KAR Auction Services, Inc.
Form 10-K
February 21, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
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	20-8744739
(State or other jurisdiction of incorporation or organization)	(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
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging Growth Company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was $5,739,253,210 at June 30, 2017.
As of February 15, 2018, 134,408,950 shares of the registrant's common stock, par value $0.01 per share, were outstanding.
Documents Incorporated by Reference
Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference herein from the registrant's Definitive Proxy Statement for its 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the registrant's fiscal year ended December 31, 2017.

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DEFINED TERMS

Unless otherwise indicated or unless the context otherwise requires, the following terms used in this Annual Report on Form 10-K 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"), Nth Gen Software Inc. ("TradeRev") and ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited"));
- "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, as amended on March 9, 2016 and May 31, 2017, 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;
- "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 senior secured term loan B-4 facility due March 11, 2021 ("Term Loan B-4"), the senior secured term loan B-5 facility due March 9, 2023 ("Term Loan B-5"), the $350 million, senior secured revolving credit facility due March 9, 2021 (the "revolving credit facility"), the $300 million, five-year senior secured revolving credit facility (the "2016 revolving credit facility") and the $250 million, five-year senior secured revolving credit facility (the "2014/2015 revolving credit facility"), the terms of which are set forth in the Credit Agreement. Term Loan B-1 and the 2014/2015 revolving credit facility were extinguished in March 2016 with proceeds received from Term Loan B-3. Term Loan B-2, Term Loan B-3 and the 2016 revolving credit facility were repaid in May 2017 with proceeds from Term Loan B-4, Term Loan B-5 and the senior notes (defined below);
- "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 Limited ("HBC");
- "KAR Auction Services" refers to KAR Auction Services, Inc., and not to its subsidiaries; and
- "Senior notes" refers to the 5.125% senior notes due 2025 ($950 million aggregate principal outstanding at December 31, 2017).

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PART I

Item 1. Business

Overview

We are a leading provider of used car auction services and salvage auction services in North America and the United Kingdom. We facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles and salvage vehicles through our 250 North American physical auction locations at December 31, 2017, and multiple proprietary Internet venues. In 2017, we facilitated the sale of approximately 5.5 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers, as well as by providing value-added ancillary services, including transportation, reconditioning, inspections, marshalling, titling and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold through our auctions.

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA's auctions are typically sold by used vehicle dealers, vehicle manufacturers and their captive finance companies, financial institutions, commercial fleet operators and rental car companies to franchised and independent used vehicle dealers. Through ADESA.com, powered by Openlane technology, ADESA provides a comprehensive remarketing solution to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions. IAA, our salvage auction services business, is one of the two largest providers of salvage auction services in North America. Vehicles at our salvage auctions are typically older, high-mileage or damaged vehicles that are predominantly sold by automobile insurance companies, non-profit organizations, automobile dealers, vehicle leasing companies and rental and fleet car companies to licensed dismantlers, rebuilders, recyclers, exporters or qualified public buyers. An important component of ADESA's and IAA's services to their buyers is providing short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers through our wholly-owned subsidiary, AFC.

At December 31, 2017, we had a North American network of 75 whole car auction locations and 175 salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services Limited, which operates from 11 locations in the United Kingdom. Our auction locations are primarily standalone facilities dedicated to either whole car or salvage auctions; however, some of our sites are utilized to service both whole car and salvage customers at the same location. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with providers and buyers of used and salvage vehicles.

Our Corporate History

KAR Auction Services (formerly KAR Holdings, Inc.) was incorporated in 2006 and commenced operations in 2007. In 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle remarketing industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC. ADESA remained a public company until 1995 when ALLETE, Inc. purchased a majority of its outstanding equity interests. In 2004, ALLETE, Inc. sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders. ADESA was acquired by the Company in 2007. IAA entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAA was acquired by two private equity firms in 2005. The two private equity firms and certain members of IAA management contributed IAA to KAR Auction Services in 2007. In a series of transactions between 2012 and 2013, our former owners (private equity firms) sold all of their common stock in secondary offerings.

Our Industry
Auctions are the hub of the remarketing system for used and salvage vehicles, bringing professional sellers and buyers together and creating a marketplace for the sale of these vehicles. Whole car auction vehicles include vehicles from dealers turning their inventory, off-lease vehicles, vehicles repossessed by financial institutions and rental and other program fleet vehicles that have reached a predetermined age or mileage. The salvage vehicle auction industry provides a venue for sellers, primarily automobile insurance companies, to dispose or liquidate damaged or low value vehicles to dismantlers, rebuilders, scrap dealers or qualified public buyers. The following are key industry highlights:
Whole Car Auction Industry Volumes
Whole car auction volumes in North America, including online only volumes, were approximately 9.9 million and 10.6 million in 2015 and 2016, respectively. Data for the whole car auction industry is collected by the National Auto Auction Association ("NAAA") through an annual survey. NAAA industry volumes for 2017 have not yet been released; however, we estimate that used vehicle auction volumes in North America in 2017 will be approximately 11.1 million vehicles (including approximately 0.9 million vehicles sold online by ADESA prior to reaching a physical auction). We expect the industry to experience an increase in whole car auction volumes in 2018 as a result of more off-lease and repossessed vehicles entering the market, as well as readily available credit, which supports retail used car sales.
Salvage Auction Industry Volumes
We believe that the North American salvage vehicle auction industry volumes are affected primarily by accident rates, the age of the vehicle fleet on the road, miles driven, weather, the complexity of vehicles in operation, repair costs and recycled parts utilization. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicle design becomes more complex with additional enhancements, such as airbags and electrical components, vehicles can cost more to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. The percentage of claims resulting in total losses was approximately 18% in 2017. In addition, the utilization of recycled parts from salvage vehicles by the collision repair industry continues to increase as the quality of these parts gains wider acceptance and insurance companies attempt to reduce their repair claim costs. We believe that salvage auction industry volumes will grow 5% to 7% annually, for the foreseeable future, as the number of total loss vehicles increases.
Consolidated Whole Car and Salvage Auction Markets
The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, Inc. and ADESA together represent approximately 70% of the North American whole car auction market. We estimate that ADESA represents approximately 28% of the North American whole car auction market. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAA and Copart, Inc., together representing over 80% of the market.
Our Business Strategy
The Company has a comprehensive strategy that leverages KAR’s unique collection of assets, proven track record with commercial sellers, extensive North American physical footprint, global network of customers and unique set of transaction data. The Company’s strategy for the future builds on this base, and we believe it will enable the Company to meet new opportunities emerging in the automotive remarketing industry, which is being impacted by several meaningful trends, including:

- Remarketing channels and systems that are increasingly becoming more interconnected;
- An increase in customer demand and dependency on data in buying and selling decisions; and
- Rapidly advancing technology with opportunity for application in the remarketing industry.

KAR is focused on expanding our end-to-end remarketing platform across the used vehicle industry through innovation, data science and a strategic physical footprint. We have invested in technology and talent and deployed a suite of complementary online, digital and mobile capabilities that we believe will simplify and streamline the buying and selling experience for our customers. Additionally, we believe our unique, integrated platform of whole car, salvage and finance solutions deliver differentiated value to customers across North America, and positions the

Company for further growth around the globe. To execute our strategy of providing the best remarketing venue and analytical evidence for every vehicle, while generating value for our shareholders and customers, we intend to focus on the following strategic initiatives:

- Extend and integrate our platform
- Leverage unique data and analytic capabilities

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- Continue to improve operating efficiency
- Use excess cash flow to invest in strategic growth initiatives and return capital to shareholders

Extend and Integrate Our Platform

We believe that the Company's collection of 261 whole car and salvage auction sites, along with their online counterparts, makes us uniquely qualified to provide the best set of remarketing marketplaces for our customers. Additionally, these venues provide the opportunity to anchor further expansion and growth of the catalog of integrated ancillary and related services offered by the Company. We are therefore focused on the following strategies to further extend and integrate our platform.

- Developing Alternative Marketplaces/Digital Channels: The Company continues to identify innovative venues for the exchange of used vehicles through internal development, targeted partnerships and acquisitions. For example, we recently acquired the remaining interest in TradeRev, a mobile auction app and desktop solution that facilitates real time dealer-to-dealer vehicle auctions. In addition, with the increased use of vehicle sharing and the prospect of autonomous vehicles, we will look to identify opportunities to integrate our portfolio of service offerings with this emerging market segment.

- Expanding our International Presence: In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 120 countries. In addition, some of our recent acquisitions and the launch of ADESA U.K. have provided an initial foothold in Europe. We believe we are well positioned to grow internationally and we continue to identify opportunities to expand certain of our service offerings globally. We expect that our ability to efficiently layer in our product and technology licensing will allow us to enter other mature auction markets.

- Expanding Opportunities for Customers to Buy and Sell Online: We are focused on enhancing our Internet solutions in all of the key channels in which we operate, and we will continue to invest in technology platforms in order to capitalize on new opportunities and attract new customers. ADESA is currently investing in initiatives like New Wave to upgrade our upstream platform. Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. Online buying activity continues to accelerate and represents an increasing portion of wholesale transactions across the industry. Providing consistent, accurate and user-friendly online solutions remains a strategic priority. Advancing our online solutions allows us to connect more effectively with our current customers and engage with a broader range of geographically diverse customers. We will continue to make investments in our online technology to enhance the selling and buying experience for our customers. These investments involve creating a more streamlined user experience and embedding additional Company capabilities and offerings within our online tools.

- Establishing Physical Auction Presence in Key Automotive Marketplaces: The Company is focused on expanding its physical auction footprint into key markets where there is opportunity for growth and meaningful customer demand for greater choice, technology and integrated remarketing solutions. These geographies also provide a platform for the regional deployment and expansion of the Company's other ancillary and related services, as well as enhancing AFC's floorplan financing to independent used vehicle dealers. Over the last few years, the Company has completed a number of acquisitions and opened new sites.

Leverage Unique Data and Analytic Capabilities

The Company has observed increased demand from commercial customers (e.g., OEMs, insurance companies, finance companies, rental companies, large dealer groups, etc.) for more sophisticated, data-driven, end-to-end remarketing solutions. Specifically, customers are seeking tools, technology and information that simplify the auction process and help them make more efficient and better-informed buying and selling decisions. As a result, the Company continues to invest in both its data analytics capabilities and leadership. The Company’s data science team, coupled with the acquisition of CarCo Technologies, Inc. ("DRIVIN"), aggregates the Company’s broad and unique data set captured through millions of auction transactions and ancillary and related services performed each year. As customer expectations and dependence on data continue to increase and evolve, the Company will further develop its data analytic capabilities.

In 2017, the Company acquired DRIVIN. DRIVIN aggregates automotive retail, pricing, registration and other market and economic data from a variety of public and proprietary sources. The insights generated from that data are deployed through predictive pricing, inventory management and vehicle matching tools that help customers buy, sell and source vehicles. The

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acquisition of DRIVIN and the combination of our analytic capabilities under the Data as a Service function will help maximize value through data science.

Continue to Improve Operating Efficiency

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. A number of initiatives have been implemented, which have streamlined operations and improved operating efficiencies. As part of these initiatives, we introduced a management operating system to actively monitor and manage staffing levels and, as a result, have realized additional labor efficiency gains.

The Company is highly focused on integrating the newly acquired sites and facilities from its acquisitions. Since the time of acquisition, work has been underway to evaluate the sites and assess their current levels of performance, resources, and productivity and ensure they are operating as efficiently and effectively as possible. Where practical and beneficial, the Company will implement its data-driven and efficiency-based operating model that has been successful at our existing auction locations. We expect this work to continue into 2018.

Using Excess Cash Flow to Invest in Strategic Growth Initiatives and Return Capital to Shareholders

We generate strong cash flows as a result of our attractive margins, the ability to leverage our corporate infrastructure across our multiple auction locations, relatively low levels of capital expenditures and limited working capital requirements. Management plans to utilize excess cash generated by the business to invest in strategic growth initiatives and return capital to shareholders. We generated $588.8 million and $378.0 million of cash flow from operations for the twelve months ended December 31, 2017 and 2016, respectively. After paying any future dividends to shareholders (subject to prior declaration by our board of directors), we expect that significant cash flow will remain to support growth initiatives or return additional capital to shareholders.

Selective acquisitions and greenfield expansion represent possible growth initiatives. Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire competitors. Both ADESA and IAA have a strong record of acquiring and integrating independent auction operations and improving profitability. We will continue to evaluate opportunities to open and acquire new sites in selected markets in order to effectively leverage our sales and marketing capabilities and expand our buyer base and geographic presence for both ADESA and IAA. In addition, we may pursue opportunities to acquire additional product offerings in each of our business segments.

We paid cash dividends to shareholders of $174.8 million and $157.1 million for the years ended December 31, 2017 and 2016, respectively. In addition, we paid $150.0 million and $80.4 million for the years ended December 31, 2017 and 2016, respectively, to repurchase and retire shares of our common stock.

Our Business Segments

We operate as three reportable business segments: ADESA Auctions, IAA and AFC. Our revenues for the year ended December 31, 2017 were distributed as follows: ADESA 56%, IAA 35% and AFC 9%. No single customer accounted for more than 10% of our total revenue, including seller, buyer, ancillary and other related services revenue.

Geographic information as well as comparative segment revenues and related financial information pertaining to ADESA, IAA and AFC for the years ended December 31, 2017, 2016 and 2015 are presented in the tables in Note 18, Segment Information, to the Consolidated Financial Statements for KAR Auction Services, Inc., which are included under Item 8 in this Annual Report on Form 10-K.

ADESA

Overview

We are the second largest provider of whole car auctions and related services to the vehicle remarketing industry in North America. We serve our customer base through online auctions and auction facilities that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely via ADESA.com or in person. Our online service offerings include ADESA.com, LiveBlock and DealerBlock and allow us to offer vehicles for sale from any location. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom.

Vehicles available at our auctions include vehicles from institutional customers such as off-lease vehicles, repossessed vehicles, rental vehicles and other program fleet vehicles that have reached a predetermined age or mileage and have been repurchased by the manufacturers, as well as vehicles from used vehicle dealers turning their inventory. The number of vehicles offered for sale at auction is the key driver of our costs incurred in the whole car auction process, and the number of vehicles sold is the key driver of the related fees generated by the remarketing process.

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We offer both online and physical auctions as well as value-enhancing ancillary services in an effective and efficient manner to maximize returns for the sellers of used vehicles. We quickly transfer the vehicles and ownership to the buyer and the net funds to the seller. Vehicles are typically offered for sale at the physical auctions on at least a weekly basis at most locations and the auctions are simulcast over the Internet with streaming audio and video (LiveBlock) so that remote bidders can participate via our online products. Our online auctions (DealerBlock) function 24 hours a day, 7 days a week, providing our customers with maximum exposure for their vehicles and the flexibility to offer vehicles at "buy now" prices or in auctions that last for a few hours, days or even weeks. We also provide customized "private label" selling systems (including "buy now" functionality as well as online auctions) for our customers, primarily utilizing technology acquired with the purchase of Openlane.

We generate revenue primarily from auction fees paid by vehicle buyers and sellers, as well as fees from related services. Generally, we do not take title to or bear the risk of loss for vehicles sold at whole car auctions. Our buyer fees and dealer seller fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while institutional seller fees are typically fixed. We add buyer fees to the gross sales price paid by buyers for each vehicle, and generally customers do not receive title or possession of vehicles after purchase until payment is received, proof of floorplan financing is provided or credit is approved. We generally deduct seller fees and other ancillary service fees to sellers from the gross sales price of each vehicle before remitting the net amount to the seller.

Customers

Suppliers of vehicles to our whole car auctions primarily include (i) large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, and commercial fleets and fleet management companies (collectively "institutional customers"); and (ii) franchised and independent used vehicle dealers (collectively "dealer customers"). Buyers of vehicles at our whole car auctions primarily include franchised and independent used vehicle dealers.

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Services

Our whole car auctions also provide a full range of innovative and value-added services to sellers and buyers that enable us to serve as a "one-stop shop." Many of these services may be provided or purchased independently from the auction process, including:

Services	Description
Auction Related Services	ADESA provides marketing and advertising for the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, photo services, post-sale inspections, security for consigned inventory, title processing, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers.
Transportation Services	We provide both inbound (pickup) and outbound (delivery) transportation services utilizing our own equipment and personnel as well as licensed and insured third party carriers. Through our subsidiary, CarsArrive and its Internet-based system which provides automated vehicle shipping services, customers can instantly review price quotes and delivery times, and vehicle transporters can check available loads and also receive instant notification of available shipments. The same system is utilized at our whole car auction locations.
Reconditioning Services	Our auctions provide detailing, body work, paintless dent repair ("PDR"), light mechanical work, glass repair, tire and key replacement and upholstery repair. Key replacement services are primarily provided by our subsidiary, HTL.
Inspection Services Provided by AutoVIN	AutoVIN provides vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. The same technology is utilized at our whole car auction locations and we believe that the expanded utilization of comprehensive vehicle condition reports with pictures facilitates dealers sourcing vehicles via the Internet.
Title and Repossession Administration and Remarketing Services	PAR provides end-to-end management of the remarketing process including titling, repossession administration, inventory management, auction selection, pricing and representation of the vehicles at auction for those customers seeking to outsource all or just a portion of their remarketing needs. Recovery Database Network, Inc. ("RDN") is a specialized provider of B2B software and data solutions for automotive lenders and repossession companies.
Vehicle Research Services Provided by Autoniq	Autoniq provides dealers real-time vehicle information such as pricing, history reports and market guides. Its mobile app allows used car dealers to scan VINs on mobile devices, view auction run lists and access vehicle history reports and market value reports instantly. Autoniq offers access to valued resources such as CARFAX and AutoCheck, as well as Black Book Daily, NADA guides, Kelley Blue Book and Galves pricing guide information. It also includes a comprehensive wholesale and retail market report for all markets in the United States.
KAR Analytical Services	KAR Analytical Services provides value-added market analysis to our customers and the media. These services include access to publications and custom analysis of wholesale market trends for KAR's customers, including peer group and market benchmarking studies, analysis of the benefits of reconditioning, site selection for optimized remarketing of vehicles, portfolio analysis of auction sales and computer-generated mapping and buyer analysis.
Data as a Service	Our Data as a Service team aggregates automotive retail, pricing, registration and other market and economic data from a variety of public and proprietary sources. The insights generated from that data are deployed through predictive pricing, inventory management and vehicle matching tools that help customers buy, sell and source vehicles.

Sales and Marketing

Our sales and marketing approach at ADESA is to develop strong relationships and interactive dialogue with our customers. We have relationship managers for the various institutional customers, including vehicle manufacturers, fleet companies, rental car companies, finance companies and others. These relationship managers focus on current trends and customer needs for their respective customers in order to better coordinate our sales effort and service offerings.

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Managers of individual auction locations are ultimately responsible for providing services to the institutional customers whose vehicles are directed to the auctions by the corporate sales team. Developing and servicing the largest possible population of buying dealers for the vehicles consigned for sale at each auction is integral to maximizing value for our vehicle suppliers.

We have local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of local markets. These local representatives focus on the dealer segment and are complemented by local telesales representatives and are managed by a corporate-level team focused on developing and implementing standard best practices and expanding relationships with major dealer groups. We believe this combination of a centralized structure with decentralized resources enhances relationships with the dealer community and may further increase dealer consignment business at our auctions.

Through our ADESA Analytical Services department, we also provide market analysis to our customers, as they use analytical techniques in making their remarketing decisions.

Online Solutions

Our current ADESA online solutions include:

ADESA Technology	Description
ADESA.com and ADESA DealerBlock®	This platform provides for either real-time or "bulletin-board" online auctions of consigned inventory at physical auction locations and is powered by Openlane technology. We also utilize this platform to provide upstream and midstream selling capabilities for our consignors, which facilitate the sale of vehicles prior to their arrival at a physical auction site. Auctions can be either closed (restricted to certain eligible dealers) or open (available to all eligible dealers) and inventory feeds of vehicles are automated with many customers' systems as well as third party providers that are integrated with various dealer management systems. Oftentimes, the upstream and midstream closed sales are "private-labeled" for the consignors.
ADESA LiveBlock®	Our live auction Internet bidding solution, ADESA LiveBlock®, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. ADESA LiveBlock® provides real-time streaming audio and video from the live auction and still images of vehicles and other data. Buyers inspect and evaluate the vehicle and listen to the live call of the auctioneer while viewing the physical auction that is underway.
ADESA Run List®	Provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory and vehicle condition reports prior to an auction event.
ADESA Market Guide®	Provides wholesale auction prices, auction sales results, market data and vehicle condition information.
ADESA Virtual Inventory	Subscription-based service to allow dealers to embed ADESA's search technology into a dealer's website to increase the number of vehicles advertised by the dealer.

Competition

In the North American whole car auction industry, we compete with Manheim, a subsidiary of Cox Enterprises, Inc., OVE.com (Manheim's "Online Vehicle Exchange"), RMS Automotive (a subsidiary of Cox Enterprises, Inc.), SmartAuction, as well as several smaller chains of auctions and independent auctions, some of which are affiliated through their membership in industry associations, and auctions held by retail dealers. In the United States, competition is strongest with Manheim for the supply of used vehicles from national institutional customers. In Canada, we are the largest provider of whole car vehicle auction services. The supply of vehicles from dealers is dispersed among all of the auctions in the used vehicle market.

Due to the increased viability of the Internet as a marketing and distribution channel, new competition has arisen from Internet-based companies and our own customers who have historically remarketed vehicles through various channels, including auctions. Direct sales of vehicles by institutional customers and large dealer groups through internally developed or third-party online platforms have largely replaced telephonic and other non-auction methods, becoming a significant portion of overall used vehicle remarketing. The extent of use of direct, online systems varies by customer. In addition, we and some of our competitors offer online auctions in connection with physical auctions, and other online companies now include used vehicles among the products offered at their auctions.

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IAA

Overview

As one of the leading providers of total loss solutions and salvage vehicle auctions, we operate as IAA in the United States and Impact Auto Auctions in Canada and serve our customer base through salvage auction locations throughout North America. We facilitate the remarketing of vehicles for a variety of sellers, including insurance companies, dealerships, rental car companies, fleet lease companies and charitable organizations. Our auctions provide buyers from around the globe with the salvage vehicles they need to fulfill their scrap demand, replacement part inventory or vehicle rebuild requirements. Fees for our services are earned from both sellers and buyers of salvage vehicles.

IAA processes salvage vehicles primarily on a consignment basis. In return for agreed-upon fees, vehicles are sold on behalf of our sellers, which continue to own the vehicle until it is sold to buyers at auction. Other services available to vehicle sellers, for which fees may be charged, include total loss claims solutions (as described below), inspection services, marketing and other administrative services. Under all methods of sale, we also charge fees to the buyer of each vehicle based on a tiered structure that increases with the sale price of the vehicle as well as fixed fees for other services.

Auctions are typically held weekly at most locations. Vehicles are marketed to bidders through IAA's multi-platform auction model that includes both live and online auctions via our physical locations or a screen sale, as well as our online auctions via Timed Auctions and Buy Now options. IAA auction listings are available online, allowing prospective bidders to preview and Proxy bid on vehicles prior to the actual auction event. IAA's Auction Center feature provides Internet buyers with an open, competitive bidding environment that reflects the dynamics of a live salvage auction. The Auction Center includes services such as Enhanced Vehicle Details that includes VIN details and Hollander interchange parts data to help buyers make informed purchasing decisions, and an "Advanced Search" function that allows for filtering to quickly locate specific vehicles. Higher prices at auction are generally driven by broader market exposure and increased competitive bidding. Our mobile device applications provide great flexibility for buyers who interact with our auctions. In addition, our mobile applications are designed for the latest handheld devices, including Apple and Android, and are optimized for the most recent operating systems.

Tools and services focused on total loss claims have been developed to assist insurance sellers in improving policy holder satisfaction and more effectively managing costs during the total loss claims process. IAA's Total Loss Solutions® suite of products includes IAA Inspection Services™, IAA Title Services™ and additional product offerings within the suite of products. These products and services deliver additional cycle time reduction, further provide transparency for the insured, and greater integrate within IAA's flagship salvage management tool, CSAToday®. We believe the capability of the auction models maximizes auction proceeds and returns to our customers. First, IAA's multi-platform auctions allow buyers to inspect and compare the vehicles, enabling them to make fully-informed bidding decisions. Second, our broad Internet auction capabilities allow buyers to participate in a greater number of auctions than if physical attendance was required. Online inventory browsing and digital alerts (via email or through buyer app) reduce the time required to acquire vehicles.

HBC is a salvage vehicle auction business operating in the United Kingdom. HBC provides salvage collection and disposal services for the U.K.'s top insurance, fleet and accident management companies, and conducts business using a variety of sales channels, including online auctions. HBC's business model differs from that of IAA, as more of HBC's vehicles are sold under purchase contracts.

Services

IAA offers a comprehensive suite of auction, logistics and vehicle selling services aimed at maximizing the value of vehicles sold at auction, lowering administrative costs, shortening the selling cycle and increasing the predictability of returns to vehicle sellers. This is achieved while expanding IAA's ability to handle an increasing proportion of the vehicle-processing function as a "one-stop shop" for sellers. Some of the services provided by IAA include:

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Services	Description
Multi-Platform Auction Model	Vehicles are offered simultaneously through a variety of channels to live and online buyers in a live auction format utilizing i-Bid LIVE^{SM} and other web technology. We believe this exposes the vehicles to the maximum number of potential buyers.
Total Loss Solutions^{TM}	Provides insurance companies with outsource solutions for the portion of the claims process prior to total loss determination and assignment to a salvage auction. The suite of products includes vehicle inspection and title procurement services that help insurance companies reduce cycle time and cost, while improving employee engagement, ultimately increasing policyholder retention.
Catastrophe (CAT) Services	IAA’s Catastrophe Services is a key offering to our insurance clients. Catastrophic weather events can cause extensive damage, often resulting in thousands of total-loss vehicles. Our CAT services philosophy is built upon a three-tier approach; pre-CAT planning, on-scene response and effective post-CAT management. To provide our insurance carrier partner with the highest level of service, we carefully track storm patterns and have response teams ready when disaster strikes. In the event of a catastrophe, IAA draws from an established network of partners to securing towing services and storage space. A mobile CAT Command Center as well as dedicated IAA staff serve as an on-the-go, centralized point of crisis management. When the vehicles are ready for sale, we promote them to our global buyer base with targeted marketing efforts for efficient sale and file closure.
Vehicle Inspection Centers	We maintain vehicle inspection centers ("VIC") at many of our facilities. A VIC is a temporary storage and inspection facility located at one of our sites that is operated by the insurance company. Some of these sites are formalized through temporary license agreements with the insurance companies that supply the vehicles. Having a VIC minimizes vehicle storage charges incurred by insurance company suppliers at the temporary storage facility or repair shop and also improves service time for the policyholder.
Transportation and Towing	Inbound logistics administration with actual services typically provided by third-party carriers.
Remarketing Market	Focuses on vehicles, rental sellers, fleet and leasing companies, banks and dealer trade-in inventory.
Donation Market	Processes vehicles for a variety of charitable organizations across the United States and Canada, assisting them in turning donated vehicles into cash to support their respective cause.

Customers

We obtain IAA's supply of vehicles from insurance companies, non-profit organizations, automobile dealers and vehicle leasing and rental car companies and the general public. We have established long-term relationships with virtually all of the major automobile insurance companies. The vast majority of the vehicles we process are on a consignment basis. The buyers of salvage vehicles include automotive body shops, rebuilders, used car dealers, automotive wholesalers, exporters, dismantlers, recyclers, brokers, and where allowed, non-licensed (public) buyers.

