KAR Auction Services, Inc.
Form 10-Q
August 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

Commission File Number: 001-34568

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

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

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

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

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

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

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

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

As of July 31, 2016, 137,938,492 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating revenues				
ADESA Auction Services	$434.1	$345.0	$835.6	$673.0
IAA Salvage Services	264.8	248.6	534.4	486.6
AFC	72.9	64.7	146.8	131.1
Total operating revenues	771.8	658.3	1,516.8	1,290.7
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	430.9	366.5	849.6	718.6
Selling, general and administrative	146.9	123.5	288.0	245.0
Depreciation and amortization	59.0	51.8	115.4	102.7
Total operating expenses	636.8	541.8	1,253.0	1,066.3
Operating profit	135.0	116.5	263.8	224.4
Interest expense	35.8	21.8	64.5	42.8
Other (income) expense, net	(0.3)	0.4	(1.6)	(1.8)
Loss on extinguishment of debt	—	—	4.0	—
Income before income taxes	99.5	94.3	196.9	183.4
Income taxes	37.7	34.8	74.4	69.4
Net income	$61.8	$59.5	$122.5	$114.0
Net income per share				
Basic	$0.45	$0.42	$0.89	$0.81
Diluted	$0.44	$0.41	$0.88	$0.79
Dividends declared per common share	$0.29	$0.27	$0.58	$0.54

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$61.8	$59.5	$122.5	$114.0
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	(4.4)	3.1	4.3	(15.2)
Comprehensive income	$57.4	$62.6	$126.8	$98.8

See accompanying notes to consolidated financial statements

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

	June 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$314.7	$ 155.0
Restricted cash	15.0	16.2
Trade receivables, net of allowances of $8.3 and $6.6	721.4	511.9
Finance receivables, net of allowances $9.5 and $9.0	1,729.1	1,632.0
Other current assets	131.5	131.0
Total current assets	2,911.7	2,446.1
Other assets		
Goodwill	2,006.0	1,795.9
Customer relationships, net of accumulated amortization of $666.1 and $619.3	487.8	417.7
Other intangible assets, net of accumulated amortization of $273.4 and $258.1	319.4	310.8
Other assets	35.2	34.1
Total other assets	2,848.4	2,558.5
Property and equipment, net of accumulated depreciation of $613.0 and $569.6	808.3	766.9
Total assets	$6,568.4	$ 5,771.5

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)
(Unaudited)

	June 30, 2016	December 31, 2015
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$749.2	$ 608.4
Accrued employee benefits and compensation expenses	80.3	90.9
Accrued interest	1.0	0.8
Other accrued expenses	147.0	128.4
Income taxes payable	2.3	5.3
Dividends payable	40.0	37.2
Obligations collateralized by finance receivables	1,231.2	1,189.0
Current maturities of long-term debt	24.7	153.9
Total current liabilities	2,275.7	2,213.9
Non-current liabilities		
Long-term debt	2,378.3	1,711.2
Deferred income tax liabilities	294.2	300.8
Other liabilities	160.9	159.5
Total non-current liabilities	2,833.4	2,171.5
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, $0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none	—	—
Common stock, $0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
June 30, 2016: 137,914,256		
December 31, 2015: 137,795,296	1.4	1.4
Additional paid-in capital	1,433.9	1,407.6
Retained earnings	59.9	17.3
Accumulated other comprehensive loss	(35.9)	(40.2)
Total stockholders' equity	1,459.3	1,386.1
Total liabilities and stockholders' equity	$6,568.4	$ 5,771.5

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2015	137.8	$ 1.4	$ 1,407.6	$ 17.3	$ (40.2)	$ 1,386.1
Net income				122.5		122.5
Other comprehensive income					4.3	4.3
Issuance of common stock under stock plans	0.9		10.6			10.6
Stock-based compensation expense			9.8			9.8
Excess tax benefit from stock-based compensation			5.8			5.8
Repurchase and retirement of common stock	(0.8)		—			—
Dividends earned under stock plans			0.1	(0.1)		—
Cash dividends declared to stockholders ($0.58 per share)				(79.8)		(79.8)
Balance at June 30, 2016	137.9	$ 1.4	$ 1,433.9	$ 59.9	$ (35.9)	$ 1,459.3

See accompanying notes to consolidated financial statements

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

	Six Months Ended June 30, 2016		2015	
Operating activities				
Net income	$ 122.5		$ 114.0	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	115.4		102.7	
Provision for credit losses	13.8		9.1	
Deferred income taxes	(7.2	)	(9.1	)
Amortization of debt issuance costs	4.2		3.4	
Stock-based compensation	9.8		5.8	
Excess tax benefit from stock-based compensation	(5.8	)	(5.0	)
Loss on extinguishment of debt	4.0		—	
Other non-cash, net	3.5		1.6	
Changes in operating assets and liabilities, net of acquisitions:				
Trade receivables and other assets	(207.3	)	(139.3	)
Accounts payable and accrued expenses	106.0		117.3	
Net cash provided by operating activities	158.9		200.5	
Investing activities				
Net increase in finance receivables held for investment	(103.5	)	(118.2	)
Acquisition of businesses, net of cash acquired	(353.3	)	(115.1	)
Purchases of property, equipment and computer software	(75.5	)	(64.2	)
Proceeds from the sale of property and equipment	—		0.1	
Decrease in restricted cash	1.2		0.6	
Net cash used by investing activities	(531.1	)	(296.8	)
Financing activities				

Net increase in book overdrafts	36.9		30.5	
Net decrease in borrowings from lines of credit	(140.0	)	—	
Net increase in obligations collateralized by finance receivables	34.8		234.9	
Proceeds from long-term debt	1,336.5		—	
Payments for debt issuance costs/amendments	(19.5	)	(10.8	)
Payments on long-term debt	(646.4	)	(8.8	)
Payments on capital leases	(11.7	)	(9.6	)
Payments of contingent consideration and deferred acquisition costs	(3.6	)	(1.2	)
Issuance of common stock under stock plans	10.6		14.0	
Excess tax benefit from stock-based compensation	5.8		5.0	
Repurchase and retirement of common stock	—		(22.1	)
Dividends paid to stockholders	(77.0	)	(76.5	)
Net cash provided by financing activities	526.4		155.4	
Effect of exchange rate changes on cash	5.5		(7.2	)
Net increase in cash and cash equivalents	159.7		51.9	
Cash and cash equivalents at beginning of period	155.0		152.9	
Cash and cash equivalents at end of period	$ 314.7		$ 204.8	
Cash paid for interest	$ 58.0		$ 38.0	
Cash paid for taxes, net of refunds	$ 68.4		$ 72.3	

