KAR Auction Services, Inc.
Form 10-Q
August 04, 2015
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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, 2015
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, 2015, 141,775,001 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

Table of Contents

KAR Auction Services, Inc.
Table of Contents

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Operating revenues				
ADESA Auction Services	$345.0	$301.8	$673.0	$599.9
IAA Salvage Services	248.6	223.8	486.6	448.8
AFC	64.7	60.0	131.1	120.7
Total operating revenues	658.3	585.6	1,290.7	1,169.4
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	366.5	322.1	718.6	646.6
Selling, general and administrative	123.5	114.3	245.0	241.1
Depreciation and amortization	51.8	48.3	102.7	96.4
Total operating expenses	541.8	484.7	1,066.3	984.1
Operating profit	116.5	100.9	224.4	185.3
Interest expense	21.8	20.9	42.8	45.0
Other (income) expense, net	0.4	(0.9)	(1.8)	(1.4)
Loss on extinguishment of debt	—	—	—	30.3
Income before income taxes	94.3	80.9	183.4	111.4
Income taxes	34.8	30.1	69.4	39.9
Net income	$59.5	$50.8	$114.0	$71.5
Net income per share				
Basic	$0.42	$0.36	$0.81	$0.51
Diluted	$0.41	$0.36	$0.79	$0.51
Dividends declared per common share	$0.27	$0.25	$0.54	$0.50

See accompanying notes to consolidated financial statements

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$59.5	$50.8	$114.0	$71.5
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	3.1	7.9	(15.2)	(0.6)
Comprehensive income	$62.6	$58.7	$98.8	$70.9

See accompanying notes to consolidated financial statements

Table of Contents

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

	June 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$204.8	$152.9
Restricted cash	16.4	17.0
Trade receivables, net of allowances of $6.5 and $6.3	533.2	401.2
Finance receivables, net of allowances $8.5 and $8.0	1,468.4	1,363.1
Deferred income tax assets	41.0	41.0
Other current assets	117.4	99.7
Total current assets	2,381.2	2,074.9
Other assets		
Goodwill	1,795.0	1,705.2
Customer relationships, net of accumulated amortization of $585.8 and $551.1	461.9	484.4
Other intangible assets, net of accumulated amortization of $247.4 and $221.2	307.6	306.2
Unamortized debt issuance costs	24.2	16.7
Other assets	35.0	36.2
Total other assets	2,623.7	2,548.7
Property and equipment, net of accumulated depreciation of $537.5 and $507.2	750.3	727.9
Total assets	$5,755.2	$5,351.5

See accompanying notes to consolidated financial statements

Table of Contents

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

	June 30, 2015	December 31, 2014
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$629.9	$471.7
Accrued employee benefits and compensation expenses	65.5	77.6
Accrued interest	0.5	0.3
Other accrued expenses	120.6	114.4
Income taxes payable	8.5	5.5
Dividends payable	38.3	38.2
Obligations collateralized by finance receivables	1,094.8	865.2
Current maturities of long-term debt	17.7	17.7
Total current liabilities	1,975.8	1,590.6
Non-current liabilities		
Long-term debt	1,727.9	1,736.6
Deferred income tax liabilities	328.6	333.4
Other liabilities	150.9	143.8
Total non-current liabilities	2,207.4	2,213.8
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, 2015: 141,851,515		
December 31, 2014: 141,316,444	1.4	1.4
Additional paid-in capital	1,596.4	1,593.7
Accumulated deficit	(9.0)	(46.4)
Accumulated other comprehensive loss	(16.8)	(1.6)
Total stockholders' equity	1,572.0	1,547.1
Total liabilities and stockholders' equity	$5,755.2	$5,351.5

See accompanying notes to consolidated financial statements

Table of Contents

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2014	141.3	$1.4	$1,593.7	$(46.4)	$(1.6)	$1,547.1
Net income				114.0		114.0
Other comprehensive loss					(15.2)	(15.2)
Issuance of common stock under stock plans	1.2		14.0			14.0
Stock-based compensation expense			5.8			5.8
Excess tax benefit from stock-based compensation			5.0			5.0
Repurchase and retirement of common stock	(0.6)		(22.1)			(22.1)
Cash dividends declared to stockholders ($0.54 per share)				(76.6)		(76.6)
Balance at June 30, 2015	141.9	$1.4	$1,596.4	$(9.0)	$(16.8)	$1,572.0