Sales and Marketing

The IAA sales force solicits prospective vehicle sellers and buyers at the national, regional and local levels. Branch managers address customer needs at the local level. We also participate in a number of local, regional and national trade show events that further promote the benefits of our products and services.

In addition to providing sellers with a means of processing and selling vehicles, IAA offers a comprehensive suite of services to help maximize returns and shorten the selling and processing time. We help establish workflow integration within our sellers' processes, and view such mutually beneficial relationships as an essential component of our effort to attract and retain suppliers.

By analyzing industry data, we provide sellers with a detailed analysis of their current selling prices and returns, and a proposal detailing methods to improve selling prices and returns, reduce administrative costs and provide proprietary turn-key selling and processing services.

We also focus on expanding our seller relationships through recommendations from customers at the local level to other local offices of the same company. Our broad and industry leading geographic coverage allows us to service sellers on a national basis.

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Online Solutions

Our current IAA online solutions include:

IAA Technology	Description
i-Bid LIVE℠	Our live auction Internet bidding solution, i-Bid LIVE, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. In addition, i-Bid LIVE provides real-time streaming audio from the live auction and images of salvage vehicles and other data. Buyers inspect and evaluate the salvage vehicle and listen to the auction while it is underway.
Buy Now	Buy Now is an immediate buying option that allows qualified buyers to purchase vehicles between auctions for a fixed price. Each Buy Now vehicle first runs at a previous auction where an established reserve price was not met.
CSAToday®	The process of salvage disposition through our system begins when a vehicle seller first consigns the vehicle to be sold through IAA via a variety of factors including a total loss, a recovered theft, a vehicle donation, a fleet vehicle retired, a vehicle repossessed, etc. A seller representative consigns the vehicle to us, either by phone, facsimile or electronically through CSAToday, our online proprietary salvage inventory management system. With CSAToday, vehicle sellers enter vehicle data electronically and then track and manage the progress of vehicles in terms of both time and sales price. With this tool, they have 24-hour access to their vehicles. The information provided through this system ranges from the details associated with a specific vehicle, to comprehensive management reports for an entire area or geographic region. Additional features of this system include inventory management tools and a powerful new IAA Market Value™ tool that helps customers determine the approximate value of a potential vehicle. This tool is helpful to adjusters when evaluating the "repair vs. total" decision. The management tools provided by CSAToday enable seller personnel to monitor and manage their vehicles more effectively. For example, insurance company sellers can also use CSAToday to view original garage receipts, verify ignition key availability, view settlement documents and images of the vehicles and receive updates of other current meaningful data.
Automated Salvage Auction Processing (ASAP)	We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. The system provides sellers with 24-hour online access to powerful tools to manage the salvage disposition process, including inventory management, sales price analysis and electronic data interchange of titling information. Our other information systems, including i-Bid LIVE and CSAToday systems, are integrated with our ASAP product, facilitating seamless auction processes and information flow with internal operational systems. Our technology platform is a significant competitive advantage that allows us to efficiently manage our business, improve customer selling prices, shorten customers' selling cycle and lower our customers' administration costs.
Timed Auctions™	This IAA selling channel offers a unit for sale for a specified period of time. This channel allows for competitive bidding and sale prior to scheduled IAA Live and Online Auctions.

Competition

In the salvage sector, the competition includes Copart; Total Resource Auctions, a subsidiary of Cox Enterprises, Inc.; independent auctions and a limited number of used vehicle auctions that regularly remarket salvage vehicles. Additionally, some dismantlers of salvage vehicles such as LKQ Corporation and Internet-based companies have entered the market, thus providing alternate avenues for sellers to remarket vehicles. While most insurance companies have abandoned or reduced efforts to sell salvage vehicles without the use of service providers such as us, they may in the future decide to dispose of their vehicles directly to end users.

In Canada, we are the largest provider of salvage vehicle auction services. Our competitors include Copart, independent vehicle auctions, brokers, online auction companies, and vehicle recyclers and dismantlers.

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AFC

Overview

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2017, AFC serviced approximately 1.7 million loan transactions, which includes both loans paid off and loans extended, or curtailed. We sell the majority of our U.S. dollar-denominated finance receivables without recourse to a wholly-owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a group of bank purchasers on a revolving basis. We also securitize the majority of our Canadian dollar denominated finance receivables through a separate third-party facility. We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

Preferred Warranties, Inc. is a vehicle service contract business. We receive advance payments for the vehicle service contracts and unearned revenue is deferred and recognized over the terms of the contracts, which range from 3 months to 7 years, on an individual contract basis. The average term of these contracts originated in 2017 was approximately 1.7 years. We currently purchase program insurance which provides for satisfaction of certain of the Company's vehicle service contracts related liabilities in the event the Company is unable to perform under the terms of specific vehicle service contracts covered by program insurance.

Customers and Locations

Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from our auctions, other auctions and non-auction purchases. In 2017, over 85% of the vehicles floorplanned by AFC were vehicles purchased by dealers at auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. As of December 31, 2017, we serviced auctions through 128 locations which are conveniently located at or within close proximity of auctions held by ADESA and other auctions, which allows dealers to reduce transaction time by providing immediate payment for vehicles purchased at auction. We provide availability lists on behalf of our customers to auction representatives regarding the financing capacity of our customers, thereby increasing the purchasing potential at auctions. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days, as well as maintaining a presence at the ADESA auctions. Geographic proximity to the customers gives our employees the ability to stay in close contact with outstanding accounts, thereby better enabling them to manage credit risk.

As of December 31, 2017, AFC had approximately 12,400 active dealers with an average line of credit of approximately $250,000 and no one dealer representing greater than 1.6% of our portfolio. An average of approximately 15 vehicles per active dealer was floorplanned with an approximate average value outstanding of $9,900 per vehicle as of December 31, 2017.

Sales and Marketing

AFC approaches and seeks to expand its share of the independent dealer floorplan market through a number of methods and channels. We target and solicit new dealers through both direct sales efforts at the dealer's place of business as well as auction-based sales and customer service representatives, who service our dealers at auctions where they replenish and rotate vehicle inventory. These largely local efforts are handled by branch managers, branch personnel and dealer sales managers. AFC's corporate-level team and Business Development Center provide sales and marketing support to AFC field personnel by helping to identify target dealers and coordinating promotional activity with auctions and other vehicle supply sources.

Credit

Our procedures and proprietary computer-based system enable us to manage our credit risk by tracking each vehicle from origination to payoff, while expediting services through our branch network. Typically, we assess a floorplan fee at the inception of a loan and we collect all accrued fees and interest when the loan is extended or repaid in full. In addition, AFC generally holds the title or other evidence of ownership to all vehicles which are floorplanned. Typical loan terms are 30 to 90 days, each with a possible loan extension. For an additional fee, this loan extension allows the dealer to extend the duration of the loan beyond the original term for another 30 to 90 days if the dealer makes payment towards principal and pays accrued fees and interest.

The extension of a credit line to a dealer starts with the underwriting process. Credit lines up to $600,000 are extended using a proprietary scoring model developed internally by AFC. Credit lines in excess of $600,000 may be extended using underwriting guidelines which generally require dealership and personal financial statements, monthly bank statement, sales reports and tax returns. The underwriting of each line of credit requires an analysis, write-up and recommendation by the credit department and, in case of credit lines in excess of $600,000, final review by a credit committee.

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Collateral Management

Collateral management is an integral part of daily operations at each AFC branch and our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables branch and corporate personnel to assess and manage potential collection issues. Restrictions are automatically placed on customer accounts in the event of a delinquency, payments by dealers from bank accounts with insufficient funds or poor audit results. Branch personnel are proactive in managing collateral by monitoring loans and notifying dealers that payments are coming due. In addition, over 85,000 routine audits, or lot checks, are performed annually on the dealers' lots through our AutoVIN subsidiary. Poor results from lot checks typically require branch personnel to take actions to determine the status of missing collateral, including visiting the dealer personally, verifying units held off-site and collecting payments for units sold. Audits also identify troubled accounts, triggering the involvement of AFC's collections department.

AFC operates three divisions which are organized into fifteen regions in North America. Each division and region is monitored by managers who oversee daily operations. At the corporate level, AFC employs full-time collection specialists and collection attorneys who are assigned to specific regions and monitor collection activity for these areas. Collection specialists work closely with the branches to track trends before an account becomes a troubled account and to determine, together with collection attorneys, the best strategy to secure the collateral once a troubled account is identified.

Securitization

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's securitization facility has been in place since 1996. AFC Funding Corporation had a committed facility of $1.50 billion from a third party facility for U.S. finance receivables at December 31, 2017. The agreement expires on January 31, 2020.

We also have an agreement in place for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables. This securitization facility provides up to C$125 million in financing for eligible finance receivables through a third party conduit (separate from the U.S. facility). The agreement expires on January 31, 2020. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

Competition

AFC primarily provides short-term dealer floorplan financing of wholesale vehicles to independent vehicle dealers in North America. At the national level, AFC's competition includes NextGear Capital, a subsidiary of Cox Enterprises, Inc., other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks, credit unions and independent auctions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions.

Some of our industry competitors who operate whole car auctions on a national scale may endeavor to capture a larger portion of the floorplan financing market. AFC competes primarily on the basis of quality of service, convenience of payment, scope of services offered and historical and consistent commitment to the sector. Our long-term relationships with customers have been established over time and act as a competitive strength for us.

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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.

Vehicle and Lending Regulation

Our operations are subject to regulation, supervision and licensing under various federal, state, provincial and local authorities, agencies, statutes and ordinances, which, among other things, require us to obtain and maintain certain licenses, permits and qualifications, provide certain disclosures and notices and limit interest rates, fees and other charges. Some examples of the regulations and laws that impact our company are included in Item 1A "Risk Factors" under the risk: "We are subject to extensive governmental regulations, including vehicle brokerage and auction laws and currency reporting obligations. Our business is subject to risks related to litigation and regulatory actions."

Environmental Regulation

Our operations are subject to various foreign, federal, state and local environmental, health and safety laws and regulations, including those governing the emission or discharge of pollutants into the air or water, the generation, treatment, storage and release of hazardous materials and wastes and the investigation and remediation of contamination. Our failure to comply with current or future environmental, health or safety laws or to obtain and comply with permits required under such laws, could subject us to significant liability or require costly investigative, remedial or corrective actions.

In the used vehicle remarketing industry, large numbers of vehicles, including wrecked vehicles at salvage auctions, are stored and/or refurbished at auction facilities and during that time minor releases of fuel, motor oil and other materials may occur. We have investigated or remediated, or are currently investigating or remediating, contamination resulting from various sources, including gasoline, fuel additives (such as methyl tertiary butyl ether, or MTBE), motor oil, petroleum products and other hazardous materials released from aboveground or underground storage tanks or in connection with current or former operations conducted at our facilities. We have incurred, and may in the future incur, expenditures relating to releases of hazardous materials, investigative, remedial or corrective actions, claims by third parties and other environmental issues, and such expenditures, individually or in the aggregate, could be significant.

Federal and state environmental authorities are currently investigating IAA's role, if any, in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAA's potential liability, if any, at this site cannot be estimated at this time. See Item 3, "Legal Proceedings" for a further discussion of this matter.

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 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.

Employees

At December 31, 2017, we had a total of approximately 17,500 employees, of which approximately 13,500 were located in the U.S. and approximately 4,000 were located in Canada, Mexico and the United Kingdom. Approximately

77% of our workforce consists of full-time employees. While there are currently no collective bargaining agreements in effect, a group of employees, representing less than 1% of our total employees, are negotiating a collective bargaining agreement.

In addition to the employee workforce, we also utilize temporary labor services to assist in handling the vehicles consigned to us and to provide certain other services. Nearly all of our auctioneers are independent contractors. Some of the services we provide are outsourced to third party providers that perform the services either on-site or off-site. The use of third party providers depends upon the resources available at each auction facility as well as peaks in the volume of vehicles offered at auction.

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Available Information

Our web address is www.karauctionservices.com. Our electronic filings with the Securities and Exchange Commission ("SEC") (including all Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports) are available free of charge on the website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, our Corporate Governance Guidelines, Code of Conduct and Ethics, Code of Ethics for Principal Executive and Senior Financial Officers and charters of the audit committee, the nominating and corporate governance committee, the risk committee and the compensation committee of our board of directors are available on our website and available in print to any shareholder who requests it. The information posted on our website is not incorporated into this Annual Report.

Any materials that we file with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

Item 1A. Risk Factors

Investing in our Company involves a high degree of risk. You should carefully consider the following risk factors, as well as all of the other information contained in this Annual Report on Form 10-K, before deciding to invest in our Company. The occurrence of any of the following risks could materially and adversely affect our business, financial condition, prospects, results of operations and cash flows. In such case, the trading price of our common stock could decline and you could lose all or part of your investment. These risks are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially affect our business, financial condition, results of operations and prospects.

Risks Related to Our Business

We may not properly leverage or make the appropriate investment in technology advancements, which could result in the loss of any sustainable competitive advantage in products, services and processes.

Our business is dependent on information technology. Robust information technology systems, platforms and products are critical to our operating environment, digital online products and competitive position. Understanding technology innovation is necessary to remain at the forefront of our industry. We may not be successful in structuring our information technology or developing, acquiring or implementing information systems which are competitive and responsive to the needs of our customers. We might lack sufficient resources to continue to make the significant investments in information technology to compete with our competitors. Certain information technology initiatives that management considers important to our long-term success will require capital investment, have significant risks associated with their execution, and could take several years to implement. We may not be able to develop/implement these initiatives in a cost-effective, timely manner or at all.

Significant disruptions of information technology systems or breaches of information technology systems, infrastructure and business information could adversely affect our business and reputation.

Information technology risks (including the confidentiality, integrity and availability of digital assets) for companies have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. These threats may derive from fraud or malice on the part of our employees or third parties, or may result from human error or accidental technological failure. Our customers and other parties in the payments value chain rely on our digital online products as well as other information technologies, computers, software and networks to conduct their operations. In addition, to access our online products and services, our customers increasingly use personal smartphones, tablet PCs and other mobile devices that may be beyond our control.

We are subject to cyber-threats and our information technology has been subject to cyber-attacks and we believe we will continue to be a potential target of such threats and attacks. Continuous cyber-attacks or a sustained attack could lead to service interruptions, malfunctions or other failures in the information technology that supports our businesses and customers (such as the lack of availability of our value-added systems), as well as the operations of our customers or other third parties. Continuous cyber-attacks could also lead to damage to our reputation with our customers and other parties and the market, additional costs (such as repairing systems, adding new personnel or protection technologies or compliance costs), regulatory penalties, financial losses to both us and our customers and partners and the loss of customers and business opportunities. If such attacks are not detected in a timely manner, their effect could be compounded.

If our information technology is compromised, becomes inoperable for extended periods of time or ceases to function properly, we may have to make a significant investment to fix or replace the information technology and our ability to provide many of our electronic and online solutions to our customers may be impaired, which would have a material adverse effect on our consolidated operating results and financial position. In addition, as cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could disrupt our business, damage our reputation and materially adversely affect our consolidated financial position and results of operations.

In addition, aspects of our operations and business are subject to privacy regulation in the United States and elsewhere. Many U.S. states have enacted data breach regulations and laws requiring varying levels of consumer notification in the event of a security breach. Increased regulation and enforcement activity throughout the world in the areas of data privacy and data security/breach may materially increase our costs, which could have a material adverse effect on our operating results. Our failure to comply with the privacy and data security/breach laws to which we are subject could also result in fines, sanctions and damage to our reputation and tradenames or the loss of significant customers.

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If we are not successful in competing with our known competitors, customers and/or disruptive new entrants, then our market position or competitive advantage could be threatened, as well as our business and results of operations.

We face significant competition for the supply of used and salvage vehicles, the buyers of those vehicles and the floorplan financing of these vehicles. Our principal sources of competition historically have come from: (1) direct competitors (e.g., Manheim, Copart and NextGear Capital), (2) new entrants, including new vehicle remarketing venues and dealer financing services, and (3) existing alternative vehicle remarketing venues. Due to the increasing use of the Internet and other technology as marketing and distribution channels, we also face increasing competition from online wholesale and retail vehicle selling platforms (generally without any meaningful physical presence) and from our own customers when they sell directly to end users through such platforms rather than remarket vehicles through our auctions and other channels. Increased competition could result in price reductions, reduced margins or loss of market share.

Our future success also depends on our ability to respond to evolving industry trends, changes in customer requirements and new technologies. One potentially adverse trend would be a market shift towards the simultaneous listing and selling of vehicles on multiple online sales platforms. Were such a trend to take hold, the vehicle remarketing industry's economics could significantly change. For example, we might need to incur additional costs or otherwise alter our business model to adapt to these changes. In such case, the volume of vehicles supplied to us and our overall revenues and fees per vehicle sold could decrease. Since 2013, many participants in the whole car industry have been discussing the development of a multiple platform bidding system. Any such collaboration may be unsuccessful, unworkable or deemed inadvisable. In such case, we may lose vehicle volume and market share, and our business, revenues and profitability could be negatively impacted.

Some of our competitors may have greater financial and marketing resources than we do, may be able to respond more quickly to evolving industry dynamics and changes in customer requirements, or may be able to devote greater resources to the development, promotion and sale of new or emerging services and technologies. Our ability to successfully grow through investments in the area of emerging opportunities depends on many factors, including advancements in technology, regulatory changes and other factors that are difficult to predict, that may significantly affect the future of electrification, autonomy, and mobility. If we are unable to compete successfully or to successfully adapt to industry changes, our business, revenues and profitability could be materially adversely affected.

ADESA currently competes with online wholesale and retail vehicle selling platforms, including OVE.com and RMS Automotive (both affiliated with Cox Enterprises, Inc.), SmartAuction, eBay Motors and others. With the exception of OVE.com, these online selling platforms generally do not have any meaningful physical presence and may cause the volume of vehicles sold through our online and physical auctions to decrease. If the number of vehicles sold through our auctions decreases due to these competitors or other industry changes, our revenue and profitability may be negatively impacted. In addition, our long-lived assets could also become subject to impairment.

In our salvage auction business, potential competitors include used vehicle auctions, providers of claims software to insurance companies and certain salvage buyer groups and automobile insurance companies, some of which currently supply salvage vehicles to us. Insurance companies may in the future decide to dispose of their salvage vehicles directly to end users, which would negatively affect our volumes, revenue and profitability.

At the national level, AFC's competition includes NextGear Capital, a subsidiary of Cox Enterprises, Inc., other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks, credit unions and independent auctions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions. Some of our industry competitors who operate whole car auctions on a national scale may endeavor to capture a larger portion of the floorplan financing market. AFC competes primarily on the basis of quality of service, convenience of payment, scope of services offered and historical and consistent commitment to the sector. If the number of loans originated and serviced decreases due to these competitors, our revenue and profitability may be negatively impacted.

We may not be successful in the implementation of our business strategy or we may improperly align new strategies with the Company’s vision, which could lead to the misapplication of Company resources.

Our strategy is to provide the best remarketing venue and analytical evidence for every vehicle. To execute our strategy, we are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to developing alternative marketplaces, expanding fleet mobility relationships, expanding our international footprint, establishing exceptional analytics capabilities, leveraging the Company's unique remarketing portfolio and data and growing the Company's buyer base. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash provided by operations (we generated $588.8 million and $378.0 million of cash flow from operations for the years ended December 31, 2017 and 2016, respectively), we may be unable to reinvest in our business, return capital to shareholders or reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives, if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

We may be unable to meet or exceed our customers’ expectations, which could result in poor customer retention and adversely affect our operating results and financial condition.

We believe our future success depends in part on our ability to respond to changes in customer requirements. Our customers include vehicle manufacturers and their captive finance arms, vehicle leasing and rental companies, financial institutions, fleet management companies, franchised and independent used vehicle dealers, insurance companies, non-profit organizations, automotive body shops, rebuilders, automotive wholesalers, exporters, dismantlers, recyclers and brokers. We work to develop strong relationships and interactive dialogue with our customers to better understand current trends and customer needs. If we are not successful in meeting our customers' expectations, our customer relationships could be negatively affected and result in a loss of future business, which would adversely affect our operating results and financial condition.

ADESA and IAA's agreements with its largest institutional suppliers of used and salvage vehicles are generally subject to cancellation by either party upon 30 to 90 days' notice. In addition, it is common that institutional suppliers regularly review their relationships with whole car and salvage auctions through written requests for proposals. Such suppliers may from time to time require us to make changes to the way we do business as part of the request for proposal process. There can be no assurance that our existing agreements will not be canceled or that we will be able to enter into future agreements with these or other suppliers that disrupt our supplier base on similar terms, or at all, and our ability to grow and sustain profitability could be impaired.

If we acquire businesses that: are not aligned with the Company’s strategy; lack the proper research and preparation; create unnecessary risks; improperly value and price a target; have poor integration execution; and/or do not achieve the desired outcomes, then our operating results, financial condition and growth prospects could be adversely affected.

Acquisitions are a significant part of our growth strategy and have enabled us to further broaden and diversify our service offerings. Our strategy generally involves acquisitions of companies, products, services and technologies to expand our online, digital and mobile capabilities and the acquisition and integration of additional auction sites and personnel. Acquisition of businesses requires substantial time and attention of management personnel and may also require additional equity or debt financings. Further, integration of newly established or acquired businesses is often disruptive. Since we have acquired or in the future may acquire one or more businesses, there can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, or will be able to successfully integrate such organizations into our business. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and they could materially adversely affect our business, financial condition and results of operations. Acquisitions may also have unanticipated tax, legal, regulatory and accounting ramifications, including as a result of recording goodwill and non-amortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges. In addition, we expect to compete against other auction groups or new industry consolidators for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

In pursuing a strategy of acquiring other businesses, we face other risks including, but not limited to:

- incurring significantly higher capital expenditures, operating expenses and operating losses of the business acquired;
- entering new markets with which we are unfamiliar;
- incurring potential undiscovered liabilities at acquired businesses;
- failing to maintain uniform standards, controls and policies;
- incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- impairing relationships with employees and customers as a result of management changes; and
- increasing expenses for accounting and computer systems, as well as integration difficulties.

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Acquisitions and other strategies to expand our operations beyond North America subject us to significant risks and uncertainties. As a result, we may not be successful in realizing anticipated synergies or we may experience unanticipated integration expenses. As we continue to explore opportunities to expand our business internationally, we will need to develop policies and procedures to manage our business on a global scale. Operationally, acquired businesses typically depend on key relationships and our failure to maintain those relationships could have an adverse affect on our operating results and financial condition.

In addition, we anticipate that our non-U.S. based operations will continue to subject us to risks associated with operating on an international basis, including:

- exposure to foreign currency exchange rate risk, which may have an adverse impact on our revenues and profitability;
- restrictions on our ability to repatriate funds, as well as repatriation of funds currently held in foreign jurisdictions to the U.S. may result in higher effective tax rates;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to operate in certain foreign markets;
- compliance with the Foreign Corrupt Practices Act;
- dealing with unfamiliar regulatory agencies and laws favoring local competitors;
- dealing with political and/or economic instability;
- the difficulty of managing and staffing foreign offices, as well as the increased travel, infrastructure, legal and compliance costs associated with international operations;
- localizing our product offerings; and
- adapting to different business cultures and market structures.

As we continue to explore opportunities to expand globally, our success will depend on our ability to anticipate and effectively manage these and other risks associated with operating on an international basis. Our failure to manage these risks could have an adverse affect on our operating results and financial condition.

Decreases in the supply of used vehicles coming to auction may impact auction sales volumes, which may adversely affect our revenues and profitability. In addition, a decrease in the number of used vehicles sold at physical auctions could adversely affect our revenue growth, operating results and financial condition.

The number of new and used vehicles that are leased by consumers affects the supply of vehicles coming to auction in future periods as the leases mature. If manufacturers and other lenders decrease the number of new vehicle lease originations and extend the terms of some of the existing leases, the number of off-lease vehicles available at auction for the industry would decline. If the supply of off-lease vehicles coming to auction declines, our revenues and profitability may be adversely affected.

Volumes of off-lease vehicles in subsequent periods will be affected by total new vehicle sales and the future leasing behavior of manufacturers and lenders; therefore, we may not be able to accurately predict the volume of vehicles coming to auction. The supply of off-lease vehicles coming to auction is also affected by the market value of used vehicles compared to the residual value of those vehicles per the lease terms. In most cases, the lessee and the dealer have the ability to purchase the vehicle at the residual price at the end of the lease term. Generally, as market values of used vehicles rise, the number of vehicles purchased at residual value by the lessees and dealers increases, thus decreasing the number of off-lease vehicles available at auction.

Furthermore, online only auction platforms were utilized for the sale of approximately 30% of vehicles sold in North America by ADESA in 2017, compared with 26% in 2016. If sellers and buyers increase the number of vehicles transacted on online only auction platforms, our revenue per vehicle will likely decline. In connection with online auctions, ADESA offers physical auctions, which allow buyers to physically inspect and compare vehicles. In addition, our cost structure includes a significant fixed cost component, including occupancy costs, that cannot be readily reduced if revenue per vehicle declines. If a shift in the percentage of used vehicles sold on online only auction platforms as compared with used vehicles sold at physical auctions occurs, and we are unable to generate new sources of revenue, our operating results and financial condition could be adversely affected.

Our business and operating results would be adversely affected if we lose one or more significant customers.

Loss of business from, or changes in the consignment patterns of, our key customers could have a material adverse effect on our business and operating results. Generally, institutional and dealer customers make no binding long-term commitments to us regarding consignment volumes. Any such customer could reduce its overall supply of vehicles for our auctions or otherwise seek to materially change the terms of its business relationship with us at any time. Any such change could harm our business and operating results. While no single customer accounted for 10% or more of our consolidated revenues in 2017, the loss of, or material reduction in business from, our key customers could have a material adverse effect on our business and operating results.

At a segment level, approximately 80% of IAA segment’s revenues derive from insurance company customers and a small number of these customers account for a large share of IAA’s revenues. In 2017, approximately 40% of IAA’s revenues were associated with the fees generated from the auction of salvage vehicles, including buyer fees, from its three largest insurance customers, each of which accounted for over 10% of IAA's revenue. If one or more of IAA’s large customers were to significantly reduce consignments for any reason or favor competitors or new entrants, IAA may not be successful in replacing such business and IAA’s profitability and operating results would be materially adversely affected.

If we fail to attract and retain key personnel, or have inadequate succession planning, we may not be able to execute our business strategies and our financial results could be negatively affected.

Our success depends in large part on the performance of our executive management team and other key employees, including key field and information technology personnel. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete with us, we may not be able to effectively implement our business strategies, our business could suffer and the value of our common stock could be materially adversely affected. Our auction business is directly impacted by the business relationships our employees have established with customers and suppliers and, as a result, if we lose key personnel, we may have difficulty in retaining and attracting customers, developing new services, negotiating favorable agreements with customers and providing acceptable levels of customer service. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. We do not have nor do we currently expect to obtain key person insurance on any of our executive officers.

Used vehicle prices impact fee revenue per unit and may impact the supply of used vehicles, as well as loan losses at AFC.