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2016 (Unaudited)
Note 1—Basis of Presentation and Nature of Operations
Defined Terms
Unless otherwise indicated or unless the context otherwise requires, the following terms used herein shall have the following meanings:

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

Business and Nature of Operations
As of June 30, 2016, we have a North American network of 76 ADESA whole car auction sites and 173 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes GRS, an online vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services, which operates from 10 locations in the United Kingdom. Our auctions facilitate the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit Internet buyers to participate in physical auctions. ADESA and IAA are leading, national providers of wholesale and salvage vehicle auctions and related vehicle remarketing services for the automotive industry in North America. ADESA's online service offerings include customized private label solutions powered with software developed by its wholly-owned subsidiary, OPENLANE, that allow our institutional consignors (automobile manufacturers, captive finance companies and other institutions) to offer vehicles via the Internet prior to arrival at the physical auction. Remarketing services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA and IAA facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership of vehicles sold at the auctions. Generally, fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.
ADESA has the second largest used vehicle auction network in North America, based upon the number of used vehicles sold through auctions annually, and also provides services such as inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification, titling, administrative and collateral recovery services. ADESA is able to serve the diverse and multi-faceted needs of its customers through the wide range of services offered.
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 123 locations throughout the United States and Canada as of June 30, 2016. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, IAA, other used vehicle and salvage auctions and non-auction purchases. In addition to floorplan financing, AFC also provides independent used vehicle dealers with other related services and products, such as vehicle service contracts.

Basis of Presentation

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

Use of Estimates

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

Unamortized Debt Issuance Costs

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

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

	Originally Reported	Reclassified	As Adjusted
Unamortized debt issuance costs	$ 20.3	$ (20.3)	$ —
Obligations collateralized by finance receivables	1,201.2	(12.2)	1,189.0
Long-term debt	1,719.3	(8.1)	1,711.2

New Accounting Standards

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

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

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

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

Note 2—Acquisitions

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

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

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.

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

The aggregate purchase price for the businesses acquired in the first six months of 2016, net of cash acquired, was approximately $354.6 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 $116.8 million to intangible assets, representing the fair value of acquired customer relationships of $109.7 million, software of $5.1 million, tradenames of $1.8 million and non-competes of $0.2 million, which are being amortized over their expected useful lives. The purchase accounting associated with these acquisitions is preliminary, subject to determination of working capital adjustments and a final valuation of intangibles. The Company does not expect adjustments to the purchase accounting will be material. The acquisitions resulted in aggregate goodwill of $214.5 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 six months ended June 30, 2016.

Note 3—Stock and Stock-Based Compensation Plans

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

The total income tax benefit recognized in the consolidated statement of income for PRSUs, RSUs and service options was approximately $1.7 million and $1.2 million for the three months ended June 30, 2016 and 2015, respectively, and $3.7 million and $2.2 million for the six months ended June 30, 2016 and 2015, respectively. The following table summarizes our stock-based compensation expense by type of award (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
PRSUs	$2.6	$1.7	$5.7	$3.0
RSUs	1.5	0.7	3.0	1.1
Service options	0.5	0.8	1.1	1.7
Total stock-based compensation expense	$4.6	$3.2	$9.8	$5.8

PRSUs and RSUs

In the first six months of 2016, we granted a target amount of approximately 0.3 million PRSUs to certain executive officers and management of the Company. The PRSUs vest if and to the extent that the Company's three-year operating adjusted earnings per share attains certain specified goals. In addition, approximately 0.3 million RSUs were granted to certain executive officers and management of the Company. The RSUs are contingent upon continued employment and vest in three equal annual installments. The weighted average grant date fair value of the PRSUs and the RSUs was $34.75 per share and $34.80 per share, respectively, which was determined using the closing price of the Company's common stock on the dates of grant. The PRSU and RSU grants were made pursuant to the Company's Policy on Granting Equity Awards.

Share Repurchase Program

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

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

Note 4—Net Income Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$61.8	$59.5	$122.5	$114.0
Weighted average common shares outstanding	137.6	141.8	137.4	141.6
Effect of dilutive stock options and restricted stock awards	1.7	2.3	1.7	2.4
Weighted average common shares outstanding and potential common shares	139.3	144.1	139.1	144.0
Net income per share				
Basic	$0.45	$0.42	$0.89	$0.81
Diluted	$0.44	$0.41	$0.88	$0.79

Basic net income per share was calculated by dividing net income by the weighted average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income per share-diluted is determined through the application of the treasury stock method, whereby net proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per diluted share and PRSUs subject to performance conditions which have not yet been satisfied are excluded from the calculations. No options were excluded from the calculation of diluted net income per share for the three or six months ended June 30, 2016 and 2015, respectively. In addition, approximately 0.5 million and approximately 0.3 million PRSUs were excluded from the calculation of diluted net income per share for the three months ended June 30, 2016 and 2015, respectively, and approximately 0.5 million and approximately 0.3 million were excluded from the calculation of diluted net income per share for the six months ended June 30, 2016 and 2015, respectively. Total options outstanding at June 30, 2016 and 2015 were 3.1 million and 4.7 million, respectively.

Note 5—Finance Receivables and Obligations Collateralized by Finance Receivables

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of $1.25 billion for U.S. finance receivables at June 30, 2016.

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

We also have an agreement for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables which expires on June 29, 2018. AFCI's committed facility is provided through a third party conduit (separate from the U.S. facility) and was C$125 million at June 30, 2016. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

The following tables present quantitative information about delinquencies, credit losses less recoveries ("net credit losses") and components of securitized financial assets and other related assets managed. For purposes of this illustration, delinquent receivables are defined as receivables 31 days or more past due.

