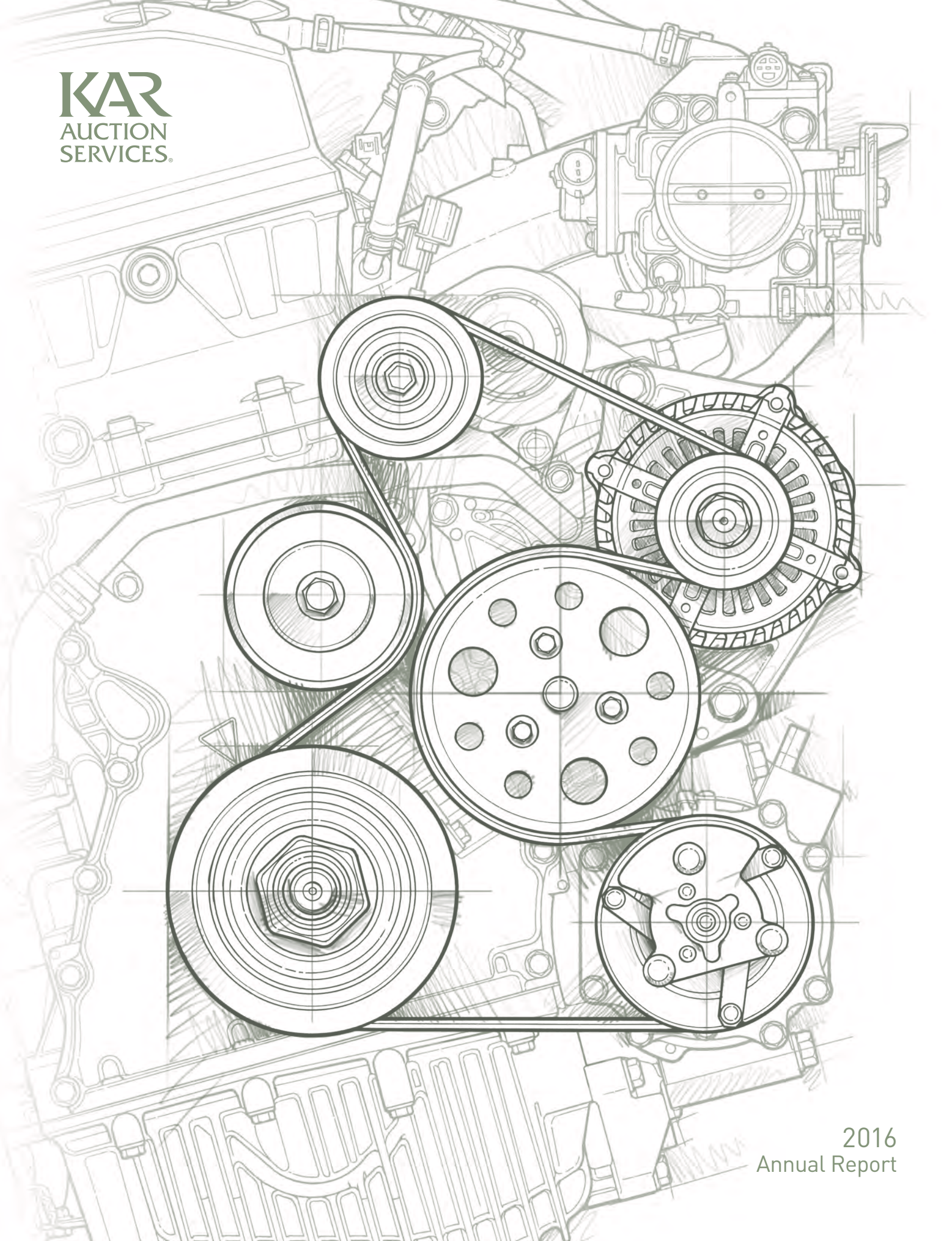


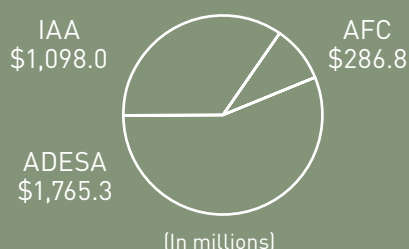


Financial highlights

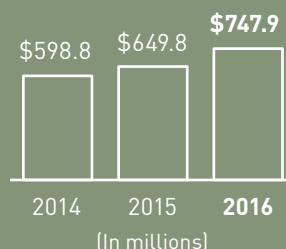
For the year ended December 31
(In millions, except per share data)