The volume of new vehicle production, accuracy of lease residual estimates, interest rate fluctuations, customer demand and changes in regulations, among other things, all potentially affect the pricing of used vehicles. Used vehicle prices may affect the volume of vehicles entered for sale at our auctions and the demand for those used vehicles, the fee revenue per unit, loan losses for our dealer financing business and our ability to retain customers. When used vehicle prices are high, used vehicle dealers may retail more of their trade-in vehicles on their own rather than selling them at auction. In addition, a sustained reduction in used vehicle pricing could result in lower proceeds from the sale of salvage vehicles and a related reduction in revenue per vehicle, a potential loss of consignors, an increase in loan losses at AFC and decreased profitability. Furthermore, when vehicles are purchased, we are subject to changes in vehicle values, such as those caused from changes in commodity prices for steel and platinum. Decreases in commodity prices may negatively affect vehicle values and demand at salvage auctions.

If our facilities lack the capacity to accept additional vehicles, then our relationships with insurance companies or other vehicle suppliers could be adversely affected.

We regularly evaluate our capacity in all our markets and where appropriate, seek to increase capacity through the acquisition of additional land and facilities. Capacity at our facilities varies from period to period and by region as a result of various factors, including natural disasters. We may not be able to reach agreements to purchase or lease storage facilities in markets where we have limited excess capacity, and zoning restrictions or difficulties obtaining use permits may limit our ability to expand our capacity through acquisitions of new land. In addition, we may not be able to renew or enter into new leases at commercially reasonable rates. If we fail to have sufficient capacity at one or more of our facilities, our relationships with insurance companies or other vehicle suppliers could be adversely affected, which could adversely affect our operating results and financial condition.

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Fluctuations in the supply of and demand for salvage vehicles impact auction sales volumes, which may adversely affect our revenues and profitability.

We are dependent upon receiving a sufficient number of total loss vehicles to sustain profit margins in our salvage auction business. Factors that can adversely affect the number of vehicles received include, but are not limited to, a decrease in the number of vehicles in operation or miles driven, mild weather conditions that cause fewer traffic accidents, reduction of policy writing by insurance providers that would affect the number of claims over a period of time, changes in vehicle technology and autonomous vehicles, a decrease in the percentage of claims resulting in a total loss or elimination of automotive collision coverage by consumers, delays or changes in state title processing, government regulations on the standards for producing vehicles and changes in direct repair procedures that would reduce the number of newer, less damaged total loss vehicles, which tend to have higher salvage values. In addition, our salvage auction business depends on a limited number of automobile insurance companies to supply the salvage vehicles we sell at auction. Our agreements with these insurance company suppliers are generally subject to cancellation by either party upon 30 to 90 days' notice. There can be no assurance that our existing agreements will not be canceled or that we will be able to enter into future agreements with these suppliers. Future decreases in the quality and quantity of vehicle inventory, and in particular the availability of newer and less damaged vehicles, could have a material adverse effect on our operating results and financial condition. If the supply or value of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected. In addition, decreases in commodity prices, such as steel and platinum, may negatively affect vehicle values and demand at salvage auctions.

Adverse economic conditions may negatively affect our business and results of operations.

Future adverse economic conditions could increase our exposure to several risks, including:

- Fluctuations in the supply of used vehicles. We are dependent on the supply of used vehicles coming to auction, and our financial performance depends, in part, on conditions in the automotive industry. During the past global economic downturn and credit crisis, there was an erosion of retail demand for new and used vehicles that led many lenders to cut back on originations of new loans and leases and led to significant manufacturing capacity reductions by automakers selling vehicles in the United States and Canada. Capacity reductions could depress the number of vehicles received at auction in the future and could lead to reduced vehicles from various suppliers, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.

- Decline in the demand for used vehicles. We may experience a decrease in demand for used vehicles from buyers due to factors including the lack of availability of consumer credit and declines in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles at auction, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers may reduce dealer demand for used vehicles.

- Decrease in consumer spending. Consumer purchases of new and used vehicles may be adversely affected by economic conditions such as employment levels, wage and salary levels, trends in consumer confidence and spending, reductions in consumer net worth, interest rates, inflation, the availability of consumer credit and taxation policies. Consumer purchases in general may decline during recessions, periods of prolonged declines in the equity markets or housing markets and periods when disposable income and perceptions of consumer wealth are lower. Changes to U.S. federal tax policy may negatively affect consumer spending. In addition, the increased use of vehicle sharing and alternate methods of transportation, including autonomous vehicles, could lead to a decrease in consumer purchases of new and used vehicles and a decrease in vehicle rentals. To the extent retail and rental car company demand for new and used vehicles decreases, negatively impacting our auction volumes, our results of operations and financial position could be materially and adversely affected.

- Volatility in the asset-backed securities market. Volatility and disruption in the asset-backed commercial paper market could lead to a narrowing of interest rate spreads at AFC in certain periods. In addition, any volatility and disruption has affected, and could affect, AFC's cost of financing related to its securitization facility.

- Ability to service and refinance indebtedness. Uncertainty in the financial markets may negatively affect our ability to service our existing debt, access additional financing or to refinance our existing indebtedness on favorable terms or at all. If economic weakness exists, it may affect our cash flow from operations and results of operations, which may affect our ability to service payment obligations on our debt or to comply with our debt covenants.

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- Increased counterparty credit risk. Any market deterioration could increase the risk of the failure of financial institutions party to our Credit Agreement and other counterparties with which we do business to honor their obligations to us. Our ability to replace any such obligations on the same or similar terms may be limited if challenging credit and general economic conditions exist.

Declining values for salvage vehicles purchased could adversely affect our profitability.

In the United Kingdom, the salvage market typically operates on a principal basis, in which a vehicle is purchased and then resold, rather than on an agent basis, in which the auction acts as a sales agent for the owner of the vehicle. Operating on a principal basis exposes us to inventory risks, including losses from theft, damage and obsolescence. Furthermore, in periods when the supply of vehicles from the insurance sector in North America declines, salvage operators have acquired and in the future may acquire vehicles on their own. If we purchase vehicles, the increased costs associated with acquiring the vehicles could have a material adverse effect on our gross profit and operating results. Vehicles sold under purchase agreements were approximately 5% of total salvage vehicles sold for the year ended December 31, 2017. In addition, when vehicles are purchased, we are subject to changes in vehicle values, such as those caused from changes in commodity prices for steel and platinum. Decreases in commodity prices may negatively affect vehicle values and demand at salvage auctions.

AFC is exposed to credit risk with our dealer borrowers, which could adversely affect our profitability and financial condition.

AFC is subject to credit risk resulting from defaults in payment by our dealer customers on our floorplan loans. Furthermore, a weak economic environment, decreased demand for used vehicles, disruptions in pricing of used vehicle inventory or consumers' lack of access to financing could exert pressure on our dealer customers resulting in higher delinquencies, bankruptcies, repossessions and credit losses. There can be no assurances that our monitoring of our credit risk as it affects the collectability of these loans and our efforts to mitigate credit risk through appropriate underwriting policies and loss-mitigation strategies are, or will be, sufficient to prevent an adverse impact in our profitability and financial condition.

If we are unable to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants and third parties with whom we have relationships, as well as trademark, copyright, patent, trade secret, and domain name protection laws, to protect our proprietary rights. In the United States and internationally, we have filed various applications for protection of certain aspects of our intellectual property, and we currently hold issued patents in the United States. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge proprietary rights held by us, and pending and future trademark and patent applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In any or all of these cases, we may be required to expend significant time and expense in order to prevent infringement or to enforce our rights. Although we have taken measures to protect our proprietary rights, there can be no assurance that others will not offer products or concepts that are substantially similar to ours and compete with our business. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation by third parties, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our service and methods of operations. Any of these events could have an adverse effect on our business and financial results.

We may be subject to patent or other intellectual property infringement claims, which could have an impact on our business or operating results due to a disruption in our business operations, the incurrence of significant costs and other factors.

From time to time, we may receive notices from others claiming that we infringed or otherwise violated their patent or intellectual property rights, and the number of these claims could increase in the future. Claims of intellectual property infringement or other intellectual property violations could require us to enter into licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question, which could require us to change business practices and limit our ability to compete effectively. Even if we believe that the claims are without merit, the claims can be time-consuming and costly to defend and may divert management's attention and resources away from our businesses. If we are required to take any of these actions, it could have an adverse impact on our business and operating results.

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Weather-related and other events beyond our control may adversely impact operations.

Extreme weather or other events, such as hurricanes, tornadoes, earthquakes, forest fires, floods, terrorist attacks or war, may adversely affect the overall economic environment, the markets in which we compete, our operations and profitability. These events may impact our physical auction facilities, causing a material increase in costs, or delays or cancellation of auction sales, which could have a material adverse impact on our revenues and profitability. In some instances, for example with the severe storm in October 2012, known as “Superstorm Sandy,” these events may result in a sharp influx in the available supply of salvage vehicles and there can be no assurance that our salvage auction business will have sufficient resources to handle such extreme increases in supply. Our failure to meet our customers’ demands in such situations could negatively affect our relationships with such customers and result in a loss of future business, which would adversely affect our operating results and financial condition. In addition, salvage revenues generated as a result of the total loss of vehicles associated with such a catastrophe are typically recognized subsequent to the incurrence of incremental costs and such revenues may not be sufficient to offset the costs incurred.

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer vehicles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle inventories, which would be expected to have an adverse effect on our revenue and operating results and related growth rates.

A portion of our net income is derived from our international operations, primarily Canada, which exposes us to foreign exchange risks that may impact our financial statements. In addition, increases in the value of the U.S. dollar relative to certain foreign currencies may negatively impact foreign buyer participation at our auctions.

Fluctuations between U.S. and foreign currency values may adversely affect our results of operations and financial position, particularly fluctuations with Canadian currency values. In addition, there may be tax inefficiencies in repatriating cash from Canada. Approximately 11% of our revenues were attributable to our Canadian operations for the year ended December 31, 2017. A decrease in the value of the Canadian currency relative to the U.S. dollar would reduce our profits from Canadian operations and the value of the net assets of our Canadian operations when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars. A 1% decrease in the average Canadian exchange rate for the year ended December 31, 2017 would have impacted net income by approximately $1.1 million.

In addition, fluctuations in exchange rates may make it more difficult to perform period-to-period comparisons of our reported results of operations. For purposes of accounting, the assets and liabilities of our Canadian operations are translated using period-end exchange rates; such translation gains and losses are reported in “Accumulated other comprehensive income/loss” as a component of stockholders’ equity. The revenues and expenses of our Canadian operations are translated using average exchange rates during each period.

Likewise, we have a significant number of non-U.S. based buyers who participate in our auctions. Increases in the value of the U.S. dollar relative to these buyers’ local currencies may reduce the prices they are willing to pay at auction, which may negatively affect our revenues.

Increases in fuel prices could lead to a reduction in miles driven and may have an adverse effect on our revenues and operating results, as well as our earnings growth rates.

Increased fuel prices could lead to a reduction in the miles driven per vehicle, which may reduce accident rates. Increases in fuel prices may also disproportionately affect the demand for sports cars, luxury vehicles, sport utility and full-sized vehicles which are generally not as fuel-efficient as smaller vehicles. Retail sales and accident rates are factors that affect the number of used and salvage vehicles sold at auction, wholesale prices of those vehicles and the conversion rates at used vehicle auctions. Additionally, higher fuel costs increase the cost of transportation and towing of vehicles and we may not be able to pass on such higher costs to our customers.

Environmental, health and safety risks could adversely affect our operating results and financial condition.

Our operations are subject to various foreign, federal, state and local environmental, health and safety laws and regulations, including those governing the emission or discharge of pollutants into the air or water, the generation, treatment, storage and release of hazardous materials and wastes and the investigation and remediation of contamination. Our failure to comply with current or future environmental, health or safety laws or to obtain and comply with permits required under such laws, could subject us to significant liability or require costly investigative, remedial or corrective actions.

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In the used vehicle remarketing industry, large numbers of vehicles, including wrecked vehicles at salvage auctions, are stored and/or refurbished at auction facilities and during that time minor releases of fuel, motor oil and other materials may occur. We have investigated or remediated, or are currently investigating or remediating, contamination resulting from various sources, including gasoline, fuel additives (such as methyl tertiary butyl ether, or MTBE), motor oil, petroleum products and other hazardous materials released from aboveground or underground storage tanks or in connection with current or former operations conducted at our facilities. We have incurred and may in the future incur expenditures relating to releases of hazardous materials, investigative, remedial or corrective actions, claims by third parties and other environmental issues, and such expenditures, individually or in the aggregate, could be significant.

Federal and state environmental authorities are currently investigating IAA's role in contributing to contamination at the Lower Duwamish Waterway Superfund Site in Seattle, Washington. IAA's potential liability at this site cannot be estimated at this time. See Item 3, "Legal Proceedings" for a further discussion of this matter.

We have a substantial amount of debt, which could impair our financial condition and adversely affect our ability to react to changes in our business.

As of December 31, 2017, our total corporate debt was approximately $2.7 billion, exclusive of liabilities related to our securitization facilities which are not secured by the general assets of KAR, and we had $350.0 million of borrowing capacity under our senior secured credit facilities. In addition, we had related outstanding letters of credit in the aggregate amount of $42.8 million at December 31, 2017, which would reduce the $350.0 million available for borrowings under the credit facilities.

Our indebtedness could have important consequences including:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, debt service requirements, execution of our business strategy, acquisitions and other purposes;

- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on debt, which would reduce the funds available for other purposes, including funding future expansion;

- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult to react quickly to, changing conditions; and

- exposing us to risks inherent in interest rate fluctuations because the majority of our indebtedness is at variable rates of interest, which could result in higher interest expenses in the event of increases in interest rates.

In addition, if we are unable to generate sufficient cash from operations to service our debt and meet other cash needs, we may be forced to reduce or delay capital expenditures, suspend or eliminate dividends, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We may not be able to refinance our debt or sell additional debt or equity securities or our assets on favorable terms, if at all, particularly because of our high levels of debt and the restrictions imposed by the agreement governing our Credit Facility and the indenture governing our senior notes on our ability to incur additional debt and use the proceeds from asset sales. If we must sell certain of our assets, it may negatively affect our ability to generate revenue. The inability to obtain additional financing could have a material adverse effect on our financial condition.

If we cannot make scheduled payments on our debt, we would be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our senior secured credit facilities could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and
- we could be forced into bankruptcy or liquidation.

Furthermore, the agreement governing our Credit Facility and the indenture governing our senior notes include, and future debt instruments may include, certain restrictive covenants which could limit our ability to enter into certain transactions in the future and may adversely affect our ability to operate our business.

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Future changes to U.S. tax laws, if adopted, could have an adverse effect on our business, financial condition, results of operations and cash flows.

The enactment of the Tax Cuts and Jobs Act of 2017 significantly reduced the Company's income taxes beginning in 2018. However, from time to time legislative proposals are made that would, if enacted, make significant changes to U.S. tax laws, including changes to U.S. corporate tax rates. Such proposed changes in the U.S. tax laws, if adopted, or other similar changes that reduce or eliminate deductions currently available to us, could adversely affect our business, financial condition, results of operations and cash flows.

Changes in interest rates or market conditions could adversely impact the profitability and business of AFC.

Rising interest rates may have the effect of depressing the sales of used vehicles because many consumers finance their vehicle purchases. In addition, AFC securitizes a majority of its finance receivables on a revolving basis. Volatility and/or market disruption in the asset-backed securities market in the United States or Canada can impact AFC’s cost of financing related to, or its ability to arrange financing on acceptable terms through, its securitization facility, which could negatively affect AFC’s business and our financial condition and operations.

We assume the settlement risk for all vehicles sold through our auctions.

We do not have recourse against sellers for any buyer’s failure to satisfy its payment obligations. Since revenue for most vehicles does not include the gross sales proceeds, failure to collect the receivables in full may result in a net loss up to the gross sales proceeds on a per vehicle basis in addition to any expenses incurred to collect the receivables and to provide the services associated with the vehicle. If we are unable to collect payments on a large number of vehicles, the resulting payment obligations to the seller and decreased fee revenues may have a material adverse effect on our results of operations and financial condition.

Changes in laws affecting the importation of salvage vehicles may have an adverse effect on our business and financial condition.

Our Internet-based auction services have allowed us to offer our products and services to international markets and has increased our international buyer base. As a result, foreign buyers of salvage vehicles now represent a significant part of our total buyer base. Changes in laws and regulations that restrict the importation of salvage vehicles into foreign countries may reduce the demand for salvage vehicles and impact our ability to maintain or increase our international buyer base. For example, a decree issued by the president of Mexico has placed restrictions on the types of vehicles that can be imported into Mexico from the United States. The adoption of similar laws or regulations in other jurisdictions that have the effect of reducing or curtailing our activities abroad could have a material adverse effect on our results of operations and financial condition by reducing the demand for our products and services.

We are subject to extensive governmental regulations, including vehicle brokerage and auction laws and currency reporting obligations. Our business is subject to risks related to litigation and regulatory actions.

Our operations are subject to regulation, supervision and licensing under various federal, state, provincial and local authorities, agencies, statutes and ordinances, which, among other things, require us to obtain and maintain certain licenses, permits and qualifications, provide certain disclosures and notices and limit interest rates, fees and other charges. The regulations and laws that impact our company include, without limitation, the following:

- The acquisition and sale of used, leased, totaled and recovered theft vehicles are regulated by state or other local motor vehicle departments in each of the locations in which we operate.

- Some of the transport vehicles used at our auctions are regulated by the U.S. Department of Transportation or similar regulatory agencies in the other countries in which we operate.

- In many states and provinces, regulations require that a salvage vehicle be forever “branded” with a salvage notice in order to notify prospective purchasers of the vehicle’s previous salvage status.

- Some state, provincial and local regulations limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts or scrap only.

- AFC is subject to laws in certain states and in Canada which regulate commercial lending activities and interest rates and, in certain jurisdictions, require AFC or one of its subsidiaries to be licensed.

- PWI is subject to laws, regulations and insurance licensing requirements in certain states which are applicable to the sale of vehicle service contracts.

- We are subject to various local zoning requirements with regard to the location of our auction and storage facilities, which requirements vary from location to location.

- Certain of the Company's subsidiaries are indirectly subject to the regulations of the Consumer Financial Protection Act of 2010, or the CFPA, due to their vendor relationships with financial institutions.

- PAR is subject to laws in certain states which regulate repossession administration activities and, in certain jurisdictions, require PAR to be licensed.

- We deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations.

Changes in law or governmental regulations or interpretations of existing law or regulations could result in increased costs, reduced vehicle prices and decreased profitability for us. In addition, failure to comply with present or future laws and regulations or changes in existing laws or regulations or in their interpretation could have a material adverse effect on our operating results and financial condition.

We are also subject from time to time to a variety of legal actions relating to our current and past business operations, including litigation relating to employment-related issues, the environment and personal injury claims. There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. In addition, we could incur substantial costs in defending ourselves or in asserting our rights in such actions. The costs and other effects of pending litigation and administrative actions against us cannot be determined with certainty. Although we currently believe that no such proceedings will have a material adverse effect, there can be no assurance that the outcome of such proceedings will be as expected.

We are partially self-insured for certain losses.

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers’ compensation claims. We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers’ compensation claims based upon the expected amount of all such claims. If actual trends, including the severity of claims and medical cost inflation above expectations were to occur, our self-insured costs would increase, which could have an adverse impact on the operating results in that period.

We are dependent on the continued and uninterrupted service from our workforce.

While there are currently no collective bargaining agreements in effect, a group of employees, representing less than 1% of our total employees, are negotiating a collective bargaining agreement. If this agreement were to expand, we could be subject to a substantial increase in labor and benefits expenses that we may be unable to pass through to customers for some period of time, if at all.

We have a material amount of goodwill which, if it becomes impaired, would result in a reduction in our net income.

Goodwill represents the amount by which the cost of an acquisition accounted for using the purchase method exceeds the fair value of the net assets acquired. Current accounting standards require that goodwill no longer be amortized but instead be periodically evaluated for impairment based on the fair value of the reporting unit. A significant percentage of our total assets represents goodwill. Declines in our profitability or the value of comparable companies may impact the fair value of our reporting units, which could result in a write-down of goodwill and a reduction in net income.

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New accounting pronouncements or new interpretations of existing standards could require us to make adjustments to accounting policies that could adversely affect the financial statements.

The Financial Accounting Standards Board, or the FASB, the Public Company Accounting Oversight Board, the SEC, and other accounting organizations or governmental entities from time to time issue new pronouncements or new interpretations of existing accounting and auditing standards that require changes to our accounting policies and procedures and could cause us to incur additional costs. To date, we do not believe any new pronouncements or interpretations have had a material adverse effect on our financial condition or results of operations, but future pronouncements or interpretations could require the change of policies or procedures.

Risks Related to Ownership of Our Common Stock

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

You should consider an investment in our common stock to be risky, and you should invest in our common stock only if you can withstand a significant loss and wide fluctuations in the market value of your investment. Many factors could cause the market price of our common stock to rise and fall, including the following:

- our announcements or our competitors' announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- changes in earnings estimates or recommendations by securities analysts, if any, who cover our common stock;
- results of operations that are below our announced guidance or below securities analysts' or consensus estimates or expectations;
- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in our capital structure, such as future issuances of securities, sales of large blocks of common stock by our stockholders or our incurrence of additional debt;
- repurchases of our common stock pursuant to our share repurchase program;
- investors' general perception of us and our industry;
- changes in general economic and market conditions;
- changes in industry conditions; and
- changes in regulatory and other dynamics.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if successfully defended, could be costly to defend and a distraction to management.

Future offerings of debt or equity securities, which would rank senior to our common stock, may adversely affect the market price of our common stock.

If, in the future, we decide to issue debt or equity securities that rank senior to our common stock, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

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The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public market.

Future sales by us or by our existing stockholders of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. These sales also could impede our ability to raise future capital. Under our amended and restated certificate of incorporation, we are authorized to issue up to 400,000,000 shares of common stock, of which 134,315,118 shares of common stock were outstanding as of December 31, 2017. In addition, pursuant to a registration statement under the Securities Act, we have registered shares of common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of our employees. If any of these holders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. We cannot predict the size of future sales of shares of our common stock or the effect, if any, that future sales, or the perception that such sales may occur, would have on the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and by-laws, and of Delaware law, may prevent or delay an acquisition of us, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation and by-laws contain provisions that may be considered to have an anti-takeover effect and may delay or prevent a tender offer or other corporate transaction that a stockholder might consider to be in its best interest, including those transactions that might result in a premium over the market price for our shares.

These provisions include:

- rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;
- permitting our board of directors to issue preferred stock without stockholder approval;
- granting to the board of directors, and not the stockholders, the sole power to set the number of directors;
- authorizing vacancies on our board of directors to be filled only by a vote of the majority of the directors then in office and specifically denying our stockholders the right to fill vacancies in the board;
- authorizing the removal of directors only upon the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote for the election of directors; and
- prohibiting stockholder action by written consent.

These provisions apply even if an offer may be considered beneficial by some stockholders.

You may not receive any future dividends on our common stock.

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are not required to declare cash dividends on our common stock. 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, the indenture governing our senior notes and AFC’s securitization facilities, capital requirements and other factors that our board of directors deems relevant. Therefore, no assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

Our share repurchase program could affect the price of our common stock and increase volatility. In addition, it may be suspended or discontinued at any time, which could result in a decrease in the trading price of our common stock.

Repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. There can be no assurance that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased the shares of common stock. Although our share repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness. Furthermore, the program does

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not obligate the Company to repurchase any dollar amount or number of shares of common stock, and may be suspended or discontinued at any time, which could cause the market price of our stock to decline.

In October 2016, our board of directors authorized a repurchase of up to $500 million of the Company’s outstanding common stock through October 26, 2019. As of December 31, 2017, approximately $230.3 million of the Company's common stock had been repurchased under the October 2016 authorization. No assurance can be given as to whether the board of directors will authorize additional shares for repurchase, which could cause the market value of our stock to decline.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

The corporate headquarters of KAR Auction Services, ADESA and AFC are located in Carmel, Indiana. The facilities are leased properties, with office space being leased in each case through 2019. The Company has entered into an agreement with a real estate developer to build a new corporate office in Carmel, Indiana, with the lease expected to begin in 2019. At December 31, 2017, properties utilized by the ADESA business segment include 75 used vehicle auction facilities in North America, which are either owned or leased. Each auction is generally a multi-lane, drive-through facility, and may have additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles. The ADESA facilities in North America consist on average of approximately 70 acres of land per site.

IAA is headquartered in Westchester, Illinois, with office space being leased through 2027. At December 31, 2017, properties utilized by the IAA business segment include 175 salvage vehicle auction facilities in the United States and Canada, most of which are leased. IAA also includes HBC, which operates from 11 locations in the United Kingdom. Salvage auctions are generally smaller than used vehicle auctions in terms of acreage and building size and some locations share facilities with ADESA. The IAA North American properties are used primarily for auction and storage purposes consisting on average of approximately 30 acres of land per site.

Of AFC's 128 locations in North America at December 31, 2017, 93 are physically located at auction facilities (including 62 at ADESA and 13 at IAA). Each of the remaining AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its branches.

We regularly evaluate our capacity in all our markets and where appropriate, seek to increase capacity through the acquisition of additional land and facilities. Capacity at our facilities varies from period to period and by region as a result of various factors, including natural disasters.

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Item 3. 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.

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.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Record

KAR Auction Services' common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KAR" and has been traded on the NYSE since December 11, 2009. As of February 15, 2018, there were two stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by the holders of record.

The following table sets forth the range of high and low intraday sales prices per share of common stock for each quarter during fiscal years 2017 and 2016:

	2017		2016	
	High	Low	High	Low
4th Quarter (October 1 - December 31)	$51.52	$46.50	$44.10	$38.16
3rd Quarter (July 1 - September 30)	$47.95	$40.27	$43.91	$40.23
2nd Quarter (April 1 - June 30)	$45.25	$41.25	$41.76	$35.68
1st Quarter (January 1 - March 31)	$47.03	$42.74	$38.44	$31.54

Dividend Policy

The following table presents the dividends declared per share of common stock for each quarter during fiscal years 2017 and 2016:

	2017	2016
4th Quarter (October 1 - December 31)	$0.35	$0.32
3rd Quarter (July 1 - September 30)	$0.32	$0.29
2nd Quarter (April 1 - June 30)	$0.32	$0.29
1st Quarter (January 1 - March 31)	$0.32	$0.29

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, the indenture governing our senior notes and AFC's securitization facilities, capital requirements and other factors that our board of directors deems relevant. The restrictive covenants are further described in "Management's Discussion and Analysis of Financial Condition and Results of Operations." No assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

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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 December 31, 2017:

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) (Dollars in millions)
October 1 - October 31	—	$ —	—	$ 319.6
November 1 - November 30	1,029,600	48.56	1,029,600	269.7
December 1 - December 31	—	—	—	269.7
Total	1,029,600	$ 48.56	1,029,600	

(1) In October 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.

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Stock Price Performance Graph

The graph below shows the cumulative total stockholder return, assuming an investment of $100 and dividend reinvestment, for the period beginning on December 31, 2012 and ending on December 31, 2017, on each of KAR Auction Services' common stock, the Standard & Poor's 400 Midcap Index and the Standard and Poor's 500 Index. Our stock price performance shown in the following graph is not indicative of future stock price performance.

Company/Index	Base Period 12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
KAR Auction Services, Inc.	$ 100	$ 152.97	$ 182.83	$ 201.12	$ 238.16	$ 290.68
S&P 400 Midcap Index	$ 100	$ 133.50	$ 146.55	$ 143.36	$ 173.09	$ 201.20
S&P 500 Index	$ 100	$ 132.39	$ 150.51	$ 152.59	$ 170.84	$ 208.14

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Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the audited consolidated financial statements and related notes thereto of KAR Auction Services, Inc. and other financial information included elsewhere in this Annual Report on Form 10-K.