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(in millions)	June 30, 2016 Principal Amount of: Receivables	Receivables Delinquent	Net Credit Losses Three Months Ended June 30, 2016	Net Credit Losses Six Months Ended June 30, 2016
Floorplan receivables	$1,730.1	$ 8.8	$ 5.3	$ 10.6
Other loans	8.5	—	—	—
Total receivables managed	$1,738.6	$ 8.8	$ 5.3	$ 10.6

(in millions)	December 31, 2015 Principal Amount of: Receivables	Receivables Delinquent	Net Credit Losses Three Months Ended June 30, 2015	Net Credit Losses Six Months Ended June 30, 2015
Floorplan receivables	$1,635.5	$ 7.0	$ 4.1	$ 7.3
Other loans	5.5	—	—	—
Total receivables managed	$1,641.0	$ 7.0	$ 4.1	$ 7.3

AFC's allowance for losses was $9.5 million and $9.0 million at June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016 and December 31, 2015, $1,719.7 million and $1,626.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the obligations collateralized by finance receivables. Obligations collateralized by finance receivables consisted of the following:

	June 30, 2016	December 31, 2015
Obligations collateralized by finance receivables, gross	$1,241.7	$ 1,201.2
Unamortized securitization issuance costs	(10.5)	(12.2)
Obligations collateralized by finance receivables	$1,231.2	$ 1,189.0

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

Note 6—Long-Term Debt

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

	Interest Rate *		Maturity	June 30, 2016	December 31, 2015
Term Loan B-1	LIBOR	+ 2.50%	March 11, 2017	$—	$ 637.2
Term Loan B-2	Adjusted LIBOR	+ 3.1875%	March 11, 2021	1,092.2	1,098.0
Term Loan B-3	Adjusted LIBOR	+ 3.50%	March 9, 2023	1,346.6	—
Revolving credit facility	Adjusted LIBOR	+ 2.50%	March 9, 2021	—	—
Old revolving credit facility	LIBOR	+ 2.25%	March 11, 2019	—	140.0
Canadian line of credit	CAD Prime	+ 0.50%	Repayable upon demand	—	—
Total debt				2,438.8	1,875.2
Unamortized debt issuance costs/discounts				(35.8)	(10.1)
Current portion of long-term debt				(24.7)	(153.9)
Long-term debt				$2,378.3	$ 1,711.2

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

Credit Facility

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

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

Term Loan B-2 was issued at a discount of $2.8 million and Term Loan B-3 was issued at a discount of $13.5 million. The discounts are being amortized using the effective interest method to interest expense over the respective terms of the loans. Both Term Loan B-2 and Term Loan B-3 are payable in quarterly installments equal to 0.25% of the original aggregate principal amounts of the term loans, respectively. Such payments commenced on June 30, 2014 for Term Loan B-2 and on June 30, 2016 for Term Loan B-3, with the balances payable at each respective maturity date. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to the net proceeds of certain debt offerings, certain asset sales and certain insurance recovery events. In addition, in accordance with the terms of the Credit Agreement, 50% of the net cash proceeds from the sale-leaseback of certain technology and capital equipment were used to prepay $2.5 million and $3.1 million of Term Loan B-2 and Term Loan B-3, respectively, for the three months ended June 30, 2016. Each such prepayment is credited to prepay, on a pro rata basis, in order of maturity the unpaid amounts due on the first eight scheduled quarterly installments of Term Loan B-2 and Term Loan B-3 and thereafter to the remaining scheduled quarterly installments of each term loan on a pro rata basis.

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 June 30, 2016.

As set forth in the Credit Agreement, Term Loan B-2 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.1875% (with an Adjusted LIBOR floor of 0.75% per annum), Term Loan B-3 at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.50% (with an Adjusted LIBOR floor of 0.75% per annum) and revolving loan borrowings at Adjusted LIBOR plus 2.50%. However, for specified types of borrowings, the Company may elect to make Term Loan B-2 borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.1875%, Term Loan B-3 at a Base Rate plus 2.50% and revolving loan borrowings at a Base Rate plus 1.50%. The rates on Term Loan B-2 and Term Loan B-3 were 3.94% and 4.25% at June 30, 2016, respectively. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio, which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate on the revolving credit facility will step down by 25 basis points. The Company also pays a commitment fee of 40 basis points, payable quarterly, on the average daily unused amount of the revolving credit facility. The fee may step down to 35 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

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

Fair Value of Debt

As of June 30, 2016, the estimated fair value of our long-term debt amounted to $2,446.7 million. The estimates of fair value were based on broker-dealer quotes for our debt as of June 30, 2016. The estimates presented on long-term financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

Note 7—Derivatives

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

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

of April 16, 2015 and each matures on March 31, 2017.

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

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

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

Derivatives Not Designated as Hedging Instruments	Location of Gain / (Loss) Recognized in Income on Derivatives	Amount of Gain / (Loss) Recognized in Income on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
2015 Interest rate caps	Interest expense	$(0.1)	$(0.2)	$(0.7)	$(0.2)

Note 8—Commitments and Contingencies

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

Note 9—Accumulated Other Comprehensive Loss

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

	June 30, 2016	December 31, 2015
Foreign currency translation loss	$(36.0)	$ (40.3)
Unrealized gain on postretirement benefit obligation, net of tax	0.1	0.1
Accumulated other comprehensive loss	$(35.9)	$ (40.2)

Note 10—Segment Information

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

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

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

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$434.1	$264.8	$72.9	$ —	$ 771.8
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	242.5	167.3	21.1	—	430.9
Selling, general and administrative	80.6	26.5	7.3	32.5	146.9
Depreciation and amortization	24.8	21.2	7.9	5.1	59.0
Total operating expenses	347.9	215.0	36.3	37.6	636.8
Operating profit (loss)	86.2	49.8	36.6	(37.6)	135.0
Interest expense	0.1	—	8.2	27.5	35.8
Other (income) expense, net	(0.5)	(0.1)	—	0.3	(0.3)
Intercompany expense (income)	13.3	9.6	(8.6)	(14.3)	—
Income (loss) before income taxes	73.3	40.3	37.0	(51.1)	99.5
Income taxes	27.1	15.1	14.0	(18.5)	37.7
Net income (loss)	$46.2	$25.2	$23.0	$ (32.6)	$ 61.8
Total assets	$3,049.7	$1,276.3	$2,155.8	$ 86.6	$ 6,568.4