	2014	2015	2016
Total operating revenue	\$2,417.0	\$2,690.6	\$3,150.1
Gross profit	\$1,045.7	\$1,142.1	\$1,322.7
Net income per share—diluted	\$1.19	\$1.51	\$1.60
Cash dividends declared per common share	\$1.02	\$1.08	\$1.19
Weighted average shares outstanding—diluted	141.8	142.3	139.1
Year-end share price	\$34.65	\$37.03	\$42.62
Total assets	\$5,334.8	\$5,771.5	\$6,557.6

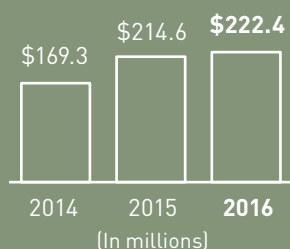
Revenue by segment



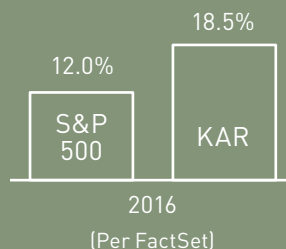
Adjusted EBITDA*



Net income



Total return vs. S&P 500



100+ Number of countries with active customers

5.1M Vehicles sold by ADESA and IAA in 2016

2.4M Vehicles sold online by ADESA and IAA—48% of all vehicles sold

1.7M AFC loan transaction units in 2016

48% Dealer consignment vehicles sold at ADESA physical auctions

* Adjusted EBITDA is a non-GAAP measure and is defined and reconciled to the most comparable GAAP measure, net income (loss), in our Annual Report on Form 10-K for the year ended December 31, 2016 in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA."

LETTER TO STOCKHOLDERS

KAR had a successful 2016 driven by contributions from every business unit and every corner of our organization. In our auctions and across our platform of services and capabilities, we focused on three simple and straightforward goals: deliver on our financial and operational commitments, generate stockholder value and position our company for the future. I am very pleased with the progress we made and proud to share the success of our many achievements with you.



Jim Hallett
CEO AND CHAIRMAN
OF THE BOARD
KAR AUCTION SERVICES

For the first time in KAR's history, we surpassed the five million units sold mark—an extraordinary milestone representing a sale facilitated nearly every six seconds. This contributed to strong financial results including revenue growth of 17% to over \$3.1 billion, a 15% increase in adjusted EBITDA to approximately \$748 million and an 8% increase in operating adjusted earnings per share to \$2.06.

We also generated positive stockholder return, with a 2016 closing share price up 15% to \$42.62 and a total stockholder return of 18.5%. Our three-year total stockholder return reached 57.9%, nearly double the S&P 500 average.

We also successfully expanded our geographic footprint in several key strategic markets. Early in the year, we acquired Brasher's Auto Auctions, adding eight locations across Northern California, Salt Lake City, and the Pacific Northwest. We also acquired new locations in Orlando, Florida, and Flint, Michigan, and added GRS Remarketing Limited (GRS) to our growing ADESA UK portfolio. In October, we hosted the first sale at our new \$40 million ADESA Chicago auction, our most technologically advanced physical auction to date. Our Insurance Auto Auctions business also held grand opening sales in Rochester, New York, and Eminence, Kentucky, and opened our new Impact Auto Auctions branch in Edmonton, Alberta, the largest facility of its kind in Canada.