Selected Financial Data of KAR Auction Services, Inc.

For the Years Ended December 31, 2017, 2016, 2015, 2014 and 2013

The following consolidated financial data for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 is based on our audited financial statements.

	Year Ended December 31,				
(Dollars in millions except per share amounts)	2017	2016	2015	2014	2013
Operations:					
Operating revenues					
ADESA	$1,937.5	$1,765.3	$1,427.8	$1,271.0	$1,165.5
IAA	1,219.2	1,098.0	994.4	895.9	830.0
AFC	301.3	286.8	268.4	250.1	224.7
Total operating revenues	$3,458.0	$3,150.1	$2,690.6	$2,417.0	$2,220.2
Operating expenses (exclusive of depreciation and amortization)	2,627.4	2,410.5	2,050.5	1,842.7	1,769.1
Operating profit	566.0	499.0	427.3	377.7	256.7
Interest expense	164.0	138.8	91.4	86.2	104.7
Net income	362.0	222.4	214.6	169.3	67.7
Net income per share					
Basic	2.66	1.62	1.53	1.21	0.49
Diluted	2.62	1.60	1.51	1.19	0.48
Weighted average shares outstanding					
Basic	136.3	137.6	140.1	140.2	137.9
Diluted	138.0	139.1	142.3	141.8	140.8
Cash dividends declared per common share	1.31	1.19	1.08	1.02	0.82

	As of December 31,				
	2017	2016	2015	2014	2013
Financial Position:					
Working capital [(1)]	$748.2	$506.2	$232.2	$490.2	$366.0
Total assets	6,984.3	6,557.6	5,771.5	5,334.8	5,089.3
Total debt, net of unamortized debt issuance costs/discounts	2,680.1	2,470.3	1,865.1	1,743.5	1,738.4
Total stockholders' equity	1,484.9	1,397.3	1,386.1	1,547.1	1,481.8

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Other Financial Data:					
Net cash provided by operating activities [(2)]	$588.8	$378.0	$482.1	$435.4	$441.6
Capital expenditures	152.2	155.1	134.7	101.0	96.6
Depreciation and amortization	264.6	240.6	212.8	196.6	194.4

(1) Working capital is defined as current assets less current liabilities.

(2) Amounts prior to 2017 have been adjusted to reflect the adoption of ASU 2016-09. The update required recognition of excess tax benefits and tax deficiencies related to employee stock-based compensation within income tax expense. As a result, excess tax benefits from stock-based compensation were reclassified from cash flows provided by financing activities to cash flows provided by operating activities. For further information, see Note 2 to the Consolidated Financial Statements, included elsewhere in this Annual Report on Form 10-K.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

Forward-Looking Statements

This Annual Report on Form 10-K 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-K 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; tax rates and assumptions; 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" of this Annual Report on Form 10-K. Some of these factors include:

- our ability to effectively maintain or update information and technology systems;
- our ability to implement and maintain measures to protect against cyber-attacks;
- significant current competition and the introduction of new competitors;
- competitive pricing pressures;
- our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;
- our ability to meet or exceed customers' expectations, as well as develop and implement information systems responsive to customer needs;
- business development activities, including greenfields, acquisitions and integration of acquired businesses;
- costs associated with the acquisition of businesses or technologies;
- 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;
- any losses of key personnel;
- our ability to obtain land or renew/enter into new leases at commercially reasonable rates;
- decreases in the number of used vehicles sold at physical auctions;
- changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;
- 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;

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- our ability to maintain our brand and protect our intellectual property;
- 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;
- our substantial amount of debt;
- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- 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, including the Quarterly Reports on Form 10-Q to be filed by us in 2018.

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 75 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, 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 175 salvage vehicle auction sites in the United States and Canada at December 31, 2017. IAA also includes HBC, which operates from 11 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. Another important component of the IAA service offering is the ability to process large volumes of

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total loss vehicles in a short period of time following catastrophic events such as hurricanes, tornadoes, floods, hail storms, fires or other natural disasters.

• The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At December 31, 2017, AFC conducted business at 128 locations in the United States and Canada. The Company also sells vehicle service contracts through Preferred Warranties, Inc. ("PWI").

The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate offices, 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 9.9 million, 10.6 million and an estimated 11.1 million in 2015, 2016 and 2017, respectively. We expect that used vehicle auction volumes in North America, including online only volumes, will be over 11 million units in 2018, 2019 and 2020. Our estimates are based on information from the Bureau of Economic Analysis, IHS Automotive, Kontos Total Market Estimates, NAAA's annual survey and management estimates.

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 18% in 2017, 17% in 2016 and 16% in 2015. 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. We believe that salvage auction industry volumes will grow 5% to 7% annually, for the foreseeable future.

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, proceeds, revenue and gross profit at salvage auctions may be negatively impacted, which could adversely affect the level of profitability. During 2017, the price per ton of crushed auto bodies in North America ranged from $156 to $188 and finished December 2017 at $170. For comparison, during 2016, the price per ton of crushed auto bodies in North America ranged from $109 to $188 and finished December 2016 at $136.

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. AFC's North American dealer base has grown since 2009 from over 9,700 dealers to approximately 15,400 dealers in 2017 and loan transactions, which includes both loans paid off and loans curtailed, grew from approximately 800,000 in 2009 to approximately 1,700,000 in 2017. As a result of this increased activity and increases in new and used vehicle sales, AFC continues to experience increased competition.

Key challenges for the independent used vehicle dealer include demand for used vehicles, disruptions in pricing of used vehicle inventory, lack of access to consumer financing and increased competition resulting from consolidation in the used vehicle dealer industry. 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.

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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.

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 purchased, 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.

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Results of Operations

Overview of Results of KAR Auction Services, Inc. for the Years Ended December 31, 2017 and 2016:

	Year Ended December 31,	
(Dollars in millions except per share amounts)	2017	2016
Revenues		
ADESA	$1,937.5	$1,765.3
IAA	1,219.2	1,098.0
AFC	301.3	286.8
Total revenues	3,458.0	3,150.1
Cost of services*	1,987.2	1,827.4
Gross profit*	1,470.8	1,322.7
Selling, general and administrative	640.2	583.1
Depreciation and amortization	264.6	240.6
Operating profit	566.0	499.0
Interest expense	164.0	138.8
Other income, net	(1.9)	(0.5)
Loss on extinguishment of debt	27.5	5.4
Gain on previously held equity interest value	(21.6)	—
Income before income taxes	398.0	355.3
Income taxes	36.0	132.9
Net income	$362.0	$222.4
Net income per share		
Basic	$2.66	$1.62
Diluted	$2.62	$1.60

* Exclusive of depreciation and amortization

Overview

For the year ended December 31, 2017, we had revenue of $3,458.0 million compared with revenue of $3,150.1 million for the year ended December 31, 2016, an increase of 10%. Businesses acquired accounted for an increase in revenue of $89.6 million or 3% of revenue. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization increased $24.0 million, or 10%, to $264.6 million for the year ended December 31, 2017, compared with $240.6 million for the year ended December 31, 2016. 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 2016 and 2017.

Interest Expense

Interest expense increased $25.2 million, or 18%, to $164.0 million for the year ended December 31, 2017, compared with $138.8 million for the year ended December 31, 2016. The increase was primarily attributable to an increase of approximately $273 million in the average outstanding balance of corporate debt for the year ended December 31, 2017 compared with the year ended December 31, 2016, as well as an increase in the weighted average interest rate for the same period of approximately 0.24%. In addition, there was an increase in interest expense at AFC of $9.5 million, which resulted from an increase in interest rates, increased borrowings and increased committed liquidity under the U.S. securitization agreement for the year ended December 31, 2017 as compared with the year ended December 31, 2016.

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Loss on Extinguishment of Debt
In May 2017, we amended our Credit Agreement and recorded a $27.5 million pretax charge resulting from the write-off of unamortized debt issue costs and debt discounts associated with Term Loan B-2 and Term Loan B-3.
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 2014/2015 revolving credit facility. Additionally, in December 2016, we recorded a $1.4 million pretax charge primarily resulting from the write-off of a portion of unamortized securitization issuance costs associated with AFC's Receivables Purchase Agreement.
Gain on Previously Held Equity Interest Value
In October 2017, we acquired the remaining 50% interest in TradeRev and our previously held 50% interest was re-measured at fair value, resulting in a gain of $21.6 million.
Income Taxes
We had an effective tax rate of 9.0% for the year ended December 31, 2017, compared with an effective tax rate of 37.4% for the year ended December 31, 2016. Our effective tax rate was lower for the year ended December 31, 2017 as compared with the year ended December 31, 2016, primarily as a result of the enactment of the Tax Cuts and Jobs Act of 2017 in the fourth quarter of 2017. As a result, we recognized a tax benefit of $102.7 million relating to the re-measurement of deferred tax assets and liabilities and $11.1 million of expense associated with a one-time deemed repatriation transition tax on the accumulated unrepatriated and untaxed earnings of our foreign subsidiaries that is payable over 8 years. We also recognized $6.4 million of excess tax benefits from employee stock-based compensation as a discrete item in our income tax expense for the year ended December 31, 2017. Additionally, the effective tax rate for the year ended December 31, 2017 was favorably impacted by a reduction in income taxes on undistributed foreign earnings.
Impact of Foreign Currency
The strengthening of the Canadian dollar has impacted the reporting of our Canadian operations in U.S. dollars. For the year ended December 31, 2017, fluctuations in the Canadian exchange rate increased revenue by $7.6 million, operating profit by $2.7 million, net income by $1.6 million and net income per diluted share by $0.01.
ADESA Results

	Year Ended December 31,	
(Dollars in millions, except per vehicle amounts)	2017	2016
ADESA revenue	$1,937.5	$1,765.3
Cost of services*	1,123.9	1,036.5
Gross profit*	813.6	728.8
Selling, general and administrative	360.0	327.0
Depreciation and amortization	113.1	100.0
Operating profit	$340.5	$301.8
Vehicles sold	3,180,000	2,885,000
Physical auction vehicles sold	2,242,000	2,142,000
Online only vehicles sold	938,000	743,000
Dealer consignment mix at physical auctions	45 %	48 %
Conversion rate at North American physical auctions	60.4 %	58.0 %
Physical auction revenue per vehicle sold, excluding purchased vehicles	$775	$753
Online only revenue per vehicle sold, excluding ADESA Assurance Program vehicles	$113	$110

* Exclusive of depreciation and amortization
Revenue
Revenue from ADESA increased $172.2 million, or 10%, to $1,937.5 million for the year ended December 31, 2017, compared with $1,765.3 million for the year ended December 31, 2016. The increase in revenue was primarily a result of a 10%

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increase in the number of vehicles sold (5% increase excluding acquisitions), partially offset by a less than 1% decrease in average revenue per vehicle sold as the mix of vehicles sold online increased as compared to the number of vehicles sold at physical auction. Businesses acquired accounted for an increase in revenue of $89.6 million. Revenue increased $5.5 million due to fluctuations in the Canadian exchange rate.

The increase in vehicles sold was primarily attributable to a 15% increase in institutional volume (11% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 1% increase in dealer consignment units sold (7% decrease excluding acquisitions) for the year ended December 31, 2017 compared with the year ended December 31, 2016. Online sales volume for ADESA represented approximately 45% of the total vehicles sold in 2017, compared with approximately 42% in 2016. "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) vehicles sold on the TradeRev platform; (iv) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock®); and (v) bulletin-board or real-time online auctions (DealerBlock®). Upstream selling, midstream selling and TradeRev sales, which represent online only sales, accounted for approximately 66% of ADESA's online sales volume. ADESA sold approximately 938,000 and 743,000 vehicles (including 2% from acquisitions in the fourth quarter of 2017) through its online only offerings in 2017 and 2016, respectively, of which approximately 471,000 and 385,000 represented vehicle sales to grounding dealers in 2017 and 2016, respectively. For the year ended December 31, 2017, dealer consignment vehicles represented approximately 45% of used vehicles sold at ADESA physical auction locations, compared with approximately 48% for the year ended December 31, 2016. Vehicles sold at physical auction locations increased 5% (2% decrease excluding acquisitions) in 2017, compared with 2016. 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 60.4% for the year ended December 31, 2017, compared with 58.0% for the year ended December 31, 2016.

Physical auction revenue per vehicle sold increased $22, or 3%, to $775 for the year ended December 31, 2017, compared with $753 for the year ended December 31, 2016. 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 and excludes the sale of purchased vehicles. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in auction fees related to higher average transaction prices and lower margin ancillary and other related services revenue and an increase in physical auction revenue per vehicle sold of $2 due to fluctuations in the Canadian exchange rate.

Online only auction revenue per vehicle sold increased $6 to $130 for the year ended December 31, 2017, compared with $124 for the year ended December 31, 2016. 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 the inclusion of TradeRev sales. Excluding vehicles purchased as part of the ADESA Assurance Program, online only revenue per vehicle would have been $113 and $110 for the year ended December 31, 2017 and 2016, respectively. The $3 increase in online only revenue per vehicle was attributable to increased revenue per vehicle for units sold on the TradeRev platform.

Gross Profit

For the year ended December 31, 2017, gross profit for ADESA increased $84.8 million, or 12%, to $813.6 million, compared with $728.8 million for the year ended December 31, 2016. Gross profit for ADESA was 42.0% of revenue for the year ended December 31, 2017, compared with 41.3% of revenue for the year ended December 31, 2016. The increase in gross profit percentage was mainly attributable to the increased mix of online only volume. Online only sales have a higher gross profit percentage than physical auction sales.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $33.0 million, or 10%, to $360.0 million for the year ended December 31, 2017, compared with $327.0 million for the year ended December 31, 2016, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $27.7 million, compensation expense of $7.1 million, stock-based compensation expense of $2.6 million, information technology costs of $2.4 million, benefit-related expenses of $1.0 million, fluctuations in the Canadian exchange rate of $1.0 million and other miscellaneous expenses aggregating $4.6 million, partially offset by decreases in bad debt expense of $4.5 million, incentive-based compensation expense of $4.4 million, marketing expenses of $2.5 million and professional fees of $2.0 million.

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IAA Results

	Year Ended December 31,	
(Dollars in millions)	2017	2016
IAA revenue	$1,219.2	$1,098.0
Cost of services*	778.1	708.0
Gross profit*	441.1	390.0
Selling, general and administrative	107.1	104.2
Depreciation and amortization	93.1	87.9
Operating profit	$240.9	$197.9
Vehicles sold	2,369,000	2,184,000

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $121.2 million, or 11%, to $1,219.2 million for the year ended December 31, 2017, compared with $1,098.0 million for the year ended December 31, 2016. The increase in revenue was a result of an increase in vehicles sold of approximately 8% for the year ended December 31, 2017. Revenue per vehicle sold increased 2% for the year ended December 31, 2017 compared with the year ended December 31, 2016, and included an increase in revenue of $1.7 million due to fluctuations in the Canadian exchange rate, partially offset by a decrease of $13.7 million from HBC and a decrease in revenue of $2.0 million due to fluctuations in the U.K. exchange rate. IAA's North American same-store total loss vehicle inventory increased approximately 3% at December 31, 2017, as compared to December 31, 2016, in part related to recent catastrophic events. Vehicles sold under purchase agreements were approximately 5% and 7% of total salvage vehicles sold for the year ended December 31, 2017 and 2016, respectively. North American online sales volumes for IAA for the years ended December 31, 2017 and 2016 represented approximately 60% of the total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2017, gross profit at IAA increased to $441.1 million, or 36.2% of revenue, compared with $390.0 million, or 35.5% of revenue, for the year ended December 31, 2016. The increase in gross profit was mainly attributable to an 11% increase in revenue, partially offset by a 10% increase in cost of services, which included costs associated with purchase contract vehicles, costs incurred to store and process vehicles for Hurricanes Harvey and Irma and organic volume growth.

Excluding HBC, IAA's gross profit margin was 36.9% and 36.7% for the year ended December 31, 2017 and 2016, respectively. For the year ended December 31, 2017 and 2016, HBC had revenue of approximately $37.9 million and $51.6 million, respectively, and cost of services of approximately $32.2 million and $45.8 million, respectively, as fewer of HBC's vehicles were sold under purchase contracts. The entire selling price of the vehicle is recorded as revenue and cost of services for purchase contracts.

IAA sold over 65,000 vehicles and recorded approximately $45.1 million of revenue and a $0.3 million gross loss for the year ended December 31, 2017 related to catastrophic events in Texas and Florida. Excluding these events (and HBC as noted above), IAA's gross profit margin was 38.3% for the year ended December 31, 2017. IAA incurred significant costs in Texas and Florida in response to Hurricanes Harvey and Irma. Costs were incurred for real estate, security, lot operations and related support. These costs were incurred in advance of revenue. IAA recovered these excess costs incurred as vehicles were sold in 2017 and expects to recover the remainder of these excess costs in the first quarter of 2018.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $2.9 million, or 3%, to $107.1 million for the year ended December 31, 2017, compared with $104.2 million for the year ended December 31, 2016. The increase in selling, general and administrative expenses was primarily attributable to an increase in compensation expense of $3.2 million, incentive-based compensation expense of $2.1 million and stock-based compensation expense of $1.3 million, partially offset by decreases in employee related expenses of $1.5 million, bad debt expense of $0.9 million and other miscellaneous expenses aggregating $1.3 million.

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AFC Results

(Dollars in millions except volumes and per loan amounts)	Year Ended December 31, 2017	2016
AFC revenue		
Interest and fee income	$290.3	$ 275.1
Other revenue	11.8	10.3
Provision for credit losses	(33.9)	(30.7)
Other service revenue	33.1	32.1
Total AFC revenue	301.3	286.8
Cost of services*	85.2	82.9
Gross profit*	216.1	203.9
Selling, general and administrative	30.9	28.7
Depreciation and amortization	31.3	31.1
Operating profit	$153.9	$ 144.1
Loan transactions	1,688,000	1,718,000
Revenue per loan transaction, excluding "Other service revenue"	$159	$ 148

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2017, AFC revenue increased $14.5 million, or 5%, to $301.3 million, compared with $286.8 million for the year ended December 31, 2016. The increase in revenue was the result of a 7% increase in revenue per loan transactions and an increase of 3% in "Other service revenue" generated by PWI, partially offset by a decrease in loan transactions of 2%. The increase in revenue and revenue per loan transaction included the impact of an increase in revenue of $0.4 million due to fluctuations in the Canadian exchange rate. In addition, managed receivables increased to $1,912.6 million at December 31, 2017 from $1,792.2 million at December 31, 2016.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $11, or 7%. The provision for credit losses, which is a reduction of revenue, resulted in a reduction of revenue per loan transaction of $2 for the year ended December 31, 2017. The remaining $13 increase in revenue per loan transaction was primarily the result of increases in fee revenue and interest yield as a result of prime rate increases. Revenue per loan transaction excludes "Other service revenue."

The provision for credit losses increased to 1.9% of the average managed receivables for the year ended December 31, 2017 from 1.8% for the year ended December 31, 2016. The provision for credit losses is expected to be under 2%, annually, of the average managed receivables balance. However, the actual losses in any particular quarter could deviate from this range.

Gross Profit

For the year ended December 31, 2017, gross profit for the AFC segment increased $12.2 million, or 6%, to $216.1 million, or 71.7% of revenue, compared with $203.9 million, or 71.1% of revenue, for the year ended December 31, 2016, primarily as a result of a 5% increase in revenue, which includes the increased provision for credit losses, partially offset by a 3% increase in cost of services. The increase in cost of services was the result of increases in compensation expense of $1.7 million, lot checks of $1.1 million and collection costs of $0.9 million, partially offset by decreases in PWI expenses of $1.1 million and other expenses aggregating $0.3 million. The floorplan lending business gross profit margin percentage was 77.6% for the year ended December 31, 2017 and was consistent with the prior year.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $2.2 million, or 8%, to $30.9 million for the year ended December 31, 2017, compared with $28.7 million for the year ended December 31, 2016. The increase was primarily attributable to increases in compensation expense of $0.8 million, stock-based compensation expense of $0.8 million, incentive-based compensation of $0.4 million and an increase in selling, general and administrative costs at PWI of

$0.4 million, partially offset by a decrease in other miscellaneous expenses aggregating $0.2 million.

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Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	2017	2016
Selling, general and administrative	$142.2	$123.2
Depreciation and amortization	27.1	21.6
Operating loss	$(169.3)	$(144.8)

Selling, General and Administrative

For the year ended December 31, 2017, selling, general and administrative expenses at the holding company increased $19.0 million, or 15%, to $142.2 million, compared with $123.2 million for the year ended December 31, 2016, primarily as a result of increases in compensation expense of $11.5 million, information technology costs of $5.7 million, incentive-based compensation expense of $1.7 million and stock-based compensation expense of $1.5 million, partially offset by a decrease in other miscellaneous expenses of $1.4 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 Years Ended December 31, 2016 and 2015:

	Year Ended December 31,	
(Dollars in millions except per share amounts)	2016	2015
Revenues		
ADESA	$1,765.3	$1,427.8
IAA	1,098.0	994.4
AFC	286.8	268.4
Total revenues	3,150.1	2,690.6
Cost of services*	1,827.4	1,548.5
Gross profit*	1,322.7	1,142.1
Selling, general and administrative	583.1	502.0
Depreciation and amortization	240.6	212.8
Operating profit	499.0	427.3
Interest expense	138.8	91.4
Other income, net	(0.5)	(4.6)
Loss on extinguishment of debt	5.4	—
Income before income taxes	355.3	340.5
Income taxes	132.9	125.9
Net income	$222.4	$214.6
Net income per share		
Basic	$1.62	$1.53
Diluted	$1.60	$1.51

* Exclusive of depreciation and amortization

Overview

For the year ended December 31, 2016, we had revenue of $3,150.1 million compared with revenue of $2,690.6 million for the year ended December 31, 2015, an increase of 17%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

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Depreciation and Amortization

Depreciation and amortization increased $27.8 million, or 13%, to $240.6 million for the year ended December 31, 2016, compared with $212.8 million for the year ended December 31, 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 $47.4 million, or 52%, to $138.8 million for the year ended December 31, 2016, compared with $91.4 million for the year ended December 31, 2015. The increase was primarily attributable to the interest associated with Term Loan B-3, the increase in interest rate on Term Loan B-2, as well as the interest associated with outstanding revolver borrowings. In addition, there was an increase in interest expense at AFC of $10.0 million, which resulted from an increase in the average portfolio financed in 2016 as compared with 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 2014/2015 revolving credit facility. Additionally, in December 2016, we recorded a $1.4 million pretax charge primarily resulting from the write-off of a portion of unamortized securitization issuance costs associated with AFC's Receivables Purchase Agreement.

Income Taxes

We had an effective tax rate of 37.4% for the year ended December 31, 2016, compared with an effective tax rate of 37.0% for the year ended December 31, 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 year ended December 31, 2016, fluctuations in the Canadian exchange rate decreased revenue by $11.9 million, operating profit by $4.0 million, net income by $2.3 million and net income per diluted share by $0.02.

ADESA Results

	Year Ended December 31,	
(Dollars in millions, except per vehicle amounts)	2016	2015
ADESA revenue	$1,765.3	$1,427.8
Cost of services*	1,036.5	836.9
Gross profit*	728.8	590.9
Selling, general and administrative	327.0	276.6
Depreciation and amortization	100.0	86.2
Operating profit	$301.8	$228.1
Vehicles sold	2,885,000	2,465,000
Physical auction vehicles sold	2,142,000	1,873,000
Online only vehicles sold	743,000	592,000
Dealer consignment mix at physical auctions	48 %	50 %
Conversion rate at North American physical auctions	58.0 %	58.3 %
Physical auction revenue per vehicle sold, excluding purchased vehicles	$753	$701
Online only revenue per vehicle sold, excluding ADESA Assurance Program vehicles	$110	$102

* Exclusive of depreciation and amortization

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Revenue

Revenue from ADESA increased $337.5 million, or 24%, to $1,765.3 million for the year ended December 31, 2016, compared with $1,427.8 million for the year ended December 31, 2015. The increase in revenue was primarily a result of a 17% increase in the number of vehicles sold (9% increase excluding acquisitions), as well as a 6% increase in revenue per vehicle sold. Businesses acquired in 2016 and 2015 accounted for an increase in revenue of $137.1 million. Revenue decreased $8.5 million due to fluctuations in the Canadian exchange rate.

The increase in volume sold was primarily attributable to a 22% increase in institutional volume (16% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 9% increase in dealer consignment units sold (2% decrease excluding acquisitions) for the year ended December 31, 2016 compared with the year ended December 31, 2015. Online sales volume for ADESA represented approximately 42% of the total vehicles sold in 2016, compared with approximately 40% in 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®). Upstream and midstream selling represent online only sales, which accounted for approximately 63% of ADESA's online sales volume. ADESA sold approximately 743,000 and 592,000 vehicles through its online only offerings in 2016 and 2015, respectively, of which approximately 385,000 and 352,000 represented vehicle sales to grounding dealers in 2016 and 2015, respectively. For the year ended December 31, 2016, dealer consignment vehicles represented approximately 48% of used vehicles sold at ADESA physical auction locations, compared with approximately 50% for the year ended December 31, 2015. Vehicles sold at physical auction locations increased 14% (4% increase excluding acquisitions) in 2016, compared with 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 58.0% and 58.3% for the years ended December 31, 2016 and 2015, respectively.

Physical auction revenue per vehicle sold increased $52, or 7%, to $753 for the year ended December 31, 2016, compared with $701 for the year ended December 31, 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 and excludes the sale of purchased vehicles. 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 $4 due to fluctuations in the Canadian exchange rate.

Online only auction revenue per vehicle sold increased $17 to $124 for the year ended December 31, 2016, compared with $107 for the year ended December 31, 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, online only revenue per vehicle would have been $110 and $102 for the year ended December 31, 2016 and 2015, respectively.

Gross Profit

For the year ended December 31, 2016, gross profit for ADESA increased $137.9 million, or 23%, to $728.8 million, compared with $590.9 million for the year ended December 31, 2015. Gross profit for ADESA was 41.3% of revenue for the year ended December 31, 2016, compared with 41.4% of revenue for the year ended December 31, 2015. The increase in gross profit was mainly attributable to the 17% increase in the number of vehicles sold.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $50.4 million, or 18%, to $327.0 million for the year ended December 31, 2016, compared with $276.6 million for the year ended December 31, 2015, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $27.7 million, compensation expense of $11.8 million, bad debt expense of $5.1 million, information technology costs of $3.3 million, professional fees of $1.9 million, benefit-related expenses of $1.6 million, supply and mailing expenses of $1.5 million and other miscellaneous expenses aggregating $3.8 million, partially offset by a decrease in marketing expenses of $3.1 million, a decrease in the loss on disposal of certain assets of $1.7 million and fluctuations in the Canadian exchange rate of $1.5 million.