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

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$345.0	$248.6	$64.7	$ —	$ 658.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	191.8	155.1	19.6	—	366.5
Selling, general and administrative	67.5	24.9	6.9	24.2	123.5
Depreciation and amortization	21.3	19.4	7.7	3.4	51.8
Total operating expenses	280.6	199.4	34.2	27.6	541.8
Operating profit (loss)	64.4	49.2	30.5	(27.6)	116.5
Interest expense	0.2	—	5.5	16.1	21.8
Other (income) expense, net	0.3	0.4	—	(0.3)	0.4
Intercompany expense (income)	14.4	9.6	(5.2)	(18.8)	—
Income (loss) before income taxes	49.5	39.2	30.2	(24.6)	94.3
Income taxes	17.5	14.6	11.5	(8.8)	34.8
Net income (loss)	$32.0	$24.6	$18.7	$ (15.8)	$ 59.5
Total assets	$2,534.1	$1,256.8	$1,874.4	$ 65.7	$ 5,731.0

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

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$ 835.6	$ 534.4	$ 146.8	$ —	$ 1,516.8
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	467.6	340.8	41.2	—	849.6
Selling, general and administrative	157.2	52.2	14.8	63.8	288.0
Depreciation and amortization	47.3	42.5	15.6	10.0	115.4
Total operating expenses	672.1	435.5	71.6	73.8	1,253.0
Operating profit (loss)	163.5	98.9	75.2	(73.8)	263.8
Interest expense	0.2	—	16.0	48.3	64.5
Other (income) expense, net	(1.1)	(0.4)	—	(0.1)	(1.6)
Loss on extinguishment of debt	—	—	—	4.0	4.0
Intercompany expense (income)	28.5	19.2	(16.4)	(31.3)	—
Income (loss) before income taxes	135.9	80.1	75.6	(94.7)	196.9
Income taxes	50.4	30.0	28.6	(34.6)	74.4
Net income (loss)	$ 85.5	$ 50.1	$ 47.0	$ (60.1)	$ 122.5

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

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$ 673.0	$ 486.6	$ 131.1	$ —	$ 1,290.7
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	378.9	301.7	38.0	—	718.6
Selling, general and administrative	136.0	47.0	14.0	48.0	245.0
Depreciation and amortization	41.5	39.0	15.5	6.7	102.7
Total operating expenses	556.4	387.7	67.5	54.7	1,066.3
Operating profit (loss)	116.6	98.9	63.6	(54.7)	224.4
Interest expense	0.4	—	10.6	31.8	42.8
Other (income) expense, net	(0.3)	0.2	(1.5)	(0.2)	(1.8)
Intercompany expense (income)	29.6	19.2	(9.5)	(39.3)	—
Income (loss) before income taxes	86.9	79.5	64.0	(47.0)	183.4
Income taxes	32.4	29.9	24.3	(17.2)	69.4
Net income (loss)	$ 54.5	$ 49.6	$ 39.7	$ (29.8)	$ 114.0

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

Forward-Looking Statements

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

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

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

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

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

Overview

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

- The ADESA Auctions segment serves a domestic and international customer base through live and online auctions and through 76 whole car auction facilities in North America that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely or in person. Through ADESA.com, powered by OPENLANE technology, ADESA offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies and other institutions to offer vehicles via the Internet prior to arrival at the physical auction. Vehicles at ADESA's auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, new and used vehicle dealers and vehicle manufacturers and their captive finance companies to franchise and independent used vehicle dealers. ADESA also provides value-added ancillary services including inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification, titling, administrative and collateral recovery services. ADESA also includes GRS, an online vehicle remarketing business in the United Kingdom.
- The IAA segment serves a domestic and international customer base through live and online auctions and through 173 salvage vehicle auction sites in the United States and Canada at June 30, 2016. IAA also includes HBC Vehicle Services ("HBC"), which operates from 10 locations in the United Kingdom. The salvage auctions facilitate the remarketing of damaged vehicles designated as total losses by insurance companies, charity donation vehicles, recovered stolen (or theft) vehicles and low value used vehicles. The salvage auction business specializes in providing services such as inbound transportation, titling, salvage recovery and claims settlement administrative services.
- The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At June 30, 2016, AFC conducted business at 123 locations in the United States and Canada. The Company also sells vehicle service contracts through Preferred Warranties, Inc. ("PWI").

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

Industry Trends

Whole Car

Used vehicles sold in North America through whole car auctions, including online only sales, were approximately 8.7 million, 9.2 million and an estimated 9.8 million in 2013, 2014 and 2015, respectively. We estimate that used vehicle auction volumes in North America, including online only volumes, will be over 10 million units in 2016, 2017 and 2018. Our estimates are based on information from the Bureau of Economic Analysis, IHS Automotive, Kontos Total Market Estimates, NAAA's 2014 Annual Review and management estimates. A primary driver of the anticipated improvement is more off-lease vehicles entering the market over the next three years.

Salvage

Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. The percentage of claims resulting in total losses was approximately 16% in 2015 and 14% in 2014 and 2013. There is no central reporting system for the salvage vehicle auction industry that tracks the number of salvage vehicle auction volumes in any given year, which makes estimating industry volumes difficult. Fluctuations in used vehicle and commodity pricing (aluminum, steel, etc.) have an impact on proceeds received in the salvage vehicle auction industry. In times of rising prices, as the industry experienced prior to 2015, revenue and gross profit are positively impacted. If used vehicle and commodity prices decrease, as the industry has recently experienced, proceeds, revenue and gross profit at salvage auctions may be negatively impacted, which could adversely affect the level of profitability. For example, the average price per ton of crushed auto bodies in North America has decreased from $312 in December 2013 to $198 in December 2014 to $115 in December 2015. This reduction in the price of crushed auto bodies has had an adverse impact on the value of salvage vehicles being sold in the salvage auction industry and resulted in reduced revenue per vehicle sold and gross profit. In the second quarter of 2016, the average price per ton of crushed auto bodies in North America was in excess of $140.