To build on this positive momentum, KAR also made important investments in talent, resources and technology throughout the year. We continued to advance our pioneering data analytic capabilities

aimed at simplifying the auction experience and delivering actionable intelligence and decision-support to our customers. We also recruited experts from inside and outside the automotive industry to fortify our leadership in areas such as strategy, innovation, international, and product and market development.

2016 was not without challenges, and our performance was impacted by a number of external factors including more pronounced than anticipated variability in some markets and general retail uncertainty

There are
incredible
opportunities
for growth,
both in North
America and
internationally
and many
internal initiatives
underway to
evolve our
operations and
infrastructure.

surrounding the U.S. election. How quickly and effectively we reacted, however, is a testament to our “One KAR” platform and the insulating effect of our diverse and complementary businesses. As we encountered obstacles in one area, other areas accelerated to keep us on a stable path to success.

As I look to 2017 and beyond, I am very excited and optimistic. There are incredible opportunities for growth, both in North America and internationally and many internal initiatives underway to evolve our operations and infrastructure. We are also making investments to remain at the forefront of technology, like the re-architecture of our online auction platform that will help bring more efficiency, convenience and value to our customers. The future is very bright for KAR, and I look forward to seeing what we can accomplish together.

Ultimately, KAR’s 2016 performance and vision for the future are a reflection of our people—approximately 17,400 passionate entrepreneurs and innovators across the United States, Canada, Mexico and the United Kingdom. Their commitment to safety and integrity in all they do is rivaled only by their contributions to the communities in which we live and work. Last year, our employees raised hundreds of thousands of dollars and donated thousands of service hours to organizations such as JDRF, United Way, and the Red Cross. They also served as first responders in the relief efforts of Hurricane Matthew, the Louisiana flooding and other catastrophic events. This dedication and teamwork fuel our success and embody the company that we—our Board, our leadership and our stockholders—have built together.

Thank you for your continued confidence and your ongoing support of KAR’s growth. Your investment in our company is an investment in a strategy and a team focused on providing exceptional service to our customers and delivering exceptional value to our stockholders. We look forward to delivering on those commitments in 2017 and beyond.