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IAA Results

	Year Ended December 31,	
(Dollars in millions)	2016	2015
IAA revenue	$1,098.0	$ 994.4
Cost of services*	708.0	633.6
Gross profit*	390.0	360.8
Selling, general and administrative	104.2	98.1
Depreciation and amortization	87.9	80.8
Operating profit	$197.9	$ 181.9
Vehicles sold	2,184,000	1,970,000

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $103.6 million, or 10%, to $1,098.0 million for the year ended December 31, 2016, compared with $994.4 million for the year ended December 31, 2015, and included an increase in revenue of $25.8 million from HBC (HBC was acquired in June 2015). The increase in revenue was a result of an increase in vehicles sold of approximately 11% (10% excluding HBC) for the year ended December 31, 2016, partially offset by a decrease in revenue of $6.9 million due to fluctuations in the U.K. exchange rate and $2.8 million due to fluctuations in the Canadian exchange rate. Revenue per vehicle sold was consistent year over year. IAA's North American same-store total loss vehicle inventory increased approximately 25% at December 31, 2016, as compared to December 31, 2015, in part related to recent catastrophic events. Vehicles sold under purchase agreements were approximately 7% (5% excluding HBC) and 7% (6% excluding HBC) of total salvage vehicles sold for the year ended December 31, 2016 and 2015, respectively. Online sales volumes for IAA for the years ended December 31, 2016 and 2015 represented approximately 60% of the total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2016, gross profit at IAA increased to $390.0 million, or 35.5% of revenue, compared with $360.8 million, or 36.3% of revenue, for the year ended December 31, 2015. The increase in gross profit was mainly attributable to a 10% increase in revenue, partially offset by a 12% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. Excluding HBC, IAA's gross profit margin was 36.7% and 37.0% for the year ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2016 and 2015, HBC had revenue of approximately $51.6 million and $25.8 million, respectively, and cost of services of approximately $45.8 million and $23.5 million, respectively, as the majority of HBC's vehicles are sold under purchase contracts. HBC accounted for a 0.5% decrease in IAA's gross profit margin percentage for the year ended December 31, 2016.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $6.1 million, or 6%, to $104.2 million for the year ended December 31, 2016, compared with $98.1 million for the year ended December 31, 2015. The increase in selling, general and administrative expenses was primarily attributable to an increase in expenses at HBC of $1.5 million, increases in stock-based compensation expense of $1.3 million, telecom costs of $1.1 million, bad debt expense of $0.9 million, benefit-related expenses of $0.9 million, non-income based taxes of $0.7 million, employee related expenses of $0.4 million, incentive-based compensation of $0.4 million and other miscellaneous expenses aggregating $1.3 million, partially offset by decreases in professional fees of $1.6 million and travel expenses of $0.8 million.

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AFC Results

(Dollars in millions except volumes and per loan amounts)	Year Ended December 31, 2016	2015
AFC revenue		
Interest and fee income	$ 275.1	$ 246.8
Other revenue	10.3	9.7
Provision for credit losses	(30.7)	(16.0)
Other service revenue	32.1	27.9
Total AFC revenue	286.8	268.4
Cost of services*	82.9	78.0
Gross profit*	203.9	190.4
Selling, general and administrative	28.7	27.8
Depreciation and amortization	31.1	30.8
Operating profit	$ 144.1	$ 131.8
Loan transactions	1,718,000	1,607,000
Revenue per loan transaction, excluding "Other service revenue"	$ 148	$ 150

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2016, AFC revenue increased $18.4 million, or 7%, to $286.8 million, compared with $268.4 million for the year ended December 31, 2015. The increase in revenue was the result of a 7% increase in loan transactions and an increase of 15% in "Other service revenue" generated by PWI, partially offset by an increase in the provision for credit losses to 1.8% of the average managed receivables for the year ended December 31, 2016. 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 $1,792.2 million at December 31, 2016 from $1,641.0 million at December 31, 2015.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $2, or 1%, primarily as a result of an increase in the provision for credit losses, a decrease in floorplan fee income per unit 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 increased to 1.8% from 1.1% of the average managed receivables for the year ended December 31, 2016 compared with the year ended December 31, 2015.

Gross Profit

For the year ended December 31, 2016, gross profit for the AFC segment increased $13.5 million, or 7%, to $203.9 million, or 71.1% of revenue, compared with $190.4 million, or 70.9% of revenue, for the year ended December 31, 2015, primarily as a result of a 7% increase in revenue, partially offset by a 6% increase in cost of services. The floorplan lending business gross profit margin percentage increased from 77.5% to 77.7%. 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 3%, to $28.7 million for the year ended December 31, 2016, compared with $27.8 million for the year ended December 31, 2015. The increase was primarily attributable to increases in stock-based compensation expense of $0.7 million, information technology costs of $0.7 million and other miscellaneous expenses aggregating $0.5 million, partially offset by a decrease in incentive-based compensation of $0.6 million and a decrease in selling, general and administrative costs at PWI of $0.4 million.

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Holding Company Results

(Dollars in millions)	Year Ended December 31, 2016	2015
Selling, general and administrative	$123.2	$99.5
Depreciation and amortization	21.6	15.0
Operating loss	$(144.8)	$(114.5)

Selling, General and Administrative

For the year ended December 31, 2016, selling, general and administrative expenses at the holding company increased $23.7 million, or 24%, to $123.2 million, compared with $99.5 million for the year ended December 31, 2015, primarily as a result of increases in compensation expense of $8.7 million, professional fees of $7.5 million, stock-based compensation expense of $3.4 million, incentive-based compensation expense of $1.8 million, acquisition-related professional fees of $1.7 million and other miscellaneous expenses aggregating $2.2 million, partially offset by a decrease in medical expenses of $1.6 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 Three Months Ended December 31, 2017 and 2016:

(Dollars in millions except per share amounts)	Three Months Ended December 31, 2017	2016
Revenues		
ADESA	$473.2	$442.3
IAA	335.4	302.6
AFC	81.8	68.8
Total revenues	890.4	813.7
Cost of services*	525.1	488.3
Gross profit*	365.3	325.4
Selling, general and administrative	172.5	148.8
Depreciation and amortization	69.4	64.7
Operating profit	123.4	111.9
Interest expense	42.1	38.0
Other (income) expense, net	(0.2)	0.3
Loss on extinguishment of debt	—	1.4
Gain on previously held equity interest value	(21.6)	—
Income before income taxes	103.1	72.2
Income taxes	(69.7)	26.7
Net income	$172.8	$45.5
Net income per share		
Basic	$1.28	$0.33
Diluted	$1.27	$0.33

* Exclusive of depreciation and amortization

Overview

For the three months ended December 31, 2017, we had revenue of $890.4 million compared with revenue of $813.7 million for the three months ended December 31, 2016, an increase of 9%. Businesses acquired accounted for an increase in revenue of $10.0 million or 1% of revenue. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

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Gain on Previously Held Equity Interest Value

In October 2017, we acquired the remaining 50% interest in TradeRev and our previously held 50% interest was re-measured at fair value, resulting in a gain of $21.6 million.

Income Taxes

We had an effective tax rate of (67.6%) for the three months ended December 31, 2017, compared with an effective tax rate of 37.0% for the three months ended December 31, 2016. Our effective tax rate was lower for the three months ended December 31, 2017 as compared with the three months ended December 31, 2016, primarily as a result of the enactment of the Tax Cuts and Jobs Act of 2017 in the fourth quarter of 2017. As a result, we recognized a tax benefit of $102.7 million relating to the re-measurement of deferred tax assets and liabilities and $11.1 million of expense associated with a one-time deemed repatriation transition tax on the accumulated unrepatriated and untaxed earnings of our foreign subsidiaries that is payable over 8 years. Additionally, the effective tax rate for the three months ended December 31, 2017 was favorably impacted by a reduction in income taxes on undistributed foreign earnings.

ADESA Results

	Three Months Ended December 31,	
(Dollars in millions, except per vehicle amounts)	2017	2016
ADESA revenue	$473.2	$442.3
Cost of services*	281.7	269.4
Gross profit*	191.5	172.9
Selling, general and administrative	99.9	89.2
Depreciation and amortization	30.6	27.4
Operating profit	$61.0	$56.3
Vehicles sold	744,000	700,000
Physical auction vehicles sold	507,000	523,000
Online only vehicles sold	237,000	177,000
Dealer consignment mix at physical auctions	44 %	45 %
Conversion rate at North American physical auctions	57.3 %	54.9 %
Physical auction revenue per vehicle sold, excluding purchased vehicles	$822	$773
Online only revenue per vehicle sold, excluding ADESA Assurance Program vehicles	$122	$115

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $30.9 million, or 7%, to $473.2 million for the three months ended December 31, 2017, compared with $442.3 million for the three months ended December 31, 2016. The increase in revenue was primarily a result of a 6% increase in the number of vehicles sold (3% increase excluding acquisitions) and a 1% increase in average revenue per vehicle sold. Businesses acquired in the last 12 months accounted for an increase in revenue of $10.0 million. Revenue increased $3.5 million due to fluctuations in the Canadian exchange rate.

The increase in vehicles sold was primarily attributable to a 9% increase in institutional volume (8% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 2% increase in dealer consignment units sold (8% decrease excluding acquisitions) for the three months ended December 31, 2017 compared with the three months ended December 31, 2016. Online sales volume for ADESA represented approximately 48% of the total vehicles sold in the fourth quarter of 2017, compared with approximately 41% in the fourth quarter of 2016. "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) vehicles sold on the TradeRev platform; (iv) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock®); and (v) bulletin-board or real-time online auctions (DealerBlock®). Upstream selling, midstream selling and TradeRev sales, which represent online only sales, accounted for approximately 68% of ADESA's online sales volume. ADESA sold approximately 237,000 and 177,000 vehicles (including 8% from acquisitions in the fourth quarter of 2017) through its online only offerings in the fourth quarter of 2017 and 2016, respectively, of which approximately 116,000 and 88,000 represented vehicle sales to grounding dealers in the

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fourth quarter of 2017 and 2016, respectively. For the three months ended December 31, 2017, dealer consignment vehicles represented approximately 44% of used vehicles sold at ADESA physical auction locations, compared with approximately 45% for the three months ended December 31, 2016. Vehicles sold at physical auction locations decreased 3% (4% decrease excluding acquisitions) in the fourth quarter of 2017, compared with the fourth quarter of 2016. 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 57.3% for the three months ended December 31, 2017, compared with 54.9% for the three months ended December 31, 2016. Physical auction revenue per vehicle sold increased $49, or 6%, to $822 for the three months ended December 31, 2017, compared with $773 for the three months ended December 31, 2016. 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 and excludes the sale of purchased vehicles. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in auction fees related to higher average transaction prices and an increase in physical auction revenue per vehicle sold of $7 due to fluctuations in the Canadian exchange rate.

Online only auction revenue per vehicle sold increased $17 to $148 for the three months ended December 31, 2017, compared with $131 for the three months ended December 31, 2016. 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 the inclusion of TradeRev sales. Excluding vehicles purchased as part of the ADESA Assurance Program, online only revenue per vehicle would have been $122 and $115 for the three months ended December 31, 2017 and 2016, respectively. Excluding vehicles purchased as part of the ADESA Assurance Program and vehicles sold on the TradeRev platform, online only revenue per vehicle would have been $111 for the three months ended December 31, 2017.

Gross Profit

For the three months ended December 31, 2017, gross profit for ADESA increased $18.6 million, or 11%, to $191.5 million, compared with $172.9 million for the three months ended December 31, 2016. Gross profit for ADESA was 40.5% of revenue for the three months ended December 31, 2017, compared with 39.1% of revenue for the three months ended December 31, 2016. The increase in gross profit percentage was mainly attributable to the increase in online only volume and an increase in physical auction revenue. Online only sales have a higher gross profit percentage than physical auction sales.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $10.7 million, or 12%, to $99.9 million for the three months ended December 31, 2017, compared with $89.2 million for the three months ended December 31, 2016, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $10.8 million, information technology costs of $1.4 million, incentive-based compensation expense of $1.2 million and other miscellaneous expenses aggregating $0.9 million, partially offset by a decrease in bad debt expense of $3.6 million.

IAA Results

	Three Months Ended December 31,	
(Dollars in millions)	2017	2016
IAA revenue	$335.4	$ 302.6
Cost of services*	222.7	198.7
Gross profit*	112.7	103.9
Selling, general and administrative	27.2	25.3
Depreciation and amortization	23.9	23.5
Operating profit	$61.6	$ 55.1
Vehicles sold	635,000	610,000

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $32.8 million, or 11%, to $335.4 million for the three months ended December 31, 2017, compared with $302.6 million for the three months ended December 31, 2016. The increase in revenue was a result of an increase in vehicles sold of approximately 4% for the three months ended December 31, 2017. Revenue per vehicle sold

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increased 6% for the three months ended December 31, 2017 compared with the three months ended December 31, 2016, and included an increase in revenue of $1.1 million due to fluctuations in the Canadian exchange rate, partially offset by a decrease of $4.4 million from HBC and a decrease in revenue of $0.5 million due to fluctuations in the U.K. exchange rate. Vehicles sold under purchase agreements were approximately 4% and 6% of total salvage vehicles sold for the three months ended December 31, 2017 and 2016, respectively. North American online sales volumes for IAA for the three months ended December 31, 2017 and 2016 represented approximately 60% of the total vehicles sold by IAA.

Gross Profit

For the three months ended December 31, 2017, gross profit at IAA increased to $112.7 million, or 33.6% of revenue, compared with $103.9 million, or 34.3% of revenue, for the three months ended December 31, 2016. The increase in gross profit was mainly attributable to an 11% increase in revenue, partially offset by a 12% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth.

Excluding HBC, IAA's gross profit margin was 33.9% and 35.1% for the three months ended December 31, 2017 and 2016, respectively. For the three months ended December 31, 2017 and 2016, HBC had revenue of approximately $7.6 million and $12.0 million, respectively, and cost of services of approximately $6.1 million and $10.1 million, respectively, as fewer of HBC's vehicles were sold under purchase contracts. The entire selling price of the vehicle is recorded as revenue and cost of services for purchase contracts.

IAA sold over 65,000 vehicles and recorded approximately $44.6 million of revenue and $4.0 million of gross profit for the three months ended December 31, 2017 related to catastrophic events in Texas and Florida. Excluding these events (and HBC as noted above), IAA's gross profit margin was 37.9% for the three months ended December 31, 2017. IAA incurred significant costs in Texas and Florida in response to Hurricanes Harvey and Irma. Costs were incurred for real estate, security, lot operations and related support. IAA recovered these excess costs incurred as vehicles were sold in the fourth quarter of 2017 and expects to recover the remainder of these excess costs in the first quarter of 2018.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $1.9 million, or 8%, to $27.2 million for the three months ended December 31, 2017, compared with $25.3 million for the three months ended December 31, 2016. The increase in selling, general and administrative expenses was primarily attributable to increases in incentive-based compensation expense of $0.7 million, professional fees of $0.7 million, supply expenses of $0.5 million, compensation expense of $0.4 million, stock-based compensation expense of $0.4 million and other miscellaneous expenses aggregating $0.2 million, partially offset by decreases in bad debt expense of $0.5 million and marketing expenses of $0.5 million.

AFC Results

	Three Months Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	2017	2016
AFC revenue		
Interest and fee income	$77.2	$ 69.6
Other revenue	2.9	2.6
Provision for credit losses	(6.4)	(11.7)
Other service revenue	8.1	8.3
Total AFC revenue	81.8	68.8
Cost of services*	20.7	20.2
Gross profit*	61.1	48.6
Selling, general and administrative	8.5	6.8
Depreciation and amortization	7.8	7.7
Operating profit	$44.8	$ 34.1
Loan transactions	414,000	417,000

Revenue per loan transaction, excluding "Other service revenue"	$ 178	$ 145

* Exclusive of depreciation and amortization

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Revenue

For the three months ended December 31, 2017, AFC revenue increased $13.0 million, or 19%, to $81.8 million, compared with $68.8 million for the three months ended December 31, 2016. The increase in revenue was the result of an increase in revenue per loan transaction of 23%, partially offset by a 2% decrease in "Other service revenue" generated by PWI and a decrease in loan transactions of 1%.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $33, or 23%. The decrease in provision for credit losses, which is a reduction of revenue, resulted in an increase in revenue per loan transaction of $13 for the three months ended December 31, 2017. The remaining $20 increase in revenue per loan transaction was primarily the result of increases in fee revenue and interest yield as a result of prime rate increases. Revenue per loan transaction excludes "Other service revenue."

The provision for credit losses decreased to 1.4% of the average managed receivables for the three months ended December 31, 2017 from 2.6% for the three months ended December 31, 2016. The provision for credit losses is expected to be under 2%, annually, of the average managed receivables balance. However, the actual losses in any particular quarter could deviate from this range.

Gross Profit

For the three months ended December 31, 2017, gross profit for the AFC segment increased $12.5 million, or 26%, to $61.1 million, or 74.7% of revenue, compared with $48.6 million, or 70.6% of revenue, for the three months ended December 31, 2016, primarily as a result of a 19% increase in revenue, partially offset by a 2% increase in cost of services. The increase in cost of services was the result of increases in compensation expense of $0.6 million and other expenses aggregating $0.2 million, partially offset by decreases in PWI expenses of $0.3 million. The floorplan lending business gross profit margin percentage increased from 76.8% to 79.8% as a result of higher revenue per loan transaction.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $1.7 million, or 25%, to $8.5 million for the three months ended December 31, 2017, compared with $6.8 million for the three months ended December 31, 2016. The increase in selling, general and administrative expenses was primarily attributable to increases in incentive-based compensation expense of $1.2 million, stock-based compensation expense of $0.3 million other expenses aggregating $0.2 million.

Holding Company Results

	Three Months Ended December 31,	
(Dollars in millions)	2017	2016
Selling, general and administrative	$36.9	$27.5
Depreciation and amortization	7.1	6.1
Operating loss	$(44.0)	$(33.6)

Selling, General and Administrative

For the three months ended December 31, 2017, selling, general and administrative expenses at the holding company increased $9.4 million, or 34%, to $36.9 million, compared with $27.5 million for the three months ended December 31, 2016, primarily as a result of increases in stock-based compensation expense of $1.9 million, information technology costs of $1.8 million, incentive-based compensation expense of $1.7 million, medical expenses of $1.6 million, compensation expense of $1.4 million and other expenses aggregating $1.0 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.

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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.

	December 31,	
(Dollars in millions)	2017	2016
Cash and cash equivalents	$317.2	$201.8
Restricted cash	19.4	17.9
Working capital	748.2	506.2
Amounts available under Credit Facility*	350.0	219.5
Cash flow from operations for the year ended	588.8	378.0

* There were related outstanding letters of credit totaling approximately $42.8 million and $29.7 million at December 31, 2017 and 2016, 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.

Approximately $70.8 million of available cash was held by our foreign subsidiaries at December 31, 2017. If the portion of funds held by our foreign subsidiaries that are considered to be permanently reinvested were to be repatriated, state and local income tax expense and withholding tax expense would need to be recognized, net of any applicable foreign tax credits.

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."

Impact of the Tax Cuts and Jobs Act of 2017

As a result of the enactment of the Tax Cuts and Jobs Act of 2017, we estimate that our future effective tax rate will be 26% - 28%. The major provisions affecting the Company include a reduction in our federal income tax rate, the immediate expensing of certain capital expenditures and a reduced deduction for certain executive compensation. The impact of these changes, if they had applied to 2017, would have been a reduction in cash taxes of over $40 million and an increase in earnings per share of $0.30. In addition, the Company recorded an obligation for approximately $11.1 million in U.S. income taxes for unremitted foreign earnings as of December 31, 2017. In future years, there will be no federal U.S. taxes on funds repatriated from foreign operations; however, state and local income tax expense and withholding tax expense would be recognized, net of any applicable foreign tax credits.

Credit Facilities

On May 31, 2017, we entered into an Incremental Commitment Agreement and Second Amendment (the "Second Amendment") to the Credit Agreement. The Second Amendment provided for, among other things, (i) the refinancing and repricing of the existing tranche B-2 term loans ("Term Loan B-2") remaining after the repayment with new tranche B-4 term loans in an aggregate principal amount of $717 million ("Term Loan B-4"), (ii) the refinancing and repricing of existing tranche

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B-3 term loans ("Term Loan B-3") remaining after the repayment with new tranche B-5 term loans in an aggregate principal amount of $1.05 billion ("Term Loan B-5") and (iii) a $350 million senior secured revolving credit facility (the "revolving credit facility"). A portion of the proceeds received from the issuance of the senior notes was used to repay a portion of Term Loan B-2 and Term Loan B-3, as well as the outstanding balance on the 2016 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 $27.5 million in the second quarter of 2017. The loss was a result of the write-off of unamortized debt issue costs and debt discounts associated with Term Loan B-2 and Term Loan B-3. We capitalized approximately $7.8 million of debt issuance costs in connection with the Second 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 $90 million is available for swing line loans.

Both Term Loan B-4 and Term Loan B-5 are payable in quarterly installments equal to 0.25% of their respective original aggregate principal amounts. Such payments commenced on September 30, 2017, 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 $5.7 million and $8.4 million of Term Loan B-4 and Term Loan B-5, respectively, for the year ended December 31, 2017. 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-4 and Term Loan B-5 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-4 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 2.25%, Term Loan B-5 at Adjusted LIBOR plus 2.50% and revolving loan borrowings at Adjusted LIBOR plus 2.0%. However, for specified types of borrowings, the Company may elect to make Term Loan B-4 borrowings at a Base Rate (as defined in the Credit Agreement) plus 1.25%, Term Loan B-5 at a Base Rate plus 1.50% and revolving loan borrowings at a Base Rate plus 1.0%. The rates on Term Loan B-4 and Term Loan B-5 were 4.00% and 4.25% at December 31, 2017, respectively. In addition, if the Company's Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) which is based on a net debt calculation, increases to levels specified in the Credit Agreement, the applicable interest rate on the revolving credit facility will step up by 25 basis points. The Company also pays a commitment fee of 30 to 35 basis points, payable quarterly, on the average daily unused amount of the revolving credit facility based on the Company's Consolidated Senior Secured Leverage Ratio as described above.
On December 31, 2017, $711.3 million was outstanding on Term Loan B-4, $1,041.6 million was outstanding on Term Loan B-5 and there were no borrowings on the revolving credit facility. In addition, we had related outstanding letters of credit in the aggregate amount of $42.8 million and $29.7 million at December 31, 2017 and December 31, 2016, respectively, which reduce the amount available for borrowings under the revolving credit facility. Our Canadian operations also have a C$8 million line of credit which was undrawn at December 31, 2017. However, there were related letters of credit outstanding totaling approximately C$1.0 million at December 31, 2017, which reduce amounts 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, 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

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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 December 31, 2017 the ratio could not exceed 3.5 to 1.0. Our consolidated senior secured leverage ratio, including capital lease obligations of $54.8 million, was 2.01 to 1.0 at December 31, 2017.

In addition, the Credit Agreement and the indenture governing our senior notes contain 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 and the indenture governing our senior notes 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 and the indenture governing our senior notes at December 31, 2017.

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.

Senior Notes

On May 31, 2017, we issued $950 million of 5.125% senior notes due June 1, 2025. The Company will pay interest on the senior notes semi-annually in arrears on June 1 and December 1 of each year, which commenced on December 1, 2017. We may redeem the senior notes, in whole or in part, at any time prior to June 1, 2020 at a redemption price equal to 100% of the principal amount plus a make-whole premium and thereafter at a premium that declines ratably to par in 2023. We capitalized approximately $14.7 million of debt issuance costs in connection with the senior notes. The senior notes are guaranteed by the Subsidiary Guarantors.

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. The agreement expires on January 31, 2020. AFC Funding Corporation had committed liquidity of $1.50 billion for U.S. finance receivables at December 31, 2017.

We also have an agreement for the securitization of AFCI's receivables. AFCI's committed facility is provided through a third party conduit (separate from the U.S. facility) and was C$125 million at December 31, 2017. 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 $1,912.6 million and $1,792.2 million at December 31, 2017 and December 31, 2016, respectively. AFC's allowance for losses was $13.0 million and $12.0 million at December 31, 2017 and December 31, 2016, respectively.

As of December 31, 2017 and December 31, 2016, $1,893.2 million and $1,774.8 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $1,358.1 million and $1,280.3 million of obligations collateralized by finance receivables at December 31, 2017 and December 31, 2016, respectively. There were unamortized securitization issuance costs of approximately $13.3 million and $19.7 million at December 31, 2017 and December 31, 2016, 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

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receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At December 31, 2017, 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 December 31, 2017				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$108.9	$68.5	$42.3	$ (46.9)	$ 172.8
Add back:					
Income taxes	(39.5)	(16.5)	(9.3)	(4.4)	(69.7)
Interest expense, net of interest income	0.4	—	11.8	29.6	41.8
Depreciation and amortization	30.6	23.9	7.8	7.1	69.4
Intercompany interest	8.7	9.5	(0.1)	(18.1)	—
EBITDA	109.1	85.4	52.5	(32.7)	214.3
Intercompany charges	4.0	—	—	(4.0)	—
Non-cash stock-based compensation	2.2	1.1	0.8	3.6	7.7
Acquisition related costs	1.4	—	—	0.3	1.7
Securitization interest	—	—	(9.9)	—	(9.9)
Minority interest	0.1	—	—	—	0.1
Gain on previously held equity interest value	(21.6)	—	—	—	(21.6)
Severance	0.6	0.1	0.2	—	0.9
Other	(0.1)	0.8	0.7	—	1.4
Total addbacks	(13.4)	2.0	(8.2)	(0.1)	(19.7)
Adjusted EBITDA	$95.7	$87.4	$44.3	$ (32.8)	$ 194.6

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	Three Months Ended December 31, 2016				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$27.9	$29.0	$19.8	$ (31.2)	$ 45.5
Add back:					
Income taxes	16.0	16.8	12.2	(18.3)	26.7
Interest expense, net of interest income	(0.2)	—	9.4	28.7	37.9
Depreciation and amortization	27.4	23.5	7.7	6.1	64.7
Intercompany interest	9.3	9.5	(8.7)	(10.1)	—
EBITDA	80.4	78.8	40.4	(24.8)	174.8
Intercompany charges	3.1	—	—	(3.1)	—
Non-cash stock-based compensation	1.2	0.7	0.4	1.7	4.0
Loss on extinguishment of debt	—	—	1.4	—	1.4
Acquisition related costs	1.3	—	—	0.1	1.4
Securitization interest	—	—	(7.7)	—	(7.7)
Minority interest	1.1	—	—	—	1.1
Severance	0.3	0.1	—	—	0.4
Other	0.6	0.6	0.2	(0.3)	1.1
Total addbacks	7.6	1.4	(5.7)	(1.6)	1.7
Adjusted EBITDA	$88.0	$80.2	$34.7	$ (26.4)	$ 176.5

	Year Ended December 31, 2017				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$260.9	$166.0	$103.9	$(168.8)	$ 362.0
Add back:					
Income taxes	52.9	38.0	26.6	(81.5)	36.0
Interest expense, net of interest income	—	—	43.6	119.0	162.6
Depreciation and amortization	113.1	93.1	31.3	27.1	264.6
Intercompany interest	35.8	37.8	(20.2)	(53.4)	—
EBITDA	462.7	334.9	185.2	(157.6)	825.2
Intercompany charges	11.6	—	—	(11.6)	—
Non-cash stock-based compensation	7.3	3.9	2.6	11.4	25.2
Loss on extinguishment of debt	—	—	—	27.5	27.5
Acquisition related costs	5.2	—	—	1.6	6.8
Securitization interest	—	—	(34.9)	—	(34.9)
Minority interest	4.4	—	—	—	4.4
Gain on previously held equity interest value	(21.6)	—	—	—	(21.6)
Severance	2.3	0.3	0.3	—	2.9
Other	1.4	0.4	0.7	—	2.5
Total addbacks	10.6	4.6	(31.3)	28.9	12.8
Adjusted EBITDA	$473.3	$339.5	$153.9	$(128.7)	$ 838.0

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	Year Ended December 31, 2016				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$156.9	$101.1	$88.4	$(124.0)	$ 222.4
Add back:					
Income taxes	92.7	59.3	54.0	(73.1)	132.9
Interest expense, net of interest income	(0.3)	—	34.1	104.6	138.4
Depreciation and amortization	100.0	87.9	31.1	21.6	240.6
Intercompany interest	41.7	37.8	(33.8)	(45.7)	—
EBITDA	391.0	286.1	173.8	(116.6)	734.3
Intercompany charges	10.9	0.3	—	(11.2)	—
Non-cash stock-based compensation	4.6	2.6	1.8	10.1	19.1
Loss on extinguishment of debt	—	—	1.4	4.0	5.4
Acquisition related costs	4.9	0.2	0.1	3.4	8.6
Securitization interest	—	—	(28.0)	—	(28.0)
Minority interest	3.8	—	—	—	3.8
(Gain)/Loss on asset sales	1.6	0.2	—	0.6	2.4
Severance	1.7	0.1	0.1	—	1.9
Other	1.0	(0.6)	0.1	(0.1)	0.4
Total addbacks	28.5	2.8	(24.5)	6.8	13.6
Adjusted EBITDA	$419.5	$288.9	$149.3	$(109.8)	$ 747.9

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)	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017	December 31, 2017
Net income (loss)	$69.2	$57.2	$ 62.8	$ 172.8	$ 362.0
Add back:					
Income taxes	34.1	33.9	37.7	(69.7)	36.0
Interest expense, net of interest income	40.2	39.9	40.7	41.8	162.6
Depreciation and amortization	64.5	64.5	66.2	69.4	264.6
EBITDA	208.0	195.5	207.4	214.3	825.2
Non-cash stock-based compensation	6.0	5.4	6.1	7.7	25.2
Loss on extinguishment of debt	—	27.5	—	—	27.5
Acquisition related costs	2.1	1.5	1.5	1.7	6.8
Securitization interest	(8.1)	(8.2)	(8.7)	(9.9)	(34.9)
Minority interest	1.7	1.0	1.6	0.1	4.4
(Gain)/Loss on asset sales	0.5	0.2	0.3	0.2	1.2
Gain on previously held equity interest value	—	—	—	(21.6)	(21.6)
Severance	0.7	0.8	0.5	0.9	2.9
Other	(0.3)	(0.2)	0.6	1.2	1.3
Total addbacks	2.6	28.0	1.9	(19.7)	12.8
Adjusted EBITDA	$210.6	$223.5	$ 209.3	$ 194.6	$ 838.0

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Summary of Cash Flows

(Dollars in millions)	Year Ended December 31, 2017	2016
Net cash provided by (used by):		
Operating activities	$588.8	$378.0
Investing activities	(379.8)	(765.3)
Financing activities	(107.6)	436.0
Effect of exchange rate on cash	14.0	(1.9)
Net increase in cash and cash equivalents	$115.4	$46.8

Cash flow from operating activities was $588.8 million for the year ended December 31, 2017, compared with $378.0 million for the year ended December 31, 2016. The increase 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 and increased profitability adjusted for non-cash items.

