.1	Form of common stock certificate	S-1/A	333-161907	4.15	12/10/2009	
10.1a	Amendment and Restatement Agreement, dated March 11, 2014, among KAR Auction Services, Inc. and certain of its subsidiaries and JPMorgan Chase Bank, N.A., as administrative agent, swingline lender and issuing lender (the Amended and Restated Credit Agreement and the Amended and Restated Guarantee and Collateral Agreement are included as Exhibits A and B thereto, respectively)	8-K	001-34568	10.1	3/12/2014	
10.1b	Incremental Commitment Agreement and First Amendment, dated as of March 9, 2016, among KAR	8-K	001-34568	10.1	3/9/2016	

		Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, certain subsidiaries of the Company party thereto and the several lenders party thereto				
10.2	*	Conversion Option Plan of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.)	S-1/A	333-158666	10.9	6/17/2009
10.3	*	Form of Conversion Agreement, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-1/A	333-158666	10.13	6/17/2009
10.4	*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Stock Incentive Plan	S-8	333-164032	10.1	12/24/2009
10.5	*	Form of Nonqualified Stock Option Agreement of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) pursuant to the Stock Incentive Plan	S-4	333-148847	10.15	1/25/2008

Table of Contents

Exhibit No.		Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.6	*	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett	10-K	001-34568	10.15	2/28/2012	
10.7	*	Employment Agreement, dated April 13, 2015, between KAR Auction Services, Inc. and Stephane St-Hilaire	10-Q	001-34568	10.7	5/6/2015	
10.8	*	Amended and Restated Employment Agreement, dated March 24, 2014, between KAR Auction Services, Inc. and Don Gottwald	8-K	001-34568	10.1	3/20/2014	
10.9	*	Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Eric Loughmiller	8-K	001-34568	10.5	12/17/2013	
10.10	*	Employment Agreement, dated May 1, 2014, between KAR Auction Services, Inc. and John Kett	10-K	001-34568	10.10	2/18/2016	
10.11	*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Annual Incentive Program (2014)	10-K	333-148847	10.29	3/11/2009	
10.12	*	KAR Auction Services, Inc. Annual Incentive Plan Summary of Terms for Plan Year 2015	10-Q	001-34568	10.11	5/6/2015	
10.13	*	KAR Auction Services, Inc. Annual Incentive Plan Summary of Terms for Plan Year 2016	10-Q	001-34568	10.13	5/4/2016	
10.14a	^	Amended and Restated Purchase and Sale Agreement, dated May 31, 2002, between AFC Funding Corporation and Automotive Finance Corporation	S-4	333-148847	10.32	1/25/2008	
10.14b		Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847	10.33	1/25/2008	
10.14c		Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847	10.34	1/25/2008	
10.14d	^	Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847	10.35	1/25/2008	
10.14e		Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009	10-K	001-34568	10.19e	2/28/2012	
10.14f		Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011	10-K	001-34568	10.19f	2/28/2012	
10.15a	^		10-Q	001-34568	10.13	8/4/2015	

	Sixth Amended and Restated Receivables Purchase Agreement, dated June 16, 2015, among AFC Funding Corporation, Automotive Finance Corporation, the entities from time to time parties hereto as Purchasers or Purchaser Agents and Bank of Montreal				
10.15b^	Amendment No. 1, to Sixth Amended and Restated Receivables Purchase Agreement, dated March 2, 2016	10-Q	001-34568	10.15b	5/4/2016
10.16 ^	Third Amended and Restated Receivables Purchase Agreement, dated June 16, 2015, among Automotive Finance Canada Inc., KAR Auction Services, Inc. and BNY Trust Company of Canada	10-Q	001-34568	10.14	8/4/2015

Table of Contents

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.17a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.3	9/9/2008	
10.17b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.11	9/9/2008	
10.18a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.4	9/9/2008	
10.18b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.12	9/9/2008	
10.19a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and ADESA San Diego, LLC and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.5	9/9/2008	
10.19b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.13	9/9/2008	
10.20a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.6	9/9/2008	
10.20b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.14	9/9/2008	
10.21a	Ground Lease, dated September 4, 2008, between ADESA Washington, LLC and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.7	9/9/2008	
10.21b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.15	9/9/2008	
10.22a	Ground Lease, dated September 4, 2008, between ADESA Texas, Inc. and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.8	9/9/2008	

10.22b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.16	9/9/2008
10.23a	Ground Lease, dated September 4, 2008, between ADESA Florida, LLC and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.10	9/9/2008
10.23b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.18	9/9/2008

Table of Contents

Exhibit No.		Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.24a		Ground Sublease, dated October 3, 2008, between ADESA Atlanta, LLC and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.21	11/13/2008	
10.24b		Guaranty of Lease, dated October 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.22	11/13/2008	
10.25		Form of Indemnification Agreement	8-K	001-34568	10.1	12/17/2013	
10.26a	*	KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, as Amended June 10, 2014	DEF 14A	001-34568	Appendix A	4/29/2014	
10.26b	*	First Amendment to the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan	10-K	001-34568	10.24b	2/18/2016	
10.27a	*	KAR Auction Services, Inc. Employee Stock Purchase Plan	S-8	333-164032	10.3	12/24/2009	
10.27b	*	Amendment No. 1 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated March 31, 2010	10-Q	001-34568	10.60	8/4/2010	
10.27c	*	Amendment No. 2 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated April 1, 2010	10-Q	001-34568	10.61	8/4/2010	
10.28	*	KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568	10.62	8/4/2010	
10.29	*	Form of Director Restricted Share Agreement	10-Q	001-34568	10.63	8/4/2010	
10.30	*	Form of Nonqualified Stock Option Agreement	S-1/A	333-161907	10.65	12/4/2009	
10.31a	*	Form of 2015 Restricted Stock Unit Award Agreement for Section 16 Officers	10-Q	001-34568	10.29a	5/6/2015	
10.31b	*	Form of 2015 Restricted Stock Unit Award Agreement for non-Section 16 Officers	10-Q	001-34568	10.29b	5/6/2015	
10.32	*	Form of 2016 Restricted Stock Unit Award Agreement for Section 16 Officers	10-K	001-34568	10.30	2/18/2016	
10.33	*	Form of Performance-Based Restricted Stock Unit Agreement (Total Shareholder Return Percentile Rank vs. S&P 500)	8-K	001-34568	10.2	12/17/2013	

10.34	*	Form of Performance-Based Restricted Stock Unit Agreement (Cumulative Adjusted Net Income Per Share)	8-K	001-34568	10.1	3/3/2014
10.35	*	Form of 2015 Performance-Based Restricted Stock Unit Agreement (Cumulative Adjusted Net Income Per Share)	10-Q	001-34568	10.32	5/6/2015
10.36	*	Form of 2016 Performance-Based Restricted Stock Unit Agreement (Cumulative Operating Adjusted Net Income Per Share)	10-K	001-34568	10.34	2/18/2016

Table of Contents

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase					X
101.LAB	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase					X

^ Portions of this exhibit have been redacted pursuant to a request for confidential treatment filed separately with the Secretary of the Securities and Exchange Commission pursuant to Rule 406 under the Securities Act of 1933, as amended.

* Denotes management contract or compensation plan, contract or arrangement.