BOARD OF DIRECTORS



Todd
Bourell

Mark
Howell

Mark
Hill

Michael
Kestner

Donna
Ecton

James
Hallett

Stephen
Smith

Lynn
Joliff

John
Larson

SENIOR LEADERSHIP TEAM

James
Hallett

CEO AND
CHAIRMAN
OF THE BOARD

Warren
Byrd

EVP OF CORPORATE
DEVELOPMENT
AND REAL ESTATE

Peter
Kelly

PRESIDENT OF DIGITAL
SERVICES AND CHIEF
TECHNOLOGY OFFICER

James
Money

PRESIDENT
AUTOMOTIVE FINANCE
CORPORATION

Benjamin
Skuy

EVP OF INTERNATIONAL
MARKETS AND STRATEGIC
INITIATIVES

Thoma
Caruso

CHIEF CLIENT OFFICER

John
Kett

PRESIDENT AND CEO
INSURANCE AUTO AUCTIONS

Rebecca
Polak

EVP, GENERAL COUNSEL
AND SECRETARY

Stéphane
St-Hilaire

PRESIDENT AND CEO
ADESA

Thomas
Fisher

EVP AND CHIEF
INFORMATION OFFICER

Eric
Loughmiller

EVP AND CHIEF
FINANCIAL OFFICER

Lisa
Price

EVP OF HUMAN RESOURCES

David
Vignes

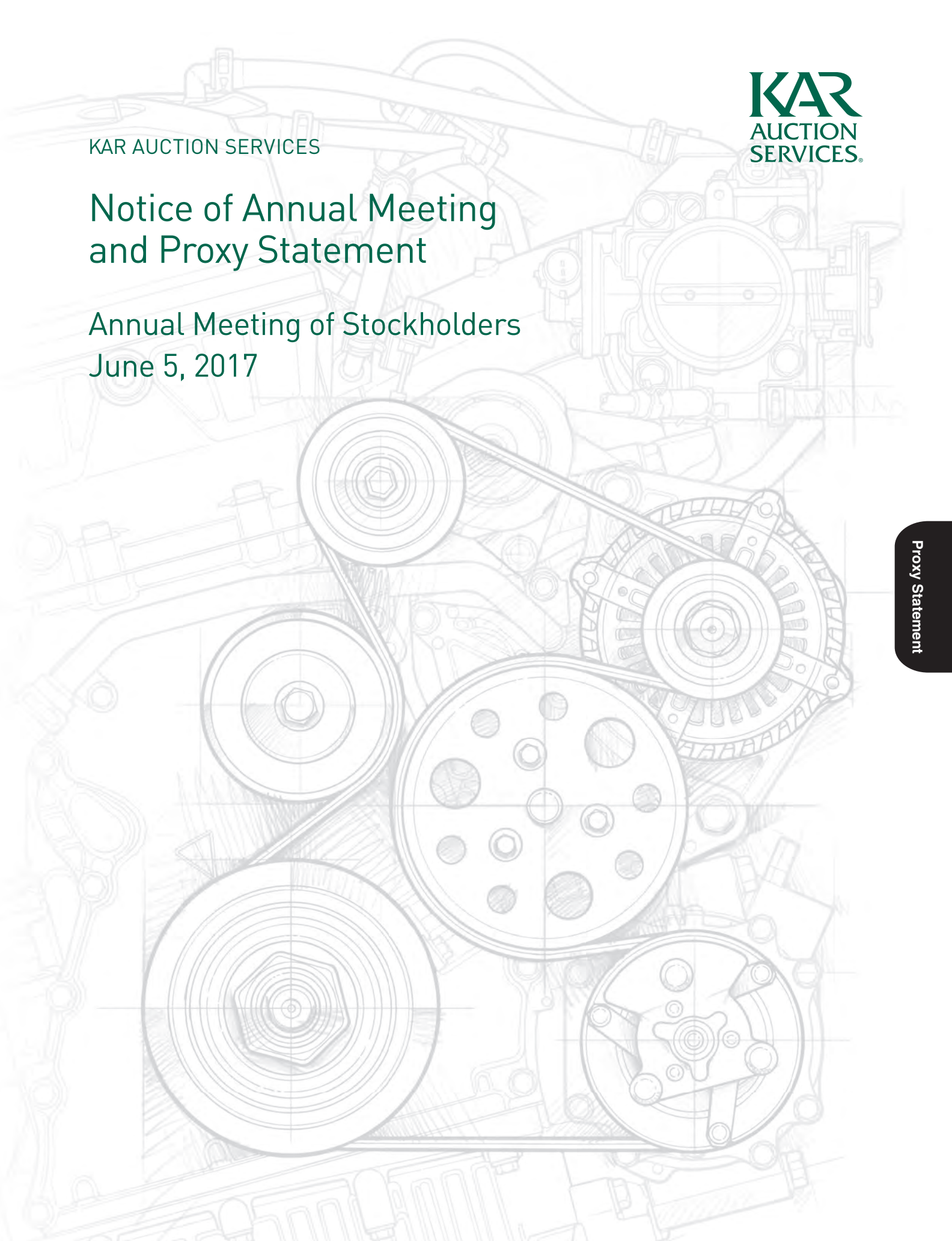
EVP OF ENTERPRISE
OPTIMIZATION

Donald
Gottwald

CHIEF OPERATING OFFICER



KAR Board of Directors, Senior Leadership Team and senior executives celebrate the opening of the ADESA Chicago auction.



KAR AUCTION SERVICES



Notice of Annual Meeting and Proxy Statement

Annual Meeting of Stockholders
June 5, 2017



April 25, 2017

Dear Fellow Stockholder:

Thank you for your continued investment in and support of KAR Auction Services, Inc. ("KAR" or the "Company"). I am pleased to invite you to attend KAR's 2017 annual meeting of stockholders. The meeting will be held on June 5, 2017, at 9:00 a.m., Eastern Daylight Time, at the Renaissance Indianapolis North Hotel, 11925 North Meridian Street, Carmel, Indiana 46032.