See accompanying notes to consolidated financial statements

Table of Contents

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

	Six Months Ended June 30, 2015	2014
Operating activities		
Net income	$114.0	$71.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102.7	96.4
Provision for credit losses	9.1	8.1
Deferred income taxes	(9.1)	(21.5)
Amortization of debt issuance costs	3.4	4.3
Stock-based compensation	5.8	20.8
Excess tax benefit from stock-based compensation	(5.0)	(2.5)
Loss (gain) on disposal of fixed assets	—	(0.1)
Loss on extinguishment of debt	—	30.3
Other non-cash, net	1.6	2.0
Changes in operating assets and liabilities, net of acquisitions:		
Trade receivables and other assets	(139.3)	(47.5)
Accounts payable and accrued expenses	117.3	69.6
Net cash provided by operating activities	200.5	231.4
Investing activities		
Net increase in finance receivables held for investment	(118.2)	(69.6)
Acquisition of businesses, net of cash acquired	(115.1)	(0.5)
Purchases of property, equipment and computer software	(64.2)	(47.3)
Proceeds from the sale of property and equipment	0.1	0.1
Decrease in restricted cash	0.6	2.8
Net cash used by investing activities	(296.8)	(114.5)
Financing activities		
Net increase in book overdrafts	30.5	30.1
Net increase in obligations collateralized by finance receivables	234.9	27.9
Proceeds from long-term debt	—	1,767.2
Payments for debt issuance costs/amendments	(10.8)	(11.7)
Payments on long-term debt	(8.8)	(1,776.2)
Payments on capital leases	(9.6)	(9.2)
Payments of contingent consideration and deferred acquisition costs	(1.2)	(0.2)
Issuance of common stock under stock plans	14.0	16.1
Excess tax benefit from stock-based compensation	5.0	2.5
Repurchase and retirement of common stock	(22.1)	—
Dividends paid to stockholders	(76.5)	(69.6)
Net cash provided by (used by) financing activities	155.4	(23.1)
Effect of exchange rate changes on cash	(7.2)	(0.1)
Net increase in cash and cash equivalents	51.9	93.7
Cash and cash equivalents at beginning of period	152.9	191.6
Cash and cash equivalents at end of period	$204.8	$285.3
Cash paid for interest	$38.0	$38.5
Cash paid for taxes, net of refunds	$72.3	$49.0

See accompanying notes to consolidated financial statements

Table of Contents

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2015 (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");
- "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;
- "Original Credit Agreement" refers to the Credit Agreement, dated May 19, 2011, 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 November 29, 2012 and March 12, 2013;
- "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") and the $250 million, five year senior secured revolving credit facility (the "new revolving credit facility"), the terms of which are set forth in the Credit Agreement;
- "Original Credit Facility" refers to the six year senior secured term loan facility ("Term Loan B") 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 Original Credit Agreement;
- "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; and
- "KAR Auction Services" refers to KAR Auction Services, Inc. and not to its subsidiaries.

Business and Nature of Operations

As of June 30, 2015, we have a North American network of 66 ADESA whole car auction sites and 171 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. IAA also includes HBC Vehicle Services, which operates from 10 locations in the United Kingdom. Our auctions facilitate the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit Internet buyers to participate in physical auctions. ADESA and IAA are leading, national providers of wholesale and salvage vehicle auctions and related vehicle remarketing services for the automotive industry in North America. ADESA's online service offerings include customized private label solutions powered with software developed by its wholly-owned subsidiary, OPENLANE, that allow our institutional consignors (automobile manufacturers, captive finance companies and other institutions) to offer vehicles via the Internet prior to arrival at the physical auction. Remarketing services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA and IAA facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership of vehicles sold at the auctions. Generally, fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.