Automotive Finance

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

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

AFC implemented a number of strategic initiatives in recent years to enhance credit standards, improve portfolio risk management and enhance the customer experience. Additionally, in June 2013, the Company acquired PWI, a vehicle service contract business, as part of its strategy to provide additional services to independent used vehicle dealers. These initiatives, along with the current industry environment, have enabled AFC to increase its penetration of the independent dealer base while maintaining a high level of portfolio quality, evidenced by relatively low levels of net credit losses and a managed portfolio which was over 99 percent current at June 30, 2016.

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

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Results of Operations

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

	Three Months Ended June 30,	
(Dollars in millions except per share amounts)	2016	2015
Revenues		
ADESA	$434.1	$345.0
IAA	264.8	248.6
AFC	72.9	64.7
Total revenues	771.8	658.3
Cost of services*	430.9	366.5
Gross profit*	340.9	291.8
Selling, general and administrative	146.9	123.5
Depreciation and amortization	59.0	51.8
Operating profit	135.0	116.5
Interest expense	35.8	21.8
Other (income) expense, net	(0.3)	0.4
Income before income taxes	99.5	94.3
Income taxes	37.7	34.8
Net income	$61.8	$59.5
Net income per share		
Basic	$0.45	$0.42
Diluted	$0.44	$0.41

* Exclusive of depreciation and amortization

Overview

For the three months ended June 30, 2016, we had revenue of $771.8 million compared with revenue of $658.3 million for the three months ended June 30, 2015, an increase of 17%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussed below.

Depreciation and Amortization

Depreciation and amortization increased $7.2 million, or 14%, to $59.0 million for the three months ended June 30, 2016, compared with $51.8 million for the three months ended June 30, 2015. The increase in depreciation and amortization was primarily the result of certain assets placed in service over the last twelve months and depreciation and amortization for the assets of businesses acquired in 2015 and 2016.

Interest Expense

Interest expense increased $14.0 million, or 64%, to $35.8 million for the three months ended June 30, 2016, compared with $21.8 million for the three months ended June 30, 2015. The increase was primarily attributable to the interest associated with the new Term Loan B-3. In addition, there was an increase in interest expense at AFC of approximately $2.7 million, which resulted from an increase in the average portfolio financed for the three months ended June 30, 2016 as compared with the three months ended June 30, 2015.

Income Taxes

We had an effective tax rate of 37.9% for the three months ended June 30, 2016, compared with an effective tax rate of 36.9% for the three months ended June 30, 2015. Excluding the effect of the discrete items, our effective tax rate for the three months ended June 30, 2016 and 2015 would have been 38.1% and 37.6%, respectively.

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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 three months ended June 30, 2016, fluctuations in the Canadian exchange rate decreased revenue by $4.3 million, operating profit by $1.6 million, net income by $0.9 million and net income per diluted share by $0.01.

ADESA Results

(Dollars in millions)	Three Months Ended June 30, 2016	2015
ADESA revenue	$434.1	$345.0
Cost of services*	242.5	191.8
Gross profit*	191.6	153.2
Selling, general and administrative	80.6	67.5
Depreciation and amortization	24.8	21.3
Operating profit	$86.2	$64.4

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $89.1 million, or 26%, to $434.1 million for the three months ended June 30, 2016, compared with $345.0 million for the three months ended June 30, 2015. The increase in revenue was primarily a result of an 18% increase in the number of vehicles sold (9% increase excluding acquisitions), as well as a 6% increase in revenue per vehicle sold, which included an increase in revenue of $41.4 million for businesses acquired in the last 12 months and a decrease in revenue of $3.1 million due to fluctuations in the Canadian exchange rate.

The increase in volume sold was primarily attributable to a 24% increase in institutional volume (17% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 9% increase in dealer consignment units sold (3% decrease excluding acquisitions) for the three months ended June 30, 2016 compared with the three months ended June 30, 2015. Online sales volume for ADESA represented approximately 41% of the total vehicles sold in the second quarter of 2016, compared with approximately 40% in the second quarter of 2015. "Online sales" includes the following: (i) selling vehicles directly from a dealership or other interim storage location (upstream selling); (ii) online solutions that offer vehicles for sale while in transit to auction locations (midstream selling); (iii) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock®); and (iv) bulletin-board or real-time online auctions (DealerBlock®). Both the upstream and midstream selling represent online only sales, which accounted for over half of ADESA's online sales volume. ADESA sold approximately 198,000 and 154,000 vehicles through its online only offerings in the second quarter of 2016 and 2015, respectively, of which approximately 105,000 and 99,000 represented vehicle sales to grounding dealers in the second quarter of 2016 and 2015, respectively. For the three months ended June 30, 2016, dealer consignment vehicles represented approximately 49% of used vehicles sold at ADESA physical auction locations, compared with approximately 51% for the three months ended June 30, 2015. Vehicles sold at physical auction locations increased 15% (3% increase excluding acquisitions) in the second quarter of 2016, compared with the second quarter of 2015. The used vehicle conversion percentage at North American physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, increased to 59.1% for the three months ended June 30, 2016, compared with 57.7% for the three months ended June 30, 2015.

Total revenue per vehicle sold increased 6% to approximately $579 for the three months ended June 30, 2016, compared with approximately $544 for the three months ended June 30, 2015, and included the impact of a decrease in revenue per vehicle sold of $4 due to fluctuations in the Canadian exchange rate. Physical auction revenue per vehicle sold increased $56 or 8%, to $742 for the three months ended June 30, 2016, compared with $686 for the three months ended June 30, 2015. Physical auction revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin ancillary and other related services revenue, partially offset by a decrease in physical auction revenue per vehicle sold of $5 due to fluctuations in the Canadian exchange rate. Online only auction revenue per vehicle sold increased $24 to $123 for the three months ended June 30, 2016, compared with $99 for the three months ended June 30, 2015. The increase in online only auction revenue per vehicle sold was attributable to an increase in purchased vehicles associated with the ADESA Assurance Program and an increase in the mix of cars sold in closed sales to non-grounding dealers, partially offset by a decrease in online only auction revenue per vehicle sold of $1 due to fluctuations in the Canadian exchange rate.

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Excluding vehicles purchased as part of the ADESA Assurance Program, revenue per vehicle would have been $109 and $96 for the three months ended June 30, 2016 and 2015, respectively.