Net cash used by investing activities was $379.8 million for the year ended December 31, 2017, compared with $765.3 million for the year ended December 31, 2016. The decrease in net cash used by investing activities was primarily attributable to:

- a decrease in cash used for acquisitions of approximately $358.8 million; and
- a decrease in the additional finance receivables held for investment of approximately $27.9 million.

Net cash used by financing activities was $107.6 million for the year ended December 31, 2017, compared with net cash provided by financing activities of $436.0 million for the year ended December 31, 2016. The decrease in net cash from financing activities was primarily attributable to:

- a decrease in net cash received of $414.6 million from the refinancing and repayment activities in 2017 compared with 2016;
- an increase in common stock repurchases of approximately $69.6 million;
- a decrease in the additional obligations collateralized by finance receivables of approximately $31.8 million; and
- an increase in dividend payments of $17.7 million.

Capital Expenditures

Capital expenditures for the years ended December 31, 2017 and 2016 approximated $152.2 million and $155.1 million, respectively. 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 $185 million for fiscal year 2018, including the purchase of IAA property in Florida for use during catastrophic events. Approximately half of the 2018 capital expenditures are expected to relate to technology-based investments. Anticipated capital expenditures are primarily attributable to 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.

Dividends

Subject to board of director approval, we expect to pay a quarterly dividend of $0.35 per share in 2018 using cash flow from operations, representing an annualized dividend of $1.40 per share. The following dividend information has been released in 2017 and 2018:

- On February 20, 2018, the Company announced a cash dividend of $0.35 per share that is payable on April 4, 2018, to stockholders of record at the close of business on March 22, 2018.

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- On October 31, 2017, the Company announced a cash dividend of $0.35 per share that was paid on January 5, 2018, to stockholders of record at the close of business on December 20, 2017.
- On August 8, 2017, the Company announced a cash dividend of $0.32 per share that was paid on October 3, 2017, to stockholders of record at the close of business on September 20, 2017.
- On May 9, 2017, the Company announced a cash dividend of $0.32 per share that was paid on July 6, 2017, to stockholders of record at the close of business on June 21, 2017.
- On February 21, 2017, the Company announced a cash dividend of $0.32 per share that was paid on April 4, 2017, to stockholders of record at the close of business on March 22, 2017.

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 and the indenture governing our senior notes, 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

The aggregate purchase price for the businesses acquired in 2017, net of cash acquired, was approximately $103.9 million, which included deferred payments with a fair value of $6.6 million and estimated contingent payments with a fair value of $24.0 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $60.0 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $29.4 million to intangible assets, representing the fair value of acquired customer relationships of $3.1 million, software of $24.0 million and tradenames of $2.3 million, which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $130.7 million. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company’s consolidated results for the year ended December 31, 2017.

In April 2017, the Company purchased all of the stock of CarCo Technologies, Inc. (“DRIVIN”). DRIVIN aggregates automotive retail, pricing, registration and other market and economic data from a variety of public and proprietary sources. The insights generated from that data are deployed through predictive pricing, inventory management and vehicle matching tools that help customers buy, sell and source vehicles.

In May 2017, the Company acquired Dependable Auto Shippers ("DAS"). DAS provides vehicle transportation services for corporate and personal vehicle transportation needs.

In October 2017, the Company acquired the remaining 50% interest in Nth Gen Software Inc. ("TradeRev"). TradeRev brings mobile and digital technology to the Company’s portfolio of whole car and salvage auctions, floorplan financing solutions, and other ancillary and related services. The Company plans to further integrate those capabilities into TradeRev to expand its digital business and strengthen its share in the dealer-to-dealer market. Upon acquisition, our previously held interest in TradeRev was re-measured at fair value, resulting in a gain of $21.6 million. The gain has been recognized as "Gain on previously held equity interest value" in the consolidated statement of income for the year ended December 31, 2017. The Company also entered into operating lease obligations related to various facilities through 2028. Initial annual lease payments for the various facilities are approximately $1.8 million per year.

In December 2017, the Company acquired POIS, Inc. POIS provides loan payoff and lien release technology with a focus on helping insurance companies settle liens faster to improve cycle time/inventory turns.

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

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Recent Developments

In February 2018, the Company acquired STRATIM Systems Inc. ("STRATIM"). STRATIM is a mobility and fleet management software company based in San Francisco, California that uses data analytics to help fleet owners manage, maintain and service their fleets. The addition of STRATIM supplements KAR's broad portfolio of wholesale used vehicle physical, online and digital auction marketplaces and ancillary service providers. The purchase accounting related to this acquisition is incomplete. Financial results for STRATIM will be included in our consolidated financial statements beginning in the first quarter of 2018.

Contractual Obligations

The table below sets forth a summary of our contractual debt and lease obligations as of December 31, 2017. Some of the figures included in this table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal and other factors. Because these estimates and assumptions are necessarily subjective, the obligations we may actually pay in future periods could vary from those reflected in the table. The following summarizes our contractual cash obligations as of December 31, 2017 (in millions):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1 - 3 Years	4 - 5 Years	More than 5 Years
Long-term debt					
$350 million revolving credit facility	$—	$—	$—	$—	$—
Term Loan B-4 (a)	711.3	5.0	14.4	691.9	—
Term Loan B-5 (a)	1,041.6	7.4	21.0	21.0	992.2
Senior notes (a)	950.0	—	—	—	950.0
Capital lease obligations (b)	57.4	27.8	29.3	0.3	—
Interest payments relating to long-term debt (c)	682.3	122.2	242.2	189.7	128.2
Operating leases (d)	1,251.1	133.3	240.1	202.8	674.9
Other long-term liabilities	10.0	4.3	3.8	1.9	—
Total contractual cash obligations	$4,693.7	$295.7	$547.0	$1,105.7	$2,745.3

(a) The table assumes the long-term debt is held to maturity.

(b) We have entered into capital leases for furniture, fixtures, equipment and software. The amounts include the interest portion of the capital leases. Future capital lease obligations would change if we entered into additional capital lease agreements.

(c) Interest payments on long-term debt are projected based on the contractual rates of the debt securities. Interest rates for the variable rate term debt instruments were held constant at rates as of December 31, 2017.

(d) Operating leases are entered into in the normal course of business. We lease most of our auction facilities, as well as other property and equipment under operating leases. Some lease agreements contain options to renew the lease or purchase the leased property. Future operating lease obligations would change if the renewal options were exercised and/or if we entered into additional operating lease agreements.

Critical Accounting Estimates

In preparing the financial statements in accordance with U.S. generally accepted accounting principles, management must often 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. Some of those judgments can be subjective and complex. Consequently, actual results could differ from those estimates. Accounting measurements that management believes are most critical to the reported results of our operations and financial condition include: (1) allowance for credit losses; (2) business combinations; (3) goodwill and other intangible assets; and (4) legal proceedings and other loss contingencies.

In addition to the critical accounting estimates, there are other items used in the preparation of the consolidated financial statements that require estimation, but are not deemed critical. Changes in estimates used in these and other items could have a material impact on our financial statements.

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We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. In cases where management estimates are used, they are based on historical experience, information from third-party professionals, and various other assumptions believed to be reasonable. In addition, our most significant accounting policies are discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements for the year ended December 31, 2017, which are included in this Annual Report on Form 10-K.

Allowance for Credit Losses

We maintain an allowance for credit losses for estimated losses resulting from the inability of customers to make required payments. Delinquencies and losses are monitored on an ongoing basis and this historical experience provides the primary basis for estimating the allowance. The allowance for credit losses is also based on management's evaluation of the receivables portfolio under current economic conditions, the size of the portfolio, overall portfolio credit quality, review of specific collection matters and such other factors which, in management's judgment, deserve recognition in estimating losses. Specific collection matters can be impacted by the outcome of negotiations, litigation and bankruptcy proceedings with individual customers.

AFC controls credit risk through credit approvals, credit limits, underwriting and collateral management monitoring procedures, including over 85,000 lot audits and holding vehicle titles where permitted. The estimates are based on management's evaluation of many factors, including AFC's historical credit loss experience, the value of the underlying collateral, delinquency trends and economic conditions. The estimates are based on information available as of each reporting date. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates.

As a measure of sensitivity, if we had experienced a 10% increase in net charge-offs of finance receivables for the year ended December 31, 2017, our provision for credit losses would have increased by approximately $3.3 million in 2017.

Business Combinations

When we acquire businesses, we estimate and recognize the fair values of tangible assets acquired, liabilities assumed and identifiable intangible assets acquired. The excess of the purchase consideration over the fair values of identifiable assets and liabilities is recorded as goodwill. The purchase accounting process requires management to make significant estimates and assumptions in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets and contingent consideration.

Critical estimates are often developed using valuation models that are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, growth rates, the appropriate weighted-average cost of capital and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which could affect the accuracy or validity of such estimates. Depending on the facts and circumstances, we may engage an independent valuation expert to assist in valuing significant assets and liabilities.

Goodwill and Other Intangible Assets

We assess goodwill for impairment annually during the second quarter or whenever events or changes in circumstances indicate that impairment may exist. Important factors that could trigger an impairment review include significant under-performance relative to historical or projected future operating results; significant negative industry or economic trends; and our market valuation relative to our book value. When evaluating goodwill for impairment, we may first perform a qualitative assessment to determine whether it is more likely than not that a reporting unit is impaired. If we do not perform a qualitative assessment, or if we determine that a reporting unit's fair value is not more likely than not greater than its carrying value, then we calculate the estimated fair value of the reporting unit using discounted cash flows and market approaches.

When assessing goodwill for impairment, our decision to perform a qualitative impairment assessment for a reporting unit in a given year is influenced by a number of factors, including the size of the reporting unit's goodwill, the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, the amount of time in between quantitative fair value assessments and the date of acquisition. If we perform a quantitative assessment of a reporting unit's goodwill, our impairment calculations contain uncertainties because they require management to make assumptions and apply judgment when estimating future cash flows and earnings, including projected revenue growth and operating expenses related to existing businesses, as well as utilizing valuation multiples of similar publicly traded companies and selecting an appropriate discount rate based on the estimated cost of capital that reflects the risk profile of the related business. Estimates of revenue growth and operating expenses are based on internal projections considering the reporting unit's past performance and forecasted growth, strategic initiatives and changes in economic conditions. These estimates, as well as the selection of comparable companies and valuation multiples used in the market approach are highly subjective, and our

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ability to realize the future cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies. In 2017, we performed a qualitative impairment assessment for our reporting units. Based on our goodwill assessments, the Company has not identified a reporting unit for which the goodwill was impaired in 2017, 2016 or 2015.

As with goodwill, we assess indefinite-lived tradenames for impairment annually during the second quarter or whenever events or changes in circumstances indicate that impairment may exist. When assessing indefinite-lived tradenames for impairment using a qualitative assessment, we evaluate if changes in events or circumstances have occurred that indicate that impairment may exist. If we do not perform a qualitative impairment assessment or if changes in events and circumstances indicate that a quantitative assessment should be performed, management is required to calculate the fair value of the tradename asset group. The fair value calculation includes estimates of revenue growth, which are based on past performance and internal projections for the tradename asset group's forecasted growth, and royalty rates, which are adjusted for our particular facts and circumstances. The discount rate is selected based on the estimated cost of capital that reflects the risk profile of the related business. These estimates are highly subjective, and our ability to achieve the forecasted cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies.

We review other intangible assets for possible impairment whenever circumstances indicate that their carrying amount may not be recoverable. If it is determined that the carrying amount of an other intangible asset exceeds the total amount of the estimated undiscounted future cash flows from that asset, we would recognize a loss to the extent that the carrying amount exceeds the fair value of the asset. Management judgment is involved in both deciding if testing for recovery is necessary and in estimating undiscounted cash flows. Our impairment analysis is based on the current business strategy, expected growth rates and estimated future economic conditions.

Legal Proceedings and Other Loss Contingencies

We are subject to the possibility of various legal proceedings and other loss contingencies, many involving litigation incidental to the business and a variety of environmental laws and regulations. Litigation and other loss contingencies are subject to inherent uncertainties and the outcomes of such matters are often very difficult to predict and generally are resolved over long periods of time. We consider 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. Estimating probable losses requires the analysis of multiple possible outcomes that often are dependent on the judgment about potential actions by third parties. Contingencies are recorded in the consolidated financial statements, or otherwise disclosed, in accordance with ASC 450, Contingencies. We accrue for an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. 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.

Off-Balance Sheet Arrangements

As of December 31, 2017, 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

For a description of new accounting standards that could affect the Company, reference the "New Accounting Standards" section of Note 2 to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

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Item 7A. 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 positively affected net income by approximately $1.6 million for the year ended December 31, 2017 and negatively affected net income by approximately $2.3 million for the year ended December 31, 2016. A 1% decrease in the average Canadian exchange rate for the year ended December 31, 2017 would have impacted net income by approximately $1.1 million. 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 2017, we entered into two interest rate caps 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 exceeds 2.0%. The interest rate cap agreements each had an effective date of September 30, 2017 and each mature on September 30, 2019. We paid an aggregate amount of approximately $1.0 million for the caps in August 2017.

In March 2017, we entered into two interest rate caps 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 2.0%. The interest rate cap agreements each had an effective date of March 31, 2017 and each mature on March 31, 2019. We paid an aggregate amount of approximately $0.7 million for the caps in April 2017.

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) exceeded 2.0% between August 19, 2015 (the effective date) and September 29, 2016 and (ii) exceeded 1.75% between September 30, 2016 and August 19, 2017 (the maturity date).

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 exceeded 1.5%. The interest rate cap agreements each had an effective date of April 16, 2015 and each matured 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 year ended December 31, 2017 would have resulted in an increase in interest expense of approximately $16.0 million.

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Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed under the supervision of our principal executive officer and principal financial and accounting officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and include those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets;
- Provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2017, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2017. During our assessment, we did not identify any material weaknesses in our internal control over financial reporting.

We have excluded the DRIVIN, DAS, TradeRev and POIS acquisitions from our assessment of internal control over financial reporting as of December 31, 2017 because we are continuing to integrate the acquisitions into our corporate processes. The total assets of the 2017 acquisitions, excluding goodwill and intangibles (which were included within the scope of the assessment) represent 0.4% and the total revenues of the 2017 acquisitions represent 0.4% of the related consolidated financial statement amounts as of and for the year ended December 31, 2017. No potential internal control changes due to new acquisitions would be considered material to, or are reasonably likely to materially affect, our internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements for the year ended December 31, 2017, also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2017 as stated in their report included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

/s/ JAMES P. HALLETT
James P. Hallett
Chief Executive Officer
(Principal Executive Officer)

/s/ ERIC M. LOUGHMILLER
Eric M. Loughmiller
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
KAR Auction Services, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of KAR Auction Services, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired DRIVIN, DAS, TradeRev and POIS ("2017 acquisitions") during 2017, and management has excluded from its assessment of internal control over financial reporting as of December 31, 2017, the 2017 acquisitions' internal control over financial reporting associated with total assets, excluding goodwill and intangibles (which were included within the scope of their assessment), of 0.4% and total revenues of 0.4% included in the consolidated financial statements of KAR Auction Services, Inc. and subsidiaries as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of KAR Auction Services, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of the 2017 acquisitions.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit

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preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2007.

Indianapolis, Indiana
February 20, 2018

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KAR Auction Services, Inc.
Consolidated Statements of Income
(In millions, except per share data)

	Year Ended December 31,		
	2017	2016	2015
Operating revenues			
ADESA Auction Services	$1,937.5	$1,765.3	$1,427.8
IAA Salvage Services	1,219.2	1,098.0	994.4
AFC	301.3	286.8	268.4
Total operating revenues	3,458.0	3,150.1	2,690.6
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	1,987.2	1,827.4	1,548.5
Selling, general and administrative	640.2	583.1	502.0
Depreciation and amortization	264.6	240.6	212.8
Total operating expenses	2,892.0	2,651.1	2,263.3
Operating profit	566.0	499.0	427.3
Interest expense	164.0	138.8	91.4
Other income, net	(1.9)	(0.5)	(4.6)
Loss on extinguishment of debt	27.5	5.4	—
Gain on previously held equity interest value	(21.6)	—	—
Income before income taxes	398.0	355.3	340.5
Income taxes	36.0	132.9	125.9
Net income	$362.0	$222.4	$214.6
Net income per share			
Basic	$2.66	$1.62	$1.53
Diluted	$2.62	$1.60	$1.51
Dividends declared per common share	$1.31	$1.19	$1.08

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2017	2016	2015
Net income	$362.0	$222.4	$214.6
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)	24.1	(9.1)	(38.5)
Unrealized loss on postretirement benefit obligation	—	—	(0.1)
Total other comprehensive income (loss), net of tax	24.1	(9.1)	(38.6)
Comprehensive income	$386.1	$213.3	$176.0

See accompanying notes to consolidated financial statements

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

	December 31,	
	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$317.2	$201.8
Restricted cash	19.4	17.9
Trade receivables, net of allowances of $11.2 and $13.0	725.5	682.9
Finance receivables, net of allowances of $13.0 and $12.0	1,899.6	1,780.2
Other current assets	175.7	158.4
Total current assets	3,137.4	2,841.2
Other assets		
Goodwill	2,191.7	2,057.0
Customer relationships, net of accumulated amortization of $805.0 and $707.8	375.6	461.0
Other intangible assets, net of accumulated amortization of $338.7 and $301.6	350.6	320.1
Other assets	20.8	35.8
Total other assets	2,938.7	2,873.9
Property and equipment, net of accumulated depreciation of $755.1 and $655.6	908.2	842.5
Total assets	$6,984.3	$6,557.6

See accompanying notes to consolidated financial statements

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

	December 31, 2017	December 31, 2016
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$682.7	$648.5
Accrued employee benefits and compensation expenses	104.4	100.7
Accrued interest	7.3	2.2
Other accrued expenses	171.5	149.4
Income taxes payable	5.8	5.0
Dividends payable	47.0	43.7
Obligations collateralized by finance receivables	1,358.1	1,280.3
Current maturities of long-term debt	12.4	105.2
Total current liabilities	2,389.2	2,335.0
Non-current liabilities		
Long-term debt	2,667.7	2,365.1
Deferred income tax liabilities	192.7	291.7
Other liabilities	249.8	168.5
Total non-current liabilities	3,110.2	2,825.3
Commitments and contingencies (Note 16)		
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:		
134,315,118 (2017)		
136,639,217 (2016)	1.3	1.4
Additional paid-in capital	1,251.8	1,371.1
Retained earnings	257.0	74.1
Accumulated other comprehensive loss	(25.2)	(49.3)
Total stockholders' equity	1,484.9	1,397.3
Total liabilities and stockholders' equity	$6,984.3	$6,557.6

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	(Accumulated Deficit)/Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2014	141.3	$ 1.4	$ 1,593.7	$ (46.4)	$ (1.6)	$ 1,547.1
Net income				214.6		214.6
Other comprehensive loss					(38.6)	(38.6)
Issuance of common stock under stock plans	1.8		22.7			22.7
Stock-based compensation expense			11.7			11.7
Excess tax benefit from stock-based compensation			7.1			7.1
Repurchase and retirement of common stock	(5.3)		(227.6)			(227.6)
Cash dividends declared to stockholders ($1.08 per share)				(150.9)		(150.9)
Balance at December 31, 2015	137.8	1.4	1,407.6	17.3	(40.2)	1,386.1
Net income				222.4		222.4
Other comprehensive loss					(9.1)	(9.1)
Issuance of common stock under stock plans	1.7		17.1			17.1
Surrender of RSUs for taxes	(0.2)		(10.5)			(10.5)
Stock-based compensation expense			18.1			18.1
Excess tax benefit from stock-based compensation			17.2			17.2
Repurchase and retirement of common stock	(2.7)		(80.4)			(80.4)
Dividends earned under stock plans			2.0	(2.0)		—
Cash dividends declared to stockholders ($1.19 per share)				(163.6)		(163.6)
Balance at December 31, 2016	136.6	1.4	1,371.1	74.1	(49.3)	1,397.3
Net income				362.0		362.0
Other comprehensive income					24.1	24.1
Issuance of common stock under stock plans	1.1		11.4			11.4
Surrender of RSUs for taxes	(0.1)		(5.9)			(5.9)
Stock-based compensation expense			24.2			24.2
Repurchase and retirement of common stock	(3.3)	(0.1)	(149.9)			(150.0)
Dividends earned under stock plans			0.9	(0.9)		—
Cash dividends declared to stockholders ($1.31 per share)				(178.2)		(178.2)
Balance at December 31, 2017	134.3	$ 1.3	$ 1,251.8	$ 257.0	$ (25.2)	$ 1,484.9

See accompanying notes to consolidated financial statements

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

	Year Ended December 31, 2017	2016	2015
Operating activities			
Net income	$362.0	$222.4	$214.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	264.6	240.6	212.8
Provision for credit losses	38.5	40.5	18.8
Deferred income taxes	(93.5)	(4.2)	5.0
Amortization of debt issuance costs	10.4	8.8	7.2
Stock-based compensation	24.2	18.1	11.7
(Gain) loss on disposal of fixed assets	(0.8)	0.1	0.9
Loss on extinguishment of debt	27.5	5.4	—
Gain on previously held equity interest value	(21.6)	—	—
Other non-cash, net	8.1	9.5	2.0
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables and other assets	(57.4)	(194.7)	(127.0)
Accounts payable and accrued expenses	26.8	31.5	136.1
Net cash provided by operating activities	588.8	378.0	482.1
Investing activities			
Net increase in finance receivables held for investment	(148.5)	(176.4)	(295.9)
Acquisition of businesses (net of cash acquired)	(73.3)	(432.1)	(118.1)
Purchases of property, equipment and computer software	(152.2)	(155.1)	(134.7)
Advance to equity method investee	(5.0)	—	—
Proceeds from the sale of property and equipment	0.7	—	0.3
(Increase) decrease in restricted cash	(1.5)	(1.7)	0.8
Net cash used by investing activities	(379.8)	(765.3)	(547.6)
Financing activities			
Net increase in book overdrafts	8.3	17.7	10.7
Net (decrease) increase in borrowings from lines of credit	(80.5)	(59.5)	140.0
Net increase in obligations collateralized by finance receivables	65.0	96.8	349.8
Proceeds from long-term debt	2,717.0	1,336.5	—
Payments for debt issuance costs/amendments	(22.6)	(32.8)	(10.9)
Payments on long-term debt	(2,436.7)	(662.6)	(21.5)
Payments on capital leases	(30.1)	(25.6)	(20.5)
Payments of contingent consideration and deferred acquisition costs	(7.0)	(3.6)	(1.2)
Initial net investment for interest rate caps	(1.7)	—	(2.2)
Issuance of common stock under stock plans	11.4	17.1	22.7
Tax withholding payments for vested RSUs	(5.9)	(10.5)	—
Repurchase and retirement of common stock	(150.0)	(80.4)	(227.6)
Dividends paid to stockholders	(174.8)	(157.1)	(151.9)
Net cash (used by) provided by financing activities	(107.6)	436.0	87.4
Effect of exchange rate changes on cash	14.0	(1.9)	(19.8)
Net increase in cash and cash equivalents	115.4	46.8	2.1
Cash and cash equivalents at beginning of period	201.8	155.0	152.9
Cash and cash equivalents at end of period	$317.2	$201.8	$155.0
Cash paid for interest	$147.1	$124.5	$79.7

Cash paid for taxes, net of refunds	$126.0	$121.6	$129.9

See accompanying notes to consolidated financial statements

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KAR Auction Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2017, 2016 and 2015
Note 1—Organization and Other Matters
KAR Auction Services, Inc. was organized in the State of Delaware on November 9, 2006. The KAR group of companies is comprised of ADESA, Inc., Insurance Auto Auctions, Inc., Automotive Finance Corporation and additional business units.
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"), Nth Gen Software Inc. ("TradeRev") and ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited"));
- "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, as amended on March 9, 2016 and May 31, 2017, 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;
- "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 senior secured term loan B-4 facility due March 11, 2021 ("Term Loan B-4"), the senior secured term loan B-5 facility due March 9, 2023 ("Term Loan B-5"), the $350 million, senior secured revolving credit facility due March 9, 2021 (the "revolving credit facility"), the $300 million, five-year senior secured revolving credit facility (the "2016 revolving credit facility") and the $250 million, five-year senior secured revolving credit facility (the "2014/2015 revolving credit facility"), the terms of which are set forth in the Credit Agreement. Term Loan B-1 and the 2014/2015 revolving credit facility were extinguished in March 2016 with proceeds received from Term Loan B-3. Term Loan B-2, Term Loan B-3 and the 2016 revolving credit facility were repaid in May 2017 with proceeds from Term Loan B-4, Term Loan B-5 and the senior notes (defined below);
- "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 Limited ("HBC");
- "KAR Auction Services" refers to KAR Auction Services, Inc. and not to its subsidiaries; and
- "Senior notes" refers to the 5.125% senior notes due 2025 ($950 million aggregate principal outstanding at December 31, 2017).