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

9

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

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing is provided through 115 locations throughout the United States and Canada as of June 30, 2015. 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, 2014, as filed with the Securities and Exchange Commission on February 18, 2015. The 2014 year-end consolidated balance sheet data included in this Form 10-Q was derived from the audited financial statements referenced above, but does not include all disclosures required by U.S. GAAP for annual financial statements.

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.

New Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update requires 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, is effective for fiscal years beginning after December 15, 2015 and will require retrospective application. We do not expect the adoption of ASU 2015-03 will have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes 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. On July 9, 2015, the FASB agreed to delay 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 March 2015, ADESA completed the acquisition of Pittsburgh Auto Auction. This acquisition bolsters ADESA's presence in the eastern region and complements its current buyer base.

In April 2015, ADESA purchased all of the equity interests in MobileTrac LLC ("MobileTrac"). MobileTrac provides retail and wholesale car buyers with instaVIN's vehicle history reports as well as the instaLEAD and instaDEAL technology through which automotive dealers can attract and structure retail transactions with consumers online. MobileTrac enhances KAR's portfolio of service offerings to its customers.

In May 2015, AutoVIN, a subsidiary of ADESA, completed the acquisition of the vehicle inspection business from DataScan Field Services ("DataScan"). DataScan utilizes Internet-based technology to perform vehicle inspection services for major auto manufacturers, financial institutions, leasing companies and warranty companies. The network's broad geographical reach in the U.S. and Canada will provide expanded coverage for inspection customers, and the acquisition also brings new offerings to the AutoVIN portfolio, including warranty claim inspections, certified pre-owned audits and physical damage appraisals.

In May 2015, ADESA purchased all of the issued and outstanding membership interests in AutoNiq, LLC ("AutoNiq"). AutoNiq provides real-time information such as vehicle pricing, history reports and market guides to dealers. Its mobile app allows used car dealers to scan VINs on mobile devices, view auction run lists and access vehicle history reports and market value reports instantly. AutoNiq offers access to valued resources such as CARFAX and AutoCheck, as well as Black Book Daily, NADA guides, Kelley Blue Book and Galves pricing guide information. It also includes a comprehensive wholesale and retail market report for all markets in the United States. AutoNiq enhances KAR's portfolio of service offerings to its customers.

In June 2015, ADESA (UK) Limited completed the acquisition of HBC Vehicle Services ("HBC"), which specializes in salvage vehicle auctions and related services and is headquartered in Canvey Island, England. HBC provides salvage collection and disposal services for the UK's top insurance, fleet and accident management companies. HBC conducts business using a variety of sales channels, including online auctions.

Certain of the purchase agreements included contingent payments related to financial results 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 2015, net of cash acquired, was approximately $124.7 million, which includes estimated contingent payments with a fair value of $9.6 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $18.0 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $32.0 million to intangible assets, representing the fair value of acquired customer relationships, tradenames and software, 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 final valuation results. The Company does not expect adjustments to the purchase accounting will be material. The acquisitions resulted in aggregate goodwill of $90.0 million. The goodwill is recorded in the ADESA Auctions and IAA reportable segments. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's consolidated results.

Note 3—Stock and Stock-Based Compensation Plans

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

In the first six months of 2015, we granted a target amount of approximately 0.2 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 adjusted earnings per share attains certain specified goals. In addition, approximately 0.2 million RSUs were granted to certain executive officers and management of the Company. The RSUs vest in three equal annual installments. The weighted-average grant date fair value of both the PRSUs and the RSUs was $37.02, which was the average closing price of the Company's common stock on the dates of grant.

The total income tax benefit recognized in the consolidated statement of income for options, PRSUs and RSUs was approximately $1.2 million and $2.1 million for the three months ended June 30, 2015 and 2014, respectively, and $2.2 million and $7.5 million for the six months ended June 30, 2015 and 2014, 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,	
	2015	2014	2015	2014
Service options	$0.8	$1.0	$1.7	$1.9
Exit options	—	3.8	—	17.3
PRSUs	1.7	0.9	3.0	1.6
RSUs	0.7	—	1.1	—
Total stock-based compensation expense	$3.2	$5.7	$5.8	$20.8

In March 2015, the vesting criteria for the final 25% of the exit options granted under the KAR Auction Services, Inc. Stock Incentive Plan and the Omnibus Plan was met and as such, the final 25% of the outstanding exit options became exercisable. As of December 31, 2014, all of the compensation expense related to the exit options was recognized.