Gross Profit

For the three months ended June 30, 2016, gross profit for ADESA increased $38.4 million, or 25%, to $191.6 million, compared with $153.2 million for the three months ended June 30, 2015. Gross profit for ADESA was 44.1% of revenue for the three months ended June 30, 2016, compared with 44.4% of revenue for the three months ended June 30, 2015. The increase in gross profit for the three months ended June 30, 2016, compared with the three months ended June 30, 2015, was primarily the result of the increase in revenue. The decrease in gross profit percentage was primarily the result of the increase in cost of services, which was attributable to an increase in lower margin ancillary and non-auction services, partially offset by fluctuations in the Canadian exchange rate.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $13.1 million, or 19%, to $80.6 million for the three months ended June 30, 2016, compared with $67.5 million for the three months ended June 30, 2015, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $7.9 million, compensation expense of $1.9 million, incentive-based compensation expense of $1.7 million, benefit-related expenses of $0.8 million and other miscellaneous expenses aggregating $2.1 million, offset by a decrease in marketing expenses of $0.8 million and fluctuations in the Canadian exchange rate of $0.5 million.

IAA Results

	Three Months Ended June 30,	
(Dollars in millions)	2016	2015
IAA revenue	$264.8	$248.6
Cost of services*	167.3	155.1
Gross profit*	97.5	93.5
Selling, general and administrative	26.5	24.9
Depreciation and amortization	21.2	19.4
Operating profit	$49.8	$49.2

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $16.2 million, or 7%, to $264.8 million for the three months ended June 30, 2016, compared with $248.6 million for the three months ended June 30, 2015. The increase in revenue was a result of an increase in vehicles sold of approximately 6% (5% increase excluding HBC) and an increase in revenue per vehicle sold of 1% for the three months ended June 30, 2016, which included an increase in revenue of $9.1 million from HBC (HBC was acquired in June 2015) and a decrease in revenue of $1.0 million due to fluctuations in the Canadian exchange rate. IAA's same-store total loss vehicle inventory increased approximately 11% at June 30, 2016, as compared to June 30, 2015. Vehicles sold under purchase agreements were approximately 6% (5% excluding HBC) and 7% of total salvage vehicles sold for the three months ended June 30, 2016 and 2015, respectively. Online sales volumes for IAA for the three months ended June 30, 2016 and 2015 represented over half of the total vehicles sold by IAA.

Gross Profit

For the three months ended June 30, 2016, gross profit at IAA increased to $97.5 million, or 36.8% of revenue, compared with $93.5 million, or 37.6% of revenue, for the three months ended June 30, 2015. The increase in gross profit was mainly attributable to a 7% increase in revenue, partially offset by an 8% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. For the three months ended June 30, 2016, HBC had revenue of approximately $13.4 million and cost of services of approximately $12.4 million, as the majority of HBC's vehicles are sold under purchase contracts. HBC accounted for a 1.6% decrease in IAA's gross profit margin percentage for the three months ended June 30, 2016. However, IAA experienced a decrease in purchased vehicles, which had an offsetting favorable impact on gross profit percentage for the quarter ended June 30, 2016.

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Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $1.6 million, or 6%, to $26.5 million for the three months ended June 30, 2016, compared with $24.9 million for the three months ended June 30, 2015. The increase in selling, general and administrative expenses was primarily attributable to an increase in expenses at HBC of $0.6 million, increases in bad debt expense of $0.6 million, employee education and training of $0.6 million and other miscellaneous expenses aggregating $0.3 million, offset by a decrease in professional fees of $0.5 million.

AFC Results

(Dollars in millions except volumes and per loan amounts)	Three Months Ended June 30, 2016	2015
AFC revenue		
Interest and fee income	$67.7	$59.6
Other revenue	2.6	2.4
Provision for credit losses	(5.5)	(4.3)
Other service revenue	8.1	7.0
Total AFC revenue	72.9	64.7
Cost of services*	21.1	19.6
Gross profit*	51.8	45.1
Selling, general and administrative	7.3	6.9
Depreciation and amortization	7.9	7.7
Operating profit	$36.6	$30.5
Loan transactions	421,527	381,675
Revenue per loan transaction, excluding "Other service revenue"	$154	$151

* Exclusive of depreciation and amortization

Revenue

For the three months ended June 30, 2016, AFC revenue increased $8.2 million, or 13%, to $72.9 million, compared with $64.7 million for the three months ended June 30, 2015. The increase in revenue was the result of a 10% increase in loan transactions and an increase of 16% in "Other service revenue" generated by PWI. The increase in revenue and revenue per loan transaction included the impact of a decrease in revenue of $0.2 million, or $1 per loan transaction, due to fluctuations in the Canadian exchange rate. In addition, managed receivables increased to $1,738.6 million at June 30, 2016 from $1,476.9 million at June 30, 2015.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $3, or 2%, primarily as a result of increases in average loan values and average portfolio duration, partially offset by a decrease in interest yield, an increase in the provision for credit losses and fluctuations in the Canadian exchange rate. Revenue per loan transaction excludes "Other service revenue."

Gross Profit

For the three months ended June 30, 2016, gross profit for the AFC segment increased $6.7 million, or 15%, to $51.8 million, or 71.1% of revenue, compared with $45.1 million, or 69.7% of revenue, for the three months ended June 30, 2015, primarily as a result of a 13% increase in revenue, partially offset by an 8% increase in cost of services. The floorplan lending business gross profit margin percentage increased from 76.7% to 77.7% as a result of higher revenue per loan transaction. 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 $0.4 million, or 6%, to $7.3 million for the three months ended June 30, 2016, compared with $6.9 million for the three months ended June 30, 2015. The increase was primarily attributable to increases in stock-based compensation expense, travel expenses and other miscellaneous expenses, partially offset by a decrease in selling, general and administrative expenses at PWI.

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Holding Company Results

(Dollars in millions)	Three Months Ended June 30, 2016	2015
Selling, general and administrative	$32.5	$24.2
Depreciation and amortization	5.1	3.4
Operating loss	$(37.6)	$(27.6)

Selling, General and Administrative

For the three months ended June 30, 2016, selling, general and administrative expenses at the holding company increased $8.3 million, or 34%, to $32.5 million, compared with $24.2 million for the three months ended June 30, 2015, primarily as a result of increases in compensation expense of $1.6 million, incentive-based compensation expense of $1.4 million, acquisition-related professional fees of $1.3 million, other professional fees of $1.3 million, medical expenses of $1.2 million, stock-based compensation expense of $0.8 million and other miscellaneous expenses aggregating $0.7 million.