As a KAR stockholder, your vote is important. The matters to be acted upon are described in the notice of annual meeting of stockholders and the proxy statement. Even if you are planning to attend the annual meeting in person, you are strongly encouraged to vote your shares in advance through one of the methods described in the proxy statement.

I am pleased to report that KAR had a very successful 2016. We grew revenue, adjusted EBITDA and operating adjusted net income and surpassed the 5 million vehicles sold mark for the first time in our Company's history. As an established market leader with an experienced management team and diverse portfolio of complementary assets and businesses, we believe we are well-positioned for continued growth with solid operating performance and disciplined capital investments.

We have a comprehensive capital allocation plan for increasing stockholder value. We are focused on return of capital to our stockholders and accretive investments in the business, including the acquisition of auctions and complementary capabilities in North America and internationally, expanding our data analytic capabilities, and enhancing our technology platform. We are proud that through share buybacks and dividends, in 2016 we returned approximately \$237 million to stockholders and invested approximately \$587 million in our business through capital expenditures and strategic acquisitions.

Thank you again for your continued support of KAR, our Board of Directors, our employees and our future.

Sincerely,

A handwritten signature in black ink, appearing to read "James P. Hallett".

James P. Hallett

Chairman of the Board and
Chief Executive Officer

This proxy statement is dated April 25, 2017 and is first being distributed to stockholders on or about April 25, 2017.



13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Time and Date 9:00 a.m., Eastern Daylight Time, on June 5, 2017

Place Renaissance Indianapolis North Hotel
11925 North Meridian Street
Carmel, Indiana 46032

Items of Business *Proposal No. 1:* To elect nine directors to the Board of Directors.
Proposal No. 2: To approve, on an advisory basis, executive compensation.
Proposal No. 3: To approve, on an advisory basis, the frequency of future votes to approve executive compensation.
Proposal No. 4: To ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2017.
To transact any other business as may properly come before the meeting or any adjournments or postponements thereof.

Record Date You are entitled to vote at the 2017 annual meeting and at any adjournments or postponements thereof if you were a stockholder of record at the close of business on April 13, 2017.

Voting by Proxy Please submit your proxy card as soon as possible so that your shares can be voted at the 2017 annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on your enclosed proxy card.

On Behalf of the Board of Directors,

April 25, 2017
Carmel, Indiana

Rebecca C. Polak
*Executive Vice President,
General Counsel and Secretary*

Proxy Statement

Notice of Internet Availability of Proxy Materials for the Annual Meeting

The proxy statement for the 2017 annual meeting and the annual report to stockholders for the fiscal year ended December 31, 2016, each of which is being provided to stockholders prior to or concurrently with this notice, are also available to you electronically via the internet. We encourage you to review all of the important information contained in the proxy materials before voting. To view the proxy statement and annual report to stockholders on the internet, visit the “Investor Relations” page of our website, under the “Proxy Material” link at www.karauctionservices.com.

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PROXY STATEMENT SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement before voting. For more complete information regarding KAR Auction Services, Inc.'s (the "Company," "KAR" or "KAR Auction Services") 2016 performance, please review the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

ANNUAL MEETING OF STOCKHOLDERS

Date and Time:	9:00 a.m., Eastern Daylight Time, on June 5, 2017
Location:	Renaissance Indianapolis North Hotel 11925 North Meridian Street Carmel, Indiana 46032
Record Date:	Stockholders of record as of the close of business on April 13, 2017 are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and for each of the other proposals to be voted on at the 2017 annual meeting of stockholders. On the record date, KAR Auction Services had 137,146,721 shares of common stock issued and outstanding.
NYSE Symbol:	KAR
Registrar and Transfer Agent:	American Stock Transfer & Trust Company, LLC