Business and Nature of Operations
As of December 31, 2017, we have a North American network of 75 ADESA whole car auction sites and 175 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes TradeRev, an online automotive remarketing system where dealers can launch and participate in real-time vehicle auctions at any time and ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services Limited, which operates from 11 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.

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 128 locations throughout the United States and Canada as of December 31, 2017. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, IAA, TradeRev, 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.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of KAR Auction Services and all of its majority owned subsidiaries. Significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates based in part on assumptions about current, and for some estimates, future economic and market conditions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Although the current estimates contemplate current conditions and expected future changes, as appropriate, it is reasonably possible that future conditions could differ from these estimates, which could materially affect our results of operations and financial position. Among other effects, such changes could result in future impairments of goodwill, intangible assets and long-lived assets, incremental losses on finance receivables, additional allowances on accounts receivable and deferred tax assets, changes in litigation and other loss contingencies and changes in self insurance reserves.

Business Segments

Our operations are grouped into three operating segments: ADESA Auctions, IAA and AFC. The three operating segments also serve as our reportable business segments. Operations are measured through detailed budgeting and monitoring of contributions to consolidated income by each business segment.

Derivative Instruments and Hedging Activity

We recognize all derivative financial instruments in the consolidated financial statements at fair value in accordance with Accounting Standards Codification ("ASC") 815, Derivatives and Hedging. We currently use four interest rate caps to manage the variability of cash flows to be paid due to interest rate movements on our variable rate debt. The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks. The fair value of the derivatives is recorded in "Other assets" on the consolidated balance sheet. We have not designated any of the current interest rate caps as hedges for accounting purposes. Accordingly, changes in the fair value of the interest rate derivatives are recognized as "Interest expense" in the consolidated statement of income.

Foreign Currency Translation

The local currency is the functional currency for each of our foreign entities. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at average exchange rates in effect during the year. Assets and liabilities of foreign operations are translated using the exchange rates in effect at year end. Foreign currency transaction gains and losses are included in the consolidated statements of income within "Other income, net" and resulted in a gain of $0.8 million for the year ended December 31, 2017, a loss of $0.7 million for the year ended December 31, 2016 and a loss of $1.0 million for the year ended December 31, 2015. Adjustments arising from the translation of net assets located outside the U.S. (gains and losses) are shown as a component of "Accumulated other comprehensive income."

Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. These investments are valued at cost, which approximates fair value.

Restricted Cash

AFC Funding Corporation, a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary of AFC, is required to maintain a minimum cash reserve of 1 percent of total receivables sold to the group of bank purchasers as security for the receivables sold. Automotive Finance Canada Inc. ("AFCI") is also required to maintain a minimum cash reserve of 1 percent of total receivables sold to its securitization facility. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreements. AFC also maintains other cash reserves from time to time associated with its banking and vehicle service contract program insurance relationships.

Receivables

Trade receivables include the unremitted purchase price of vehicles purchased by third parties at the auctions, fees to be collected from those buyers and amounts due for services provided by us related to certain consigned vehicles in our possession. The amounts due with respect to the consigned vehicles are generally deducted from the sales proceeds upon the eventual auction or other disposition of the related vehicles.

Finance receivables include floorplan receivables created by financing dealer purchases of vehicles in exchange for a security interest in those vehicles and special purpose loans. Floorplan receivables become due at the earlier of the dealer subsequently selling the vehicle or a predetermined time period (generally 30 to 90 days). Special purpose loans relate to loans that are either line of credit loans or working capital loans that can be either secured or unsecured based on the facts and circumstances of the specific loans.

Due to the nature of our business, substantially all trade and finance receivables are due from vehicle dealers, salvage buyers, institutional sellers and insurance companies. We have possession of vehicles or vehicle titles collateralizing a significant portion of the trade and finance receivables.

Trade receivables and finance receivables are reported net of an allowance for doubtful accounts and credit losses. The allowances for doubtful accounts and credit losses are based on management's evaluation of the receivables portfolio under current conditions, the volume of the portfolio, overall portfolio credit quality, review of specific collection issues and such other factors which in management's judgment deserve recognition in estimating losses.

Other Current Assets

Other current assets consist of inventories, prepaid expenses, taxes receivable and other miscellaneous assets. The inventories, which consist of vehicles, supplies and parts, are accounted for on the specific identification method and are stated at the lower of cost or net realizable value.

Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets of businesses acquired. Goodwill is tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. ASC 350, Intangibles—Goodwill and Other, permits an entity to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment model. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The quantitative assessment for goodwill impairment is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805, Business Combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Customer Relationships and Other Intangible Assets

Customer relationships are amortized on a straight-line basis over the life determined in the valuation of the particular acquisition. Other intangible assets generally consist of tradenames, computer software and non-compete agreements, which if amortized, are amortized using the straight-line method. Tradenames with indefinite lives are not amortized and tradenames that have been assigned a useful life are amortized over their estimated useful lives. Costs incurred related to software developed or obtained for internal use are capitalized during the application development stage of software development and amortized over their estimated useful lives. The non-compete agreements are amortized over the life of the agreements. The lives of other intangible assets are re-evaluated periodically when facts and circumstances indicate that revised estimates of useful lives may be warranted. Indefinite-lived tradenames are assessed for impairment, in accordance with ASC 350, annually in the second quarter or more frequently as impairment indicators arise. At the end of each assessment, we make a determination as to whether the tradenames still have an indefinite life.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method at rates intended to depreciate the costs of assets over their estimated useful lives. Upon retirement or sale of property and equipment, the cost of the disposed assets and related accumulated depreciation is removed from the accounts and any resulting gain or loss is credited or charged to selling, general and administrative expenses. Expenditures for normal repairs and maintenance are charged to expense as incurred. Additions and expenditures for improving or rebuilding existing assets that extend the useful life are capitalized. Leasehold improvements made either at the inception of the lease or during the lease term are amortized over the shorter of their economic lives or the lease term including any renewals that are reasonably assured.

Unamortized Debt Issuance Costs

Debt issuance costs reflect the expenditures incurred in conjunction with term loan debt, the revolving credit facility, the senior notes 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. Debt issuance costs are presented as a direct reduction from the carrying amount of the related debt liability.

Other Assets

Other assets consist of equity and cost method investments, below market leases, deposits, notes receivable and other long-term assets.

Long-Lived Assets

Management reviews our property and equipment, customer relationships and other intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The determination includes evaluation of factors such as current market value, future asset utilization, business climate, and future cash flows expected to result from the use of the related assets. If the carrying amount of a long-lived asset exceeds the total amount of the estimated undiscounted future cash flows from that asset, a loss is recognized in the period to the extent that the carrying amount exceeds the fair value of the asset. The impairment analysis is based on our current business strategy, expected growth rates and estimated future economic and regulatory conditions.

Accounts Payable
Accounts payable include amounts due sellers from the proceeds of the sale of their consigned vehicles less any fees, as well as outstanding checks to sellers and vendors. Book overdrafts, representing outstanding checks in excess of funds on deposit, are recorded in "Accounts payable" and amounted to $162.7 million and $154.4 million at December 31, 2017 and 2016, respectively.
Self Insurance Reserves
We self-insure our employee medical benefits, as well as a portion of our automobile, general liability and workers' compensation claims. We have insurance coverage that limits the exposure on individual claims. The cost of the insurance is expensed over the contract periods. We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims. Accrued medical benefits and workers' compensation expenses are included in "Accrued employee benefits and compensation expenses" while accrued automobile and general liability expenses are included in "Other accrued expenses."
Environmental Liabilities
Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties.
Revenue Recognition
ADESA Auction Services
Revenues and the related costs are recognized when the services are performed. Auction fees from sellers and buyers are recognized upon the sale of the vehicle through the auction process. Most of the vehicles that are sold through auctions are consigned to ADESA by the seller and held at ADESA's facilities or third party locations. ADESA does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. ADESA does not record the gross selling price of the consigned vehicles sold at auction as revenue. Instead, ADESA records only its auction fees as revenue because it does not take title to the consigned vehicles and has no influence on the vehicle auction selling price agreed to by the seller and buyer at the auction. Our buyer fees and dealer seller fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while institutional seller fees are typically fixed. Revenues from reconditioning, logistics, vehicle inspection and certification, titling, evaluation and salvage recovery services are generally recognized when the services are performed.
IAA Salvage Services
Revenues (including vehicle sales and fee income) are generally recognized at the date the vehicles are sold at auction. Most of the vehicles that are sold through auctions are consigned to IAA by the seller and held at IAA's facilities. IAA does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. IAA does not record the gross selling price of the consigned vehicles sold at auction as revenue. IAA seller revenues represent the combination of the inbound tow, processing, storage, titling, enhancing and auctioning of the vehicle and are recognized at the date the vehicles are sold at auction. Revenue not recognized at the date the vehicles are sold at auction includes annual buyer registration fees, which are recognized on a straight-line basis, and certain buyer-related fees, which are recognized when payment is received.
AFC
AFC's revenue is comprised of interest and fee income, provision for credit losses and other revenues associated with our finance receivables, as well as other service revenue. The following table summarizes the primary components of AFC's revenue:

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	Year Ended December 31,		
AFC Revenue (in millions)	2017	2016	2015
Interest and fee income	$290.3	$275.1	$246.8
Other revenue	11.8	10.3	9.7
Provision for credit losses	(33.9)	(30.7)	(16.0)
Other service revenue	33.1	32.1	27.9
	$301.3	$286.8	$268.4

Interest and fee income

Interest on finance receivables is recognized based on the number of days the vehicle remains financed. AFC ceases recognition of interest on finance receivables when the loans become delinquent, which is generally 31 days past due. Dealers are also charged a fee to floorplan a vehicle ("floorplan fee"), to extend the terms of the receivable ("curtailment fee") and a document processing fee. AFC fee income including floorplan and curtailment fees is recognized over the life of the finance receivable.

Other revenue

Other revenue includes lot check fees, filing fees, lien holder payoff services and other related program fees, each of which are charged to and collected from AFC's customers.

Other service revenue

Other service revenue represents the revenue generated by Preferred Warranties, Inc. ("PWI"). PWI receives advance payments for vehicle service contracts and unearned revenue is deferred and recognized over the terms of the contracts utilizing a historical earnings curve. The average term of the contracts originated in 2017 was approximately 1.7 years and PWI had unearned revenue of $32.8 million at December 31, 2017.

Income Taxes

We file federal, state and foreign income tax returns in accordance with the applicable rules of each jurisdiction. We account for income taxes under the asset and liability method in accordance with ASC 740, Income Taxes. The provision for income taxes includes federal, foreign, state and local income taxes payable, as well as deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable amounts in years in which those temporary differences are expected to be recovered or settled. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

In accordance with ASC 740, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average common shares outstanding during the year. Diluted net income per share represents net income divided by the sum of the weighted average common shares outstanding plus potential dilutive instruments 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 performance-based restricted stock units ("PRSUs") subject to performance conditions which have not yet been satisfied are excluded from the calculations.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under ASC 718, Compensation—Stock Compensation. We recognize all stock-based compensation as expense in the financial statements and that cost is measured as the fair value of the award at the grant date for equity-classified awards.

We adopted Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, in the first quarter of 2017. As a result of the adoption, the Company elected to recognize the impact of forfeitures as they occur. In addition, the Company now recognizes excess tax benefits and tax deficiencies related to employee stock-based compensation within income tax expense. As a result, on a prospective basis, we recognized $6.4 million of excess tax benefits from stock-based compensation as a discrete item in our income tax expense for the year ended December 31, 2017. Historically, these amounts were recorded as additional paid-in capital. We have also retrospectively applied ASU 2016-09 to our consolidated statements of cash flows for the years ended December 31, 2016 and December 31, 2015, which resulted in a reclassification of excess tax benefits from stock-based compensation of $17.2 million and $7.1 million, respectively, from cash flows provided by financing activities to cash flows provided by operating activities.

New Accounting Standards

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is expected to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Changes that do not impact the fair value, vesting conditions or classification of an award will not require modification accounting. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of ASU 2017-09 will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the test for goodwill impairment by eliminating Step 2 (implied fair value measurement). Instead goodwill impairment would be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The new guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of ASU 2017-04 will have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which addresses diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We do not expect the adoption of ASU 2016-18 will have a material impact on the consolidated financial statements.

In August 2016, the 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. We do not expect the adoption of ASU 2016-13 will have a material impact on the consolidated financial statements based on the short-term nature of AFC's loans.

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 and anticipates that the new guidance will significantly impact its consolidated financial statements, as the Company has a significant number of leases. Our current minimum commitments under non-cancelable operating leases are disclosed in the "Contractual Obligations" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and in Note 13. In addition, the recognition of these leases on our consolidated balance sheet would increase our net debt calculation which is included in the determination of our Consolidated Senior Secured Leverage Ratio. In this event, our Credit Agreement specifies that the covenant shall continue to be calculated as if the accounting standard had not occurred and that we could enter into negotiations to amend such provisions in the Credit Agreement so as to equitably reflect such changes with the desired result that the criteria for evaluating our financial condition would be the same after the change as if such change had not been made.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which superseded the revenue recognition requirements in 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 will use retrospective application with the cumulative effect as its transition method. The Company has evaluated the impact the adoption of ASU 2014-09 will have on the consolidated financial statements and has assessed its contracts with customers. The adoption of ASU 2014-09 will not result in any material adjustments and it will not have a material impact on the consolidated financial statements.

Note 3—Acquisitions and Equity Method Investment

2017 Acquisitions

In April 2017, the Company purchased all of the stock of CarCo Technologies, Inc. (“DRIVIN”). DRIVIN aggregates automotive retail, pricing, registration and other market and economic data from a variety of public and proprietary sources. The insights generated from that data are deployed through predictive pricing, inventory management and vehicle matching tools that help customers buy, sell and source vehicles.

In May 2017, the Company acquired Dependable Auto Shippers ("DAS"). DAS provides vehicle transportation services for corporate and personal vehicle transportation needs.

In October 2017, the Company acquired the remaining 50% interest in Nth Gen Software Inc. ("TradeRev"). TradeRev brings mobile and digital technology to the Company’s portfolio of whole car and salvage auctions, floorplan financing solutions, and other ancillary and related services. The Company plans to further integrate those capabilities into TradeRev to expand its digital business and strengthen its share in the dealer-to-dealer market. The Company entered into operating lease obligations related to various facilities through 2028. Initial annual lease payments for the various facilities are approximately $1.8 million per year.

In December 2017, the Company acquired POIS, Inc. POIS provides loan payoff and lien release technology with a focus on helping insurance companies settle liens faster to improve cycle time/inventory turns.

Certain of the purchase agreements included contingent payments related to vehicle volumes subsequent to the purchase date. The purchased assets included accounts receivable, inventory, customer relationships, tradenames, software 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 2017, net of cash acquired, was approximately $103.9 million, which included deferred payments with a fair value of $6.6 million and estimated contingent payments with a fair value of $24.0 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $60.0 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $29.4 million to intangible assets, representing the fair value of acquired customer relationships of $3.1 million, software of $24.0 million and tradenames of $2.3 million, which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $130.7 million. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company’s consolidated results for the year ended December 31, 2017.

2016 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 revenues 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, 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.

In November 2016, ADESA completed the acquisition of Flint Auto Auction, a whole car auction facility in Flint, Michigan. This acquisition expands ADESA's geographic footprint in the Midwest.

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 2016, net of cash acquired, was approximately $433.4 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 $136.8 million to intangible assets, representing the fair value of acquired customer relationships of $129.8 million, software of $4.9 million, tradenames of $1.8 million and non-competes of $0.3 million, which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $269.6 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 year ended December 31, 2016.

Equity Method Investment

For the first nine months of 2017, ADESA held a 50% interest in TradeRev. In addition, ADESA also had a joint marketing agreement with TradeRev to assist in expanding its footprint in the dealer-to-dealer online space in the U.S. and Canadian markets. Prior to the acquisition in October 2017, the Company accounted for TradeRev as an equity method investment because we had the ability to exercise significant influence over operating and financial policies but did not have a controlling financial interest. At the date of acquisition, the carrying amount of the investment was $18.4 million. Upon acquisition, our previously held interest in TradeRev was re-measured at fair value, resulting in a non-cash gain of $21.6 million. The fair value of our previously held interest in TradeRev was developed in consultation with independent valuation specialists who used a discounted cash flow methodology. The gain has been recognized as "Gain on previously held equity interest value" in the consolidated statement of income for the year ended December 31, 2017.

ASC 323, Investments - Equity Method and Joint Ventures, specifies that to the extent there is a basis difference between the cost and the underlying equity in the net assets of an equity investment, such difference is required to be allocated between tangible and intangible assets. At the date of the acquisition of the first 50% interest, the carrying amount of the investment in TradeRev was greater than the Company’s equity in the underlying assets of TradeRev by approximately $21.8 million as a result of the difference in the carrying amounts of intangible assets. The difference attributable to amortizable intangible assets was approximately $4.8 million at the time of the equity investment, which was amortized on a straight-line basis over the expected useful lives of the intangible assets, which range from 6 to 14 years. The intangible assets are not reflected on the balance sheet of KAR Auction Services for the year ended December 31, 2016.

The Company’s share in the net losses of TradeRev in 2017, through the date of acquisition, was $4.4 million and the Company's share in the net losses of TradeRev for fiscal years 2016 and 2015 was $3.8 million and $0.8 million, respectively. This amount was recorded to “Other income, net” in the consolidated statements of income.

In the first quarter of 2017, TradeRev signed a promissory note with ADESA. The promissory note created a line of credit for term loans up to $15 million, with a minimum of $5 million to be drawn at a time. Until the acquisition of TradeRev, there was $5 million outstanding on the promissory note.

Note 4—Stock and Stock-Based Compensation Plans

Our stock-based compensation expense has included expense associated with KAR Auction Services, Inc. PRSUs, service-based restricted stock units ("RSUs"), service options and exit options. We have classified the KAR Auction Services, Inc. PRSUs, RSUs, service options and exit options as equity awards.

The compensation cost that was charged against income for all stock-based compensation plans was $24.2 million, $18.1 million and $11.7 million for the years ended December 31, 2017, 2016 and 2015, respectively, and the total income tax benefit recognized in the consolidated statement of income for options, PRSUs and RSUs was approximately $6.1 million, $6.9 million and $4.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. We did not capitalize any stock-based compensation cost in the years ended December 31, 2017, 2016 or 2015.

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

	Year Ended December 31,		
	2017	2016	2015
PRSUs	$13.2	$10.3	$6.1
RSUs	9.5	5.9	2.5
Service options	1.5	1.9	3.1
Total stock-based compensation expense	$24.2	$18.1	$11.7

KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan - PRSUs, RSUs, Service Options and Exit Options

We adopted the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan ("Omnibus Plan") in December 2009. The Omnibus Plan is intended to provide equity or cash-based awards to our employees. The maximum number of shares that may be issued pursuant to awards under the Omnibus Plan is 12.5 million. The Omnibus Plan provides for the grant of options, restricted stock, stock appreciation rights, other stock-based awards and cash-based awards. The PRSU and RSU grants described below were made pursuant to the Company's Policy on Granting Equity Awards.

PRSUs

In 2017, we granted a target amount of approximately 0.2 million PRSUs to certain executive officers and management of the Company. The PRSUs generally vest if and to the extent that the Company's three-year operating adjusted earnings per share attains certain specified goals. The weighted average grant date fair value of the PRSUs was $44.64 per share, which was determined using the closing price of the Company's common stock on the dates of grant.

In 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. The weighted average grant date fair value of the PRSUs was $34.94 per share, which was determined using the closing price of the Company's common stock on the dates of grant.

In 2015, we granted a target amount of approximately 0.2 million PRSUs to certain executive officers and management of the Company. The PRSUs vest to the extent that the Company's three-year adjusted earnings per share attains certain specified goals. The weighted average grant date fair value of the PRSUs was $37.03 per share, which was determined using the closing price of the Company's common stock on the dates of grant.

In the first quarter of 2014, we granted a target amount of approximately 0.1 million PRSUs to certain executive officers of the Company. Half of the PRSUs vested three years from the grant date to the extent that the Company's total shareholder return relative to that of companies within the S&P 500 Index exceeded certain levels over the same period. The other half of the PRSUs vested to the extent that the Company's three-year adjusted earnings per share attained certain specified goals. The grant date fair value of the PRSUs tied to total shareholder return was $36.54 per share and was developed in consultation with independent valuation specialists who used a Monte-Carlo simulation using a geometric Brownian motion based upon a risk-neutral framework. Key assumptions in the valuation included the fair market value of our common stock on the date of grant, the expected volatility of our common stock over the expected term of the award and the risk-free interest rate for the expected term of the award. The grant date fair value of the PRSUs tied to adjusted earnings per share was $30.89 per share, which was the closing price of the Company's common stock on the date of grant.

As of December 31, 2017, an estimated $9.6 million of unrecognized compensation expense related to nonvested PRSUs is expected to be recognized over a weighted average term of approximately 1.7 years. Dividend equivalents accrue on the PRSUs and are subject to the same vesting and forfeiture terms as the PRSUs.

RSUs

In 2017, 2016 and 2015, approximately 0.3 million, 0.3 million and 0.3 million, respectively, RSUs were granted to certain executive officers and management of the Company. The RSUs are contingent upon continued employment and generally vest in three equal annual installments. The fair value of RSUs is the value of the Company's common stock at the date of grant and the weighted average grant date fair value of the RSUs was $44.03 per share, $34.91 per share and $37.04 per share in 2017, 2016 and 2015, respectively. Dividend equivalents accrue on the RSUs and are subject to the same vesting and forfeiture terms as the RSUs.

The following table summarizes RSU activity, excluding dividend equivalents, under the Omnibus Plan for the year ended December 31, 2017:

Restricted Stock Units	Number	Weighted Average Grant Date Fair Value
RSUs at January 1, 2017	417,712	$ 35.67

Granted	299,955	44.03
Vested	(163,221)	35.92
Forfeited	(23,228)	38.99
RSUs at December 31, 2017	531,218	$ 40.18

As of December 31, 2017, there was approximately $12.3 million of unrecognized compensation expense related to nonvested RSUs which is expected to be recognized over a weighted average term of 1.9 years.

Service Options

In 2014, we granted approximately 0.9 million service options, with a weighted average exercise price of $30.06 per share under the Omnibus Plan. The service options have a ten year life and generally vest in four equal annual installments, commencing on the first anniversary of the respective grant dates.

Exit Options

The outstanding exit options granted in 2010 under the Omnibus Plan have a ten year life and are fully vested and exercisable.

KAR Auction Services, Inc. Stock Incentive Plan - Service Options and Exit Options

The Company adopted the KAR Auction Services, Inc. Stock Incentive Plan (the "Plan") in May 2007. The Plan was intended to provide equity incentive benefits to the Company's employees. The maximum number of shares that were to be issued pursuant to awards under the Plan was approximately 7.9 million. The Plan provided for the grant of incentive stock options and non-qualified stock options and restricted stock. Awards granted since the adoption of the Plan were non-qualified stock options, and no further grants will be awarded under the Plan.

The Plan provided two types of stock options: service-related options and performance-related exit options. All of the outstanding service options and exit options granted under the Plan occurred prior to 2010 and have a ten year life. In addition, all of the service options and exit options outstanding under the Plan are fully vested and exercisable.

Service Options Summary

The following table summarizes service option activity under the Omnibus Plan and the Plan for the year ended December 31, 2017:

Service Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2017	1,687,925	$ 22.59		
Granted	—	N/A		
Exercised	(303,062)	18.31		
Forfeited	(5,000)	25.80		
Canceled	(274)	10.00		
Outstanding at December 31, 2017	1,379,589	$ 23.54	5.1 years	$ 37.2
Exercisable at December 31, 2017	1,095,427	$ 21.87	4.8 years	$ 31.4

The intrinsic value presented in the table above represents the amount by which the market value of the underlying stock exceeds the exercise price of the option at December 31, 2017. The intrinsic value changes continuously based on the fair value of our stock. The market value is based on KAR Auction Services' closing stock price of $50.51 on December 31, 2017. The total intrinsic value of service options exercised during the years ended December 31, 2017, 2016 and 2015 was $8.1 million, $9.6 million and $11.0 million, respectively. The fair value of all vested and exercisable service options at December 31, 2017 and 2016 was $55.3 million and $49.0 million, respectively.

As of December 31, 2017, there was approximately $0.3 million of unrecognized compensation expense related to nonvested service options which is expected to be recognized over a weighted average term of 0.2 years.

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Exit Options Summary

The following table summarizes exit option activity under the Omnibus Plan and the Plan for the year ended December 31, 2017:

Exit Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2017	991,276	$ 11.90		
Granted	—	N/A		
Exercised	(444,877)	11.23		
Forfeited	—	N/A		
Canceled	(823)	10.00		
Outstanding at December 31, 2017	545,576	$ 12.46	1.8 years	$ 20.8
Exercisable at December 31, 2017	545,576	$ 12.46	1.8 years	$ 20.8

The intrinsic value presented in the table above represents the amount by which the market value of the underlying stock exceeds the exercise price of the option at December 31, 2017. The intrinsic value changes continuously based on the fair value of our stock. The market value is based on KAR Auction Services' closing stock price of $50.51 on December 31, 2017. The total intrinsic value of exit options exercised during the years ended December 31, 2017, 2016 and 2015 was $14.7 million, $23.8 million and $35.9 million, respectively. The fair value of all vested and exercisable exit options at December 31, 2017 and 2016 was $27.6 million and $42.2 million, respectively. All compensation expense related to the exit options was recognized prior to 2015.

KAR Auction Services, Inc. Employee Stock Purchase Plan

A maximum of 1,000,000 shares of our common stock have been reserved for issuance under the KAR Auction Services, Inc. Employee Stock Purchase Plan ("ESPP"). At December 31, 2017, 465,020 shares remain available for purchase under the ESPP. The ESPP provides for one month offering periods with a 15% discount from the fair market value of a share on the date of purchase. In accordance with ASC 718, Compensation—Stock Compensation, the entire 15% purchase discount is recorded as compensation expense. A participant's combined payroll deductions and cash payments in the ESPP may not exceed $25,000 per year.

Share Repurchase Programs

In October 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. In 2017 and 2016 we repurchased and retired 3,279,089 and 1,931,200 shares of common stock, respectively, in the open market at a weighted average price of $45.74 and $41.61 per share, respectively, under the October 2016 authorization.

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 were 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 was subject to market and other conditions. In 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 2016, we made no repurchases of common stock in the open market under the October 2014 authorization.

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

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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 5—Net Income Per Share

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

	Year Ended December 31,		
	2017	2016	2015
Net income	$362.0	$222.4	$214.6
Weighted average common shares outstanding	136.3	137.6	140.1
Effect of dilutive stock options and restricted stock awards	1.7	1.5	2.2
Weighted average common shares outstanding and potential common shares	138.0	139.1	142.3
Net income per share			
Basic	$2.66	$1.62	$1.53
Diluted	$2.62	$1.60	$1.51

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 years ended December 31, 2017, 2016 and 2015 respectively. In addition, approximately 0.5 million, 0.5 million and 0.3 million PRSUs were excluded from the calculation of diluted net income per share for the years ended December 31, 2017, 2016 and 2015, respectively. Total options outstanding at December 31, 2017, 2016 and 2015 were 1.9 million, 2.7 million and 4.0 million, respectively.