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

(Dollars in millions except per share amounts)	Six Months Ended June 30, 2016	2015
Revenues		
ADESA	$835.6	$673.0
IAA	534.4	486.6
AFC	146.8	131.1
Total revenues	1,516.8	1,290.7
Cost of services*	849.6	718.6
Gross profit*	667.2	572.1
Selling, general and administrative	288.0	245.0
Depreciation and amortization	115.4	102.7
Operating profit	263.8	224.4
Interest expense	64.5	42.8
Other income, net	(1.6)	(1.8)
Loss on extinguishment of debt	4.0	—
Income before income taxes	196.9	183.4
Income taxes	74.4	69.4
Net income	$122.5	$114.0
Net income per share		
Basic	$0.89	$0.81
Diluted	$0.88	$0.79

* Exclusive of depreciation and amortization

Overview

For the six months ended June 30, 2016, we had revenue of $1,516.8 million compared with revenue of $1,290.7 million for the six months ended June 30, 2015, an increase of 18%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussed below.

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Depreciation and Amortization

Depreciation and amortization increased $12.7 million, or 12%, to $115.4 million for the six months ended June 30, 2016, compared with $102.7 million for the six months ended June 30, 2015. The increase in depreciation and amortization was primarily the result of certain assets placed in service over the last twelve months and depreciation and amortization for the assets of businesses acquired in 2015 and 2016.

Interest Expense

Interest expense increased $21.7 million, or 51%, to $64.5 million for the six months ended June 30, 2016, compared with $42.8 million for the six months ended June 30, 2015. The increase was primarily attributable to the interest associated with the new Term Loan B-3, as well as the interest associated with outstanding revolver borrowings prior to the completion of the debt refinancing in March 2016. In addition, there was an increase in interest expense at AFC of approximately $5.4 million, which resulted from an increase in the average portfolio financed for the six months ended June 30, 2016 as compared with the six months ended June 30, 2015.

Loss on Extinguishment of Debt

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

Income Taxes

We had an effective tax rate of 37.8% for the six months ended June 30, 2016 and 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 six months ended June 30, 2016, fluctuations in the Canadian exchange rate decreased revenue by $12.6 million, operating profit by $4.4 million, net income by $2.4 million and net income per diluted share by $0.02.

ADESA Results

	Six Months Ended June 30,	
(Dollars in millions)	2016	2015
ADESA revenue	$835.6	$673.0
Cost of services*	467.6	378.9
Gross profit*	368.0	294.1
Selling, general and administrative	157.2	136.0
Depreciation and amortization	47.3	41.5
Operating profit	$163.5	$116.6

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $162.6 million, or 24%, to $835.6 million for the six months ended June 30, 2016, compared with $673.0 million for the six months ended June 30, 2015. The increase in revenue was primarily a result of an 18% increase in the number of vehicles sold (13% increase excluding acquisitions), as well as a 6% increase in revenue per vehicle sold, which included an increase in revenue of $58.1 million for businesses acquired in the last 12 months and a decrease in revenue of $9.1 million due to fluctuations in the Canadian exchange rate.

The increase in volume sold was primarily attributable to a 23% increase in institutional volume (19% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 9% increase in dealer consignment units sold (2% increase excluding acquisitions) for the six months ended June 30, 2016 compared with the six months ended June 30, 2015. Online sales volume for ADESA represented approximately 41% of the total vehicles sold in the first six months of 2016, compared with approximately 40% in the first six months of 2015. Upstream and midstream selling represent online only sales, which accounted for over half of ADESA's online sales volume. ADESA sold approximately 386,000 and 294,000 vehicles through its online only offerings in the first six months of 2016 and 2015, respectively, of which approximately 197,000 and

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183,000 represented vehicle sales to grounding dealers in the first six months of 2016 and 2015, respectively. For the six months ended June 30, 2016, dealer consignment vehicles represented approximately 48% of used vehicles sold at ADESA physical auction locations, compared with approximately 49% for the six months ended June 30, 2015. Vehicles sold at physical auction locations increased 13% (6% increase excluding acquisitions) in the first six months of 2016, compared with the first six months of 2015. The used vehicle conversion percentage at North American physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions, decreased to 60.0% for the six months ended June 30, 2016, compared with 60.1% for the six months ended June 30, 2015.

Total revenue per vehicle sold increased 6% to approximately $575 for the six months ended June 30, 2016, compared with approximately $545 for the six months ended June 30, 2015, and included the impact of a decrease in revenue per vehicle sold of $6 due to fluctuations in the Canadian exchange rate. Physical auction revenue per vehicle sold increased $56 or 8%, to $740 for the six months ended June 30, 2016, compared with $684 for the six months ended June 30, 2015. Physical auction revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin ancillary and other related services revenue, including revenue from certain businesses acquired, partially offset by a decrease in physical auction revenue per vehicle sold of $8 due to fluctuations in the Canadian exchange rate. Online only auction revenue per vehicle sold increased $17 to $120 for the six months ended June 30, 2016, compared with $103 for the six months ended June 30, 2015. The increase in online only auction revenue per vehicle sold was attributable to an increase in purchased vehicles associated with the ADESA Assurance Program and an increase in the mix of cars sold in closed sales to non-grounding dealers, partially offset by a decrease in online only auction revenue per vehicle sold of $1 due to fluctuations in the Canadian exchange rate. Excluding vehicles purchased as part of the ADESA Assurance Program, revenue per vehicle would have been $109 and $100 for the six months ended June 30, 2016 and 2015, respectively.