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. As of June 30, 2015, we had repurchased and retired a total of 614,900 shares of common stock at a weighted average price of $36.83 per share.

On August 3, 2015, as part of the authorized program to repurchase common stock noted above, the Company announced that it plans to enter into an accelerated share repurchase agreement under which up to $200 million of the Company’s common stock may be repurchased on an accelerated basis.

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,	
	2015	2014	2015	2014
Net income	$59.5	$50.8	$114.0	$71.5
Weighted average common shares outstanding	141.8	140.0	141.6	139.7
Effect of dilutive stock options and restricted stock awards	2.3	1.8	2.4	1.5
Weighted average common shares outstanding and potential common shares	144.1	141.8	144.0	141.2
Net income per share				
Basic	$0.42	$0.36	$0.81	$0.51
Diluted	$0.41	$0.36	$0.79	$0.51

Basic net income per share was calculated by dividing net income by the weighted-average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income per share-diluted is determined through the application of the treasury stock method, whereby 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 and approximately 0.4 million options were excluded from the calculation of diluted net income per share for the three months ended June 30, 2015 and 2014, respectively, and no options and approximately 0.5 million options were excluded from the calculation of diluted net income per share for the six months ended June 30, 2015 and 2014, respectively. In addition, approximately 0.3 million and approximately 0.1 million PRSUs were excluded from the calculation of diluted net income per share for the three months ended June 30, 2015 and 2014, respectively, and approximately 0.3 million and approximately 0.1 million PRSUs were excluded from the calculation of diluted net income per share for the six months ended June 30, 2015 and 2014, respectively. Total options outstanding at June 30, 2015 and 2014 were 4.7 million and 6.9 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 $1.15 billion for U.S. finance receivables at June 30, 2015.

In June 2015, AFC and AFC Funding Corporation entered into the Sixth Amended and Restated Receivables Purchase Agreement (the "Receivables Purchase Agreement"). The Receivables Purchase Agreement increased AFC Funding's U.S.
committed liquidity from $950 million to $1.15 billion and extended the facility's maturity date from June 30, 2016 to June 29,
2018. In addition, the definition of eligible receivables was expanded and the overcollateralization requirement was reduced.

We also have an agreement for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables. 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, 2015. In June 2015, AFCI entered into the Third Amended and Restated Receivables Purchase Agreement (the “Canadian Receivables Purchase Agreement”). The Canadian Receivables Purchase Agreement increased AFCI's committed liquidity from C$100 million to C$125 million and extended the facility's maturity date from June 30, 2016 to June 29, 2018. In addition, the definition of eligible receivables was expanded. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

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

(in millions)	June 30, 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	$1,470.8	$3.5	$4.1	$7.3
Other loans	6.1	—	—	—
Total receivables managed	$1,476.9	$3.5	$4.1	$7.3

(in millions)	December 31, 2014 Principal Amount of: Receivables	Receivables Delinquent	Net Credit Losses Three Months Ended June 30, 2014	Net Credit Losses Six Months Ended June 30, 2014
Floorplan receivables	$1,365.1	$4.2	$2.7	$6.3
Other loans	6.0	—	—	—
Total receivables managed	$1,371.1	$4.2	$2.7	$6.3

AFC's allowance for losses was $8.5 million and $8.0 million at June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015 and December 31, 2014, $1,466.6 million and $1,364.9 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $1,094.8 million and $865.2 million of obligations collateralized by finance receivables at June 30, 2015 and December 31, 2014, respectively.
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, 2015, 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, 2015	December 31, 2014
Term Loan B-1	LIBOR	+ 2.50%	March 11, 2017	$641.9	$645.1
Term Loan B-2	Adjusted LIBOR	+ 2.75%	March 11, 2021	1,106.0	1,111.6
Revolving credit facility	LIBOR	+ 2.25%	March 11, 2019	—	—
Canadian line of credit	CAD Prime	+ 0.50%	Repayable upon demand	—	—
Total debt				1,747.9	1,756.7
Unamortized debt discount				(2.3)	(2.4)
Current portion of long-term debt				(17.7)	(17.7)
Long-term debt				$1,727.9	$1,736.6