Note 6—Allowance for Credit Losses and Doubtful Accounts

The following is a summary of the changes in the allowance for credit losses related to finance receivables (in millions):

	Year Ended December 31,		
	2017	2016	2015
Allowance for Credit Losses			
Balance at beginning of period	$12.0	$9.0	$8.0
Provision for credit losses	33.9	30.7	16.0
Recoveries	5.3	4.2	4.1
Less charge-offs	(38.2)	(31.9)	(19.1)
Balance at end of period	$13.0	$12.0	$9.0

AFC's allowance for credit losses includes estimated losses for finance receivables currently held on the balance sheet of AFC and its subsidiaries.

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The following is a summary of changes in the allowance for doubtful accounts related to trade receivables (in millions):

	Year Ended December 31,		
	2017	2016	2015
Allowance for Doubtful Accounts			
Balance at beginning of period	$13.0	$6.6	$6.3
Provision for credit losses	4.6	9.8	2.8
Less net charge-offs	(6.4)	(3.4)	(2.5)
Balance at end of period	$11.2	$13.0	$6.6

Recoveries of trade receivables were netted with charge-offs, as they were not material. Changes in the Canadian exchange rate did not have a material effect on the allowance for doubtful accounts.

Note 7—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 $1.50 billion for U.S. finance receivables at December 31, 2017.

In December 2016, AFC and AFC Funding Corporation entered into the Seventh Amended and Restated Receivables Purchase Agreement (the "Receivables Purchase Agreement"). The Receivables Purchase Agreement increased AFC Funding's U.S. committed liquidity from $1.25 billion to $1.50 billion and extended the facility's maturity date from June 29, 2018 to January 31, 2020. In addition, the definition of eligible receivables was expanded and the tangible net worth requirement increased. We capitalized approximately $12.7 million of costs in connection with the Receivables Purchase Agreement. In addition, we recorded a $1.4 million pretax charge resulting from the write-off of a portion of the unamortized securitization issuance costs. In March 2016, we also capitalized approximately $0.8 million of costs in connection with an amendment to the agreement.

We also have an agreement for the securitization of AFCI's receivables. AFCI's committed facility is provided through a third party conduit (separate from the U.S. facility) and was C$125 million at December 31, 2017. In December 2016, AFCI entered into the Fourth Amended and Restated Receivables Purchase Agreement (the "Canadian Receivables Purchase Agreement"). The Canadian Receivables Purchase Agreement extended the facility's maturity date from June 29, 2018 to January 31, 2020. We capitalized approximately $0.7 million of costs in connection with the Canadian Receivables Purchase Agreement. 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.

(in millions)	December 31, 2017 Total Amount of: Receivables	Receivables Delinquent	Net Credit Losses During 2017
Floorplan receivables	$1,901.1	$ 12.1	$ 32.9
Other loans	11.5	—	—
Total receivables managed	$1,912.6	$ 12.1	$ 32.9

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(in millions)	December 31, 2016 Total Amount of: Receivables	Receivables Delinquent	Net Credit Losses During 2016
Floorplan receivables	$1,781.1	$ 12.0	$ 27.7
Other loans	11.1	—	—
Total receivables managed	$1,792.2	$ 12.0	$ 27.7

AFC's allowance for losses was $13.0 million and $12.0 million at December 31, 2017 and 2016, respectively.
As of December 31, 2017 and 2016, $1,893.2 million and $1,774.8 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:

	December 31, 2017	December 31, 2016
Obligations collateralized by finance receivables, gross	$1,371.4	$1,300.0
Unamortized securitization issuance costs	(13.3)	(19.7)
Obligations collateralized by finance receivables	$1,358.1	$1,280.3

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 December 31, 2017, we were in compliance with the covenants in the securitization agreements.

Note 8—Goodwill and Other Intangible Assets

Goodwill consisted of the following (in millions):

	ADESA Auctions	IAA	AFC	Total
Balance at December 31, 2015	$1,039.4	$537.5	$219.0	$1,795.9
Increase for acquisition activity	224.1	0.8	44.7	269.6
Other	(6.6)	(1.9)	—	(8.5)
Balance at December 31, 2016	$1,256.9	$536.4	$263.7	$2,057.0
Increase for acquisition activity	130.7	—	—	130.7
Other	2.8	1.2	—	4.0
Balance at December 31, 2017	$1,390.4	$537.6	$263.7	$2,191.7

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. Goodwill increased in 2017 and 2016 primarily as a result of acquisitions. A portion of the goodwill resulting from the businesses acquired in 2017 and 2016 is expected to be deductible for tax purposes. The "other" category includes the impact of fluctuations in exchange rates.

A summary of customer relationships is as follows (in millions):

		December 31, 2017			December 31, 2016		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships	5 - 19	$1,180.6	$ (805.0)	$ 375.6	$1,168.8	$ (707.8)	$ 461.0

The increase in customer relationships in 2017 was primarily related to customer relationships acquired, partially offset by the amortization of existing customer relationships, as well as changes in the Canadian exchange rate.

A summary of other intangibles is as follows (in millions):

		December 31, 2017			December 31, 2016		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Tradenames	2 - Indefinite	$203.4	$ (8.6)	$ 194.8	$201.1	$ (6.9)	$ 194.2
Computer software & technology	3 - 13	470.9	(315.6)	155.3	404.8	(279.7)	125.1
Covenants not to compete	1 - 5	15.0	(14.5)	0.5	15.8	(15.0)	0.8
Total		$689.3	$ (338.7)	$ 350.6	$621.7	$ (301.6)	$ 320.1

Other intangibles increased in 2017 primarily as a result of computer software additions and acquisitions, partially offset by the amortization of existing intangibles. The carrying amount of tradenames with an indefinite life was approximately $187.5 million at December 31, 2017 and 2016.

Amortization expense for customer relationships and other intangibles was $162.6 million, $151.0 million and $138.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. Estimated amortization expense on existing intangible assets for the next five years is $138.6 million for 2018, $110.5 million for 2019, $75.1 million for 2020, $44.9 million for 2021 and $36.7 million for 2022.

Note 9—Property and Equipment

Property and equipment consisted of the following (in millions):

	Useful Lives (in years)	December 31, 2017	2016
Land		$ 270.9	$ 266.4
Buildings	5 - 40	249.5	244.7
Land improvements	5 - 20	173.8	167.7
Building and leasehold improvements	3 - 33	436.8	384.5
Furniture, fixtures and equipment	1 - 10	456.4	388.6
Vehicles	3 - 10	22.3	19.1
Construction in progress		53.6	27.1
		1,663.3	1,498.1
Accumulated depreciation		(755.1)	(655.6)
Property and equipment, net		$ 908.2	$ 842.5

Depreciation expense for the years ended December 31, 2017, 2016 and 2015 was $102.0 million, $89.6 million and $74.8 million, respectively.

We have acquired furniture, fixtures and equipment by undertaking capital lease obligations. Assets held under the capital leases are depreciated in a manner consistent with our depreciation policy for owned assets. The assets included above that are held under capital leases are summarized below (in millions):

	December 31,	
Classes of Property	2017	2016
Furniture, fixtures and equipment	$180.0	$149.2
Accumulated depreciation	(119.2)	(94.2)
Capital lease assets	$60.8	$55.0

Note 10—Self Insurance and Retained Loss Reserves

We self-insure our employee medical benefits, as well as a portion of our automobile, general liability and workers' compensation claims. We have insurance coverage that limits the exposure on individual claims. We also had insurance coverage that limited the total exposure to overall automobile, general liability and workers' compensation claims in 2016 and 2015. The cost of the insurance is expensed over the contract periods. Utilizing historical claims experience, we record an accrual for the claims based upon the expected amount of all such claims, which includes the cost of claims that have been incurred but not reported. Accrued medical benefits and workers' compensation expenses are included in "Accrued employee benefits and compensation expenses" while accrued automobile and general liability expenses are included in "Other accrued expenses."

The following is a summary of the changes in the reserves for self-insurance and the retained losses (in millions):

	Year Ended December 31,		
	2017	2016	2015
Balance at beginning of period	$43.1	$36.1	$33.3
Net payments	(85.2)	(76.5)	(66.3)
Expense	87.4	83.5	69.1
Balance at end of period	$45.3	$43.1	$36.1

Individual stop-loss coverage for medical benefits was $0.5 million in 2017 and 2016. There was no aggregate policy limit for medical benefits for the Company in either year. The retention for automobile and general liability claims was $1.0 million per occurrence and the retention for workers' compensation claims was $0.5 million per occurrence with a $1.0 million corridor deductible in the 2017 and 2016 policy years. Once the $1.0 million corridor deductible is met for workers' compensation claims, the deductible reverts back to $0.5 million per occurrence. There was no aggregate policy limit for the combined automobile, general liability and workers' compensation program for the 2017 policy year. The aggregate policy limits for the combined automobile, general liability and workers' compensation program was $30.4 million for the 2016 policy year.

Note 11—Long-Term Debt

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

	Interest Rate*		Maturity	December 31, 2017	2016
Term Loan B-2	Adjusted LIBOR	+ 3.1875%	March 11, 2021	$—	$1,082.7
Term Loan B-3	Adjusted LIBOR	+ 3.50%	March 9, 2023	—	1,339.9
Term Loan B-4	Adjusted LIBOR	+ 2.25%	March 11, 2021	711.3	—
Term Loan B-5	Adjusted LIBOR	+ 2.50%	March 9, 2023	1,041.6	—
Revolving credit facility	Adjusted LIBOR	+ 2.0%	March 9, 2021	—	80.5
Senior notes		5.125%	June 1, 2025	950.0	—
Canadian line of credit	CAD Prime	+ 0.50%	Repayable upon demand	—	—
Total debt				2,702.9	2,503.1
Unamortized debt issuance costs/discounts				(22.8)	(32.8)
Current portion of long-term debt				(12.4)	(105.2)
Long-term debt				$2,667.7	$2,365.1

*The interest rates presented in the table above represent the rates in place at December 31, 2017. The weighted average interest rate on our variable rate debt was 4.15% and 4.39% at December 31, 2017 and 2016, respectively.

On May 31, 2017, the Company used proceeds from the issuance of $950 million senior notes and proceeds from the issuance of $1,767 million in the aggregate of Term Loan B-4 and Term Loan B-5 to repay Term Loan B-2 and Term Loan B-3 in full and to repay the outstanding balance on the revolving credit facility.

Credit Facility

On May 31, 2017, we entered into an Incremental Commitment Agreement and Second Amendment (the "Second Amendment") to the Credit Agreement. The Second Amendment provided for, among other things, (i) the refinancing and repricing of the existing tranche B-2 term loans ("Term Loan B-2") remaining after the repayment with new tranche B-4 term loans in an aggregate principal amount of $717 million ("Term Loan B-4"), (ii) the refinancing and repricing of existing tranche B-3 term loans ("Term Loan B-3") remaining after the repayment with new tranche B-5 term loans in an aggregate principal amount of $1.05 billion ("Term Loan B-5") and (iii) a $350 million senior secured revolving credit facility (the "revolving credit facility"). A portion of the proceeds received from the issuance of the senior notes was used to repay a portion of Term Loan B-2 and Term Loan B-3, as well as the outstanding balance on the 2016 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 $27.5 million in the second quarter of 2017. The loss was a result of the write-off of unamortized debt issue costs and debt discounts associated with Term Loan B-2 and Term Loan B-3. We capitalized approximately $7.8 million of debt issuance costs in connection with the Second Amendment.

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 "2016 revolving credit facility"), which replaced the previously existing revolving credit facility (the "2014/2015 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 second 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 2014/2015 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 $90 million is available for swing line loans.

Both Term Loan B-4 and Term Loan B-5 are payable in quarterly installments equal to 0.25% of their respective original aggregate principal amounts. Such payments commenced on September 30, 2017, 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 $5.7 million and $8.4 million of Term Loan B-4 and Term Loan B-5, respectively, for the year ended December 31, 2017. 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-4 and Term Loan B-5 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 December 31, 2017.

As set forth in the Credit Agreement, Term Loan B-4 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 2.25%, Term Loan B-5 at Adjusted LIBOR plus 2.50% and revolving loan borrowings at Adjusted LIBOR plus 2.0%. However, for specified types of borrowings, the Company may elect to make Term Loan B-4 borrowings at a Base Rate (as defined in the Credit Agreement) plus 1.25%, Term Loan B-5 at a Base Rate plus 1.50% and revolving loan borrowings at a Base Rate plus 1.0%. The rates on Term Loan B-4 and Term Loan B-5 were 4.00% and 4.25% at December 31, 2017, respectively. In addition, if the Company's Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement), which is based on a net debt calculation, increases to levels specified in the Credit Agreement, the applicable interest rate on the revolving credit facility will step up by 25 basis points. The Company also pays a commitment fee of 30 to 35 basis points, payable quarterly, on the average daily unused amount of the revolving credit facility based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

On December 31, 2017, there were no borrowings on the revolving credit facility and $80.5 million was drawn on the 2016 revolving credit facility at December 31, 2016. In addition, we had related outstanding letters of credit in the aggregate amount of $42.8 million and $29.7 million at December 31, 2017 and 2016, respectively, which reduce the amount available for borrowings under the respective revolving credit facility.

Senior Notes

On May 31, 2017, we issued $950 million of 5.125% senior notes due June 1, 2025. The Company will pay interest on the senior notes semi-annually in arrears on June 1 and December 1 of each year, which commenced on December 1, 2017. We may redeem the senior notes, in whole or in part, at any time prior to June 1, 2020 at a redemption price equal to 100% of the principal amount plus a make-whole premium and thereafter at a premium that declines ratably to par in 2023. We capitalized approximately $14.7 million of debt issuance costs in connection with the senior notes. The senior notes are guaranteed by the Subsidiary Guarantors.

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Canadian Line of Credit

ADESA Canada has a C$8 million line of credit. The line of credit bears interest at a rate equal to the Canadian prime rate plus 50 basis points. There were no borrowings under the Canadian line of credit at December 31, 2017 or 2016. There were related letters of credit outstanding totaling approximately C$1.0 million and C$0.9 million at December 31, 2017 and 2016, respectively, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility. The line of credit is guaranteed by certain ADESA Canada companies.

Future Principal Payments

At December 31, 2017, aggregate future principal payments on long-term debt are as follows (in millions):

2018	$12.4
2019	17.7
2020	17.7
2021	702.4
2022	10.5
Thereafter	1,942.2
	$2,702.9

Note 12—Financial Instruments

Our derivative activities are initiated within the guidelines of documented corporate risk management policies. We do not enter into any derivative transactions for speculative or trading purposes.

Interest Rate Risk Management

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 2017, we entered into two interest rate caps 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 exceeds 2.0%. The interest rate cap agreements each had an effective date of September 30, 2017 and each mature on September 30, 2019. We paid an aggregate amount of approximately $1.0 million for the caps in August 2017.
- In March 2017, we entered into two interest rate caps 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 2.0%. The interest rate cap agreements each had an effective date of March 31, 2017 and each mature on March 31, 2019. We paid an aggregate amount of approximately $0.7 million for the caps in April 2017.
- 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) exceeded 2.0% between August 19, 2015 (the effective date) and September 29, 2016 and (ii) exceeded 1.75% between September 30, 2016 and August 19, 2017 (the maturity date).
- 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 exceeded 1.5%. The interest rate cap agreements each had an effective date of April 16, 2015 and each matured 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

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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			
	December 31, 2017		December 31, 2016	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
2017 Interest rate caps	Other assets	$ 2.6	Other assets	N/A
2015 Interest rate caps	Other assets	N/A	Other assets	$ —

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 Year Ended December 31, 2017	2016	2015
2017 Interest rate caps	Interest expense	$0.8	N/A	N/A
2015 Interest rate caps	Interest expense	—	$(0.7)	$(1.5)

Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of interest-bearing investments, finance receivables, trade receivables and interest rate derivatives. We maintain cash and cash equivalents, short-term investments, and certain other financial instruments with various major financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and companies and limit the amount of credit exposure with any one institution. Cash and cash equivalents include interest-bearing investments with maturities of three months or less. Due to the nature of our business, substantially all trade and finance receivables are due from vehicle dealers, salvage buyers, institutional sellers and insurance companies. We have possession of vehicles or vehicle titles collateralizing a significant portion of the trade and finance receivables. The risk associated with this concentration is limited due to the large number of accounts and their geographic dispersion. We monitor the creditworthiness of customers to which we grant credit terms in the normal course of business. In the event of nonperformance by counterparties to financial instruments we are exposed to credit-related losses, but management believes this credit risk is limited by periodically reviewing the creditworthiness of the counterparties to the transactions.

Financial Instruments

The carrying amounts of trade receivables, finance receivables, other current assets, accounts payable, accrued expenses and borrowings under our short-term revolving line of credit facilities approximate fair value because of the short-term nature of those instruments.

As of December 31, 2017 and 2016, the estimated fair value of our long-term debt amounted to $2,735.1 million and $2,528.0 million, respectively. The estimates of fair value were based on broker-dealer quotes for our debt as of December 31, 2017 and 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.

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Note 13—Leasing Agreements

We lease property, computer equipment and software, automobiles, trucks and trailers, pursuant to operating lease agreements with terms expiring through 2036. Some of the leases contain renewal provisions upon the expiration of the initial lease term, as well as fair market value purchase provisions. In accordance with ASC 840, Leases, rental expense is being recognized ratably over the lease period, including those leases containing escalation clauses. The deferred portion of the rent, for the leases containing escalation clauses, is included in "Other liabilities" on the consolidated balance sheet.

We also lease furniture, fixtures and equipment under capital leases. The economic substance of the leases is that we are financing the purchase of furniture, fixtures and equipment through leases and, accordingly, they are recorded as assets and liabilities. The capital lease liabilities are included in "Other accrued expenses" and "Other liabilities" on the consolidated balance sheet. Depreciation expense includes the amortization of assets held under capital leases.

Total future minimum lease payments for non-cancelable operating and capital leases with terms in excess of one year (excluding renewal periods) as of December 31, 2017 are as follows (in millions):

	Operating Leases	Capital Leases
2018	$ 133.3	$ 27.8
2019	126.0	19.3
2020	114.1	10.0
2021	105.9	0.3
2022	96.9	—
Thereafter	674.9	—
	$ 1,251.1	$ 57.4
Less: interest portion of capital leases		2.6
Total		$ 54.8

Total lease expense for the years ended December 31, 2017, 2016 and 2015 was $163.5 million, $134.8 million and $115.0 million, respectively.

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Note 14—Income Taxes

The components of our income before income taxes and the provision for income taxes are as follows (in millions):

	Year Ended December 31,		
	2017	2016	2015
Income before income taxes:			
Domestic	$290.4	$265.8	$259.5
Foreign	107.6	89.5	81.0
Total	$398.0	$355.3	$340.5
Income tax expense (benefit):			
Current:			
Federal	$89.1	$100.1	$88.6
Foreign	30.3	22.9	22.6
State	10.1	14.1	9.7
Total current provision	129.5	137.1	120.9
Deferred:			
Federal	(96.1)	(1.6)	6.5
Foreign	(3.6)	(2.4)	(1.8)
State	6.2	(0.2)	0.3
Total deferred provision	(93.5)	(4.2)	5.0
Income tax expense	$36.0	$132.9	$125.9

The provision for income taxes was different from the U.S. federal statutory rate applied to income before taxes, and is reconciled as follows:

	Year Ended December 31,		
	2017	2016	2015
Statutory rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net	2.3 %	2.4 %	2.1 %
Reserves for tax exposures	(0.1)%	(0.2)%	0.3 %
Change in valuation allowance	(0.6)%	0.6 %	0.3 %
International operations	(3.1)%	(0.8)%	(1.2)%
Stock-based compensation	(1.6)%	— %	— %
Impact of law and rate change	(23.2)%	— %	— %
Other, net	0.3 %	0.4 %	0.5 %
Effective rate	9.0 %	37.4 %	37.0 %

On December 22, 2017, U.S. tax reform (Tax Cuts and Jobs Act of 2017) was enacted. The law includes significant changes to the U.S. corporate income tax system, including a Federal corporate income tax rate reduction from 35 percent to 21 percent effective for tax years beginning after December 31, 2017. As a result, the Company recorded a deferred income tax benefit of $102.7 million related to the remeasurement of its deferred tax assets and liabilities. In addition, the law imposes a one-time deemed repatriation transition tax on the accumulated unrepatriated and untaxed earnings of our foreign subsidiaries. This resulted in the Company recording a current tax expense of $11.1 million.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets. The valuation allowance as of December 31, 2017 primarily relates to net operating losses, tax credits and capital loss carryforwards that are not more likely than not to be utilized prior to their expiration.
We offset all deferred tax assets and liabilities by jurisdiction, as well as any related valuation allowance, and present them as a single non-current deferred income tax liability. Deferred tax assets (liabilities) are comprised of the following at December 31 (in millions):

	2017	2016
Gross deferred tax assets:		
Allowances for trade and finance receivables	$5.8	$9.1
Accruals and liabilities	50.5	62.6
Employee benefits and compensation	22.7	30.6
Net operating loss carryforwards	38.7	25.1
Investment basis difference	(2.1)	4.1
Other	9.6	11.6
Total deferred tax assets	125.2	143.1
Deferred tax asset valuation allowance	(28.1)	(26.4)
Total	97.1	116.7
Gross deferred tax liabilities:		
Property and equipment	(94.3)	(120.0)
Goodwill and intangible assets	(179.6)	(274.6)
Other	(15.9)	(13.8)
Total	(289.8)	(408.4)
Net deferred tax liabilities	$(192.7)	$(291.7)

The tax benefit from state and federal net operating loss carryforwards expires as follows (in millions):

2018	$0.4
2019	0.3
2020	0.8
2021	0.8
2022	0.1
2023 to 2037	36.3
	$38.7

Permanently reinvested undistributed earnings of our foreign subsidiaries were approximately $282.9 million at December 31, 2017. This balance was impacted in the fourth quarter by management's change in assertion surrounding permanent reinvestment of undistributed earnings of our foreign subsidiaries. Because these amounts have been or will be permanently reinvested in properties and working capital, we have not recorded the deferred taxes associated with these earnings. If the undistributed earnings of foreign subsidiaries were to be remitted, state and local income tax expense and withholding tax expense would need to be recognized, net of any applicable foreign tax credits. It is not practical for us to determine the additional tax that would be incurred upon remittance of these earnings.
We made federal income tax payments, net of federal income tax refunds, of $81.5 million, $79.2 million and $95.2 million in 2017, 2016 and 2015, respectively. State and foreign income taxes paid by us, net of refunds, totaled $44.5 million, $42.4 million and $34.7 million in 2017, 2016 and 2015, respectively.

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We apply the provisions of ASC 740, Income Taxes. ASC 740 clarifies the accounting and reporting for uncertainty in income taxes recognized in an enterprise's financial statements. These provisions prescribe a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on income tax returns.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	December 31,	
	2017	2016
Balance at beginning of period	$14.0	$14.9
Increase in prior year tax positions	0.2	1.2
Decrease in prior year tax positions	—	—
Increase in current year tax positions	1.6	1.4
Settlements	—	—
Lapse in statute of limitations	(4.1)	(3.5)
Balance at end of period	$11.7	$14.0

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $7.8 million at December 31, 2017 and 2016.

We record interest and penalties associated with the uncertain tax positions within our provision for income taxes on the income statement. We had reserves totaling $2.4 million and $3.2 million in 2017 and 2016, respectively, associated with interest and penalties, net of tax.

The provision for income taxes involves management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by us. In addition, U.S. and non-U.S. tax authorities periodically review income tax returns filed by us and can raise issues regarding our filing positions, timing and amount of income or deductions and the allocation of income among the jurisdictions in which we operate. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. In the normal course of business we are subject to examination by taxing authorities in the U.S., Canada, United Kingdom and Mexico. In general, the examination of our material tax returns is completed for the years prior to 2012.

Based on the potential outcome of the Company's tax examinations and the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the currently remaining unrecognized tax benefits will change within the next 12 months. The associated net tax impact on the reserve balance is estimated to be in the range of a $1.0 million to $2.5 million decrease.

Note 15—Employee Benefit Plans

401(k) Plan

We maintain a defined contribution 401(k) plan that covers substantially all U.S. employees. Participants are generally allowed to make non-forfeitable contributions up to the annual IRS limits. The Company matches 100 percent of the amounts contributed by each individual participant up to 4 percent of the participant's compensation. Participants are 100 percent vested in the Company's contributions. For the years ended December 31, 2017, 2016 and 2015 we contributed $15.5 million, $13.0 million and $10.8 million, respectively.

Note 16—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. Legal fees are expensed as incurred.

We have accrued, as appropriate, for environmental remediation costs anticipated to be incurred at certain of our auction facilities. Liabilities for environmental matters included in "Other accrued expenses" were $0.1 million at December 31, 2017 and 2016. No amounts have been accrued as receivables for potential reimbursement or recoveries to offset this liability.

We store a significant number of vehicles owned by various customers that are consigned to us to be auctioned. We are contingently liable for each consigned vehicle until the eventual sale or other disposition, subject to certain natural disaster exceptions. Individual stop loss and aggregate insurance coverage is maintained on the consigned vehicles. These consigned vehicles are not included in the consolidated balance sheets.

In the normal course of business, we also enter into various other guarantees and indemnities in our relationships with suppliers, service providers, customers and others. These guarantees and indemnifications do not materially impact our financial condition or results of operations, but indemnifications associated with our actions generally have no dollar limitations and historically have been inconsequential.

As noted above, 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.

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.

Note 17—Accumulated Other Comprehensive Loss

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

	December 31,	
	2017	2016
Foreign currency translation loss	$(25.3)	$(49.4)
Unrealized gain on postretirement benefit obligation, net of tax	0.1	0.1
Accumulated other comprehensive loss	$(25.2)	$(49.3)

Note 18—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.

ADESA Auctions encompasses all physical and online wholesale auctions throughout North America (U.S., Canada and Mexico). Beginning in October 2017, the ADESA Auctions segment includes TradeRev, an online automotive remarketing system where dealers can launch and participate in real-time vehicle auctions at any time. Beginning in June 2016, the ADESA Auctions segment also includes ADESA Remarketing Limited (formerly known as GRS), an online whole car vehicle remarketing business in the United Kingdom. ADESA Auctions relates to used vehicle remarketing, including auction services, remarketing, or make ready services and all are interrelated, synergistic elements along the auto remarketing chain.

IAA encompasses all salvage auctions throughout North America (U.S. and Canada). Beginning in June 2015, the IAA segment also includes HBC, which operates salvage vehicle auctions and related services in the United Kingdom. IAA provides insurance companies and other vehicle suppliers cost-effective salvage processing solutions, including selling total loss and recovered theft vehicles. As such, IAA relates to total loss vehicle remarketing, including auction services, remarketing, or make ready services. All are interrelated, synergistic elements along the total loss vehicle remarketing chain.

AFC is primarily engaged in the business of providing short-term, inventory-secured financing to independent, used vehicle dealers. AFC also includes other businesses and ventures that AFC may enter into, focusing on providing independent used vehicle dealer customers with other related services and products, including vehicle service contracts. AFC conducts business primarily at or near wholesale used vehicle auctions in the U.S. and Canada.

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The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate offices, 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 year ended December 31, 2017 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,937.5	$1,219.2	$301.3	$ —	$ 3,458.0
Operating expenses					