Gross Profit

For the six months ended June 30, 2016, gross profit for ADESA increased $73.9 million, or 25%, to $368.0 million, compared with $294.1 million for the six months ended June 30, 2015. Gross profit for ADESA was 44.0% of revenue for the six months ended June 30, 2016, compared with 43.7% of revenue for the six months ended June 30, 2015. The increase in gross profit percentage for the six months ended June 30, 2016, compared with the six months ended June 30, 2015, was primarily the result of the 24% increase in revenue. The increase in cost of services was primarily attributable to the increase in volume and an increase in lower margin ancillary and non-auction services, partially offset by fluctuations in the Canadian exchange rate.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $21.2 million, or 16%, to $157.2 million for the six months ended June 30, 2016, compared with $136.0 million for the six months ended June 30, 2015, primarily due to increases in selling, general and administrative expenses associated with acquisitions of $10.7 million, compensation expense of $5.2 million, incentive-based compensation expense of $3.3 million, supply expenses of $1.1 million, benefit-related expenses of $1.0 million and other miscellaneous expenses aggregating $2.5 million, offset by fluctuations in the Canadian exchange rate of $1.6 million and a decrease in marketing expenses of $1.0 million.

IAA Results

	Six Months Ended June 30,	
(Dollars in millions)	2016	2015
IAA revenue	$534.4	$486.6
Cost of services*	340.8	301.7
Gross profit*	193.6	184.9
Selling, general and administrative	52.2	47.0
Depreciation and amortization	42.5	39.0

Operating profit	$98.9	$98.9

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $47.8 million, or 10%, to $534.4 million for the six months ended June 30, 2016, compared with $486.6 million for the six months ended June 30, 2015. The increase in revenue was a result of an increase in vehicles sold

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of approximately 10% (8% increase excluding HBC) for the six months ended June 30, 2016, which included an increase in revenue of $23.0 million from HBC (HBC was acquired in June 2015) and a decrease in revenue of $2.9 million due to fluctuations in the Canadian exchange rate. Revenue per vehicle sold was consistent year over year. Vehicles sold under purchase agreements were approximately 6% (5% excluding HBC) and 7% of total salvage vehicles sold for the six months ended June 30, 2016 and 2015, respectively. Online sales volumes for IAA for the six months ended June 30, 2016 and 2015 represented over half of the total vehicles sold by IAA.

Gross Profit

For the six months ended June 30, 2016, gross profit at IAA increased to $193.6 million, or 36.2% of revenue, compared with $184.9 million, or 38.0% of revenue, for the six months ended June 30, 2015. The increase in gross profit was mainly attributable to a 10% increase in revenue, partially offset by a 13% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. For the six months ended June 30, 2016, HBC had revenue of approximately $27.3 million and cost of services of approximately $24.9 million, as the majority of HBC's vehicles are sold under purchase contracts. HBC accounted for a 1.2% decrease in IAA's gross profit margin percentage for the six months ended June 30, 2016.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $5.2 million, or 11%, to $52.2 million for the six months ended June 30, 2016, compared with $47.0 million for the six months ended June 30, 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 bad debt expense of $0.9 million, stock-based compensation expense of $0.7 million, telecom costs of $0.5 million, employee related expenses of $0.5 million, benefit-related expenses of $0.4 million and other miscellaneous expenses aggregating $1.8 million, offset by decreases in professional fees of $0.7 million and travel expenses of $0.4 million.

AFC Results

	Six Months Ended June 30,	
(Dollars in millions except volumes and per loan amounts)	2016	2015
AFC revenue		
Interest and fee income	$137.1	$120.7
Other revenue	5.0	4.5
Provision for credit losses	(11.0)	(7.8)
Other service revenue	15.7	13.7
Total AFC revenue	146.8	131.1
Cost of services*	41.2	38.0
Gross profit*	105.6	93.1
Selling, general and administrative	14.8	14.0
Depreciation and amortization	15.6	15.5
Operating profit	$75.2	$63.6
Loan transactions	875,077	793,357
Revenue per loan transaction, excluding "Other service revenue"	$150	$148

* Exclusive of depreciation and amortization

Revenue

For the six months ended June 30, 2016, AFC revenue increased $15.7 million, or 12%, to $146.8 million, compared with $131.1 million for the six months ended June 30, 2015. The increase in revenue was the result of a 10% increase in loan transactions and an increase of 15% in "Other service revenue" generated by PWI. The increase in revenue and revenue per loan transaction included the impact of a decrease in revenue of $0.6 million, or $1 per loan transaction, due to fluctuations in the Canadian exchange rate. In addition, managed receivables increased to $1,738.6 million at June 30, 2016 from $1,476.9 million at June 30, 2015.

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Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $2, or 1%, primarily as a result of increases in average loan values and average portfolio duration, partially offset by an increase in the provision for credit losses and fluctuations in the Canadian exchange rate. Revenue per loan transaction excludes "Other service revenue."

Gross Profit

For the six months ended June 30, 2016, gross profit for the AFC segment increased $12.5 million, or 13%, to $105.6 million, or 71.9% of revenue, compared with $93.1 million, or 71.0% of revenue, for the six months ended June 30, 2015, primarily as a result of a 12% increase in revenue, partially offset by an 8% increase in cost of services. The floorplan lending business gross profit margin percentage increased from 77.6% to 78.6% as a result of higher revenue per loan transaction. 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 $0.8 million, or 6%, to $14.8 million for the six months ended June 30, 2016, compared with $14.0 million for the six months ended June 30, 2015. The increase was primarily attributable to increases in stock-based compensation expense, information technology costs and other miscellaneous expenses, partially offset by a decrease in selling, general and administrative costs at PWI.

Holding Company Results

	Six Months Ended June 30,	
(Dollars in millions)	2016	2015
Selling, general and administrative	$63.8	$48.0
Depreciation and amortization	10.0	6.7
Operating loss	$(73.8)	$(54.7)

Selling, General and Administrative

For the six months ended June 30, 2016, selling, general and administrative expenses at the holding company increased $15.8 million, or 33%, to $63.8 million, compared with $48.0 million for the six months ended June 30, 2015, primarily as a result of increases in medical expenses of $3.9 million, compensation expense of $2.9 million, stock-based compensation expense of $2.5 million, other professional fees of $2.2 million, acquisition-related professional fees of $2.1 million, information technology costs of $1.6 million and incentive-based compensation expense of $1.5 million, offset by a net decrease in other miscellaneous expenses aggregating $0.9 million.

LIQUIDITY AND CAPITAL RESOURCES

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

(Dollars in millions)	June 30, 2016	December 31, 2015	June 30, 2015
Cash and cash equivalents	$ 314.7	$ 155.0	$ 204.8
Restricted cash	15.0		