Credit Facility

On March 11, 2014, we repaid all principal outstanding and interest due under the Original Credit Agreement and established a three year senior secured term loan facility ("Term Loan B-1"), a seven year senior secured term loan facility ("Term Loan B-2") and a $250 million, five year senior secured revolving credit facility (the "revolving credit facility"), the terms of which are set forth in the Amended and Restated Credit Agreement, dated as of March 11, 2014. The terms in the Credit Agreement supersede the terms of the Original Credit Agreement. No early termination penalties were incurred by the Company in connection with the refinancing; however, we incurred a non-cash loss on the extinguishment of debt under the Original Credit Agreement of $30.3 million in the first quarter of 2014.

The Credit Facility is available for letters of credit, working capital and general corporate purposes. 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 rates on Term Loan B-1 and Term Loan B-2 were 2.81% and 3.50% at June 30, 2015, respectively. 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 $0.9 million and $1.5 million of Term Loan B-1 and Term Loan B-2, respectively, in the second quarter of 2015. In July 2015, similar net cash proceeds were used to prepay $1.3 million and $2.2 million of Term Loan B-1 and Term Loan B-2, respectively. Each such prepayment is credited to prepay, on a pro rata basis, in order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of Term Loan B-1 and Term Loan B-2 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, 2015.

There were no borrowings on the revolving credit facility at June 30, 2015 or December 31, 2014, respectively. However, we had related outstanding letters of credit in the aggregate amount of $28.6 million and $25.1 million at June 30, 2015 and December 31, 2014, respectively, which reduce the amount available for borrowings under the credit facility.

Fair Value of Debt

As of June 30, 2015, the estimated fair value of our long-term debt amounted to $1,749.3 million. The estimates of fair value are based on broker-dealer quotes for our debt as of June 30, 2015. 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 2013, we purchased four interest rate caps for an aggregate amount of approximately $2.2 million with an aggregate notional amount of $1.2 billion to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR exceeds 1.0%. The interest rate cap agreements each had an effective date of August 16, 2013 and each mature on August 16, 2015. The unamortized portion of the $2.2 million investment is recorded in “Other assets” on the consolidated balance sheet and is being amortized over the remaining life of the interest rate caps to interest expense.
- 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 mature 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. 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 balances and activity of our interest rate derivatives were immaterial for the three and six months ended June 30, 2015 and 2014.

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, 2014.

16

Note 9—Accumulated Other Comprehensive Loss

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

	June 30, 2015	December 31, 2014
Foreign currency translation loss	$(17.0)	$(1.8)
Unrealized gain on postretirement benefit obligation, net of tax	0.2	0.2
Accumulated other comprehensive loss	$(16.8)	$(1.6)

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. Beginning in June 2015, the IAA segment includes HBC Vehicle Services, which operates salvage vehicle auctions and related services in the United Kingdom.

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, 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	$1,889.1	$75.2	$5,755.2

Financial information regarding our reportable segments is set forth below for the three months ended June 30, 2014 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$301.8	$223.8	$60.0	$—	$585.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	167.7	137.0	17.4	—	322.1
Selling, general and administrative	62.7	23.9	6.5	21.2	114.3
Depreciation and amortization	19.8	18.7	7.5	2.3	48.3
Total operating expenses	250.2	179.6	31.4	23.5	484.7
Operating profit (loss)	51.6	44.2	28.6	(23.5)	100.9
Interest expense	0.2	0.1	4.6	16.0	20.9
Other income, net	(0.5)	(0.2)	—	(0.2)	(0.9)
Intercompany expense (income)	14.1	9.7	(6.5)	(17.3)	—
Income (loss) before income taxes	37.8	34.6	30.5	(22.0)	80.9
Income taxes	13.4	13.1	11.7	(8.1)	30.1
Net income (loss)	$24.4	$21.5	$18.8	$(13.9)	$50.8
Total assets	$2,406.8	$1,196.5	$1,608.7	$66.9	$5,278.9

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)					