ITEMS TO BE VOTED ON AT ANNUAL MEETING OF STOCKHOLDERS

Proposal	Our Board's Recommendation	Page
1. Election of each of the nine director nominees	FOR each director nominee	6
2. Approve, on an advisory basis, executive compensation	FOR	24
3. Approve, on an advisory basis, the frequency of future votes to approve executive compensation	FOR every year	25
4. Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2017	FOR	59

BOARD NOMINEES (PAGES 7-12)

Name	Age	Director Since	Independent	Primary Occupation	Committee Membership**
Todd F. Bourell	47	2015	Yes	Managing Partner of WLJ Capital, LLC	CC, NCGC
Donna R. Ecton	70	2013	Yes	Chairman and Chief Executive Officer of EEI Inc.	CC (Chair), AC
James P. Hallett	64	2007	No	Chairman of the Board and Chief Executive Officer of KAR Auction Services, Inc.	—
Mark E. Hill	61	2014	Yes	Managing Partner of Collina Ventures, LLC	NCGC (Chair), RC
J. Mark Howell	52	2014	Yes	Chief Operating Officer of Angie's List, Inc.	RC (Chair), AC
Lynn Jolliffe	65	2014	Yes	Human Capital and Talent Management Consultant	CC, NCGC
Michael T. Kestner	63	2013	Yes	Building Products and Automotive Industry Consultant	AC (Chair), RC
John P. Larson*	54	2014	Yes	Chief Executive Officer of Bestop, Inc.	CC, RC
Stephen E. Smith	68	2013	Yes	Automotive Industry Consultant	AC, NCGC

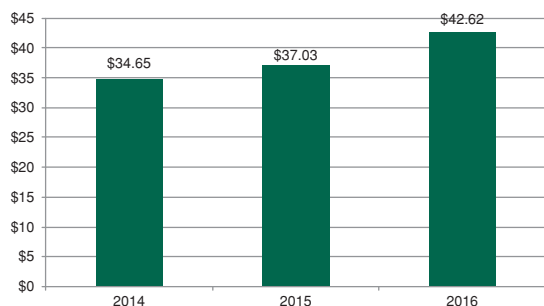
* Lead Independent Director

** AC=Audit Committee; CC=Compensation Committee; RC=Risk Committee; NCGC=Nominating and Corporate Governance Committee

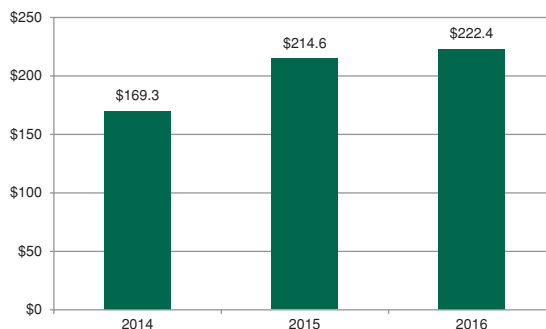
2016 BUSINESS HIGHLIGHTS

For the year ended December 31, 2016, the Company again delivered solid growth in volume of total vehicles sold, revenues, adjusted EBITDA and adjusted net income. Specific highlights for fiscal 2016 included:

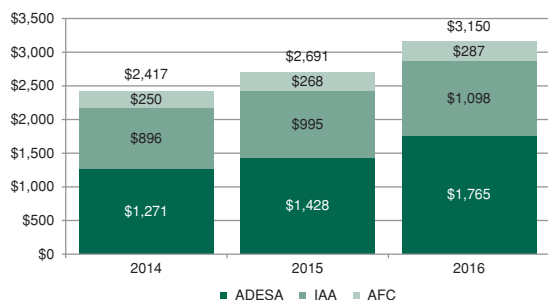
The closing stock price of KAR's common stock rose approximately 15% from \$37.03 at December 31, 2015 to \$42.62 at December 30, 2016. The closing price shown below for each year is the closing price of a share of the Company's common stock on the last trading day of each year.



Net income increased 3.6% from \$214.6 million (\$1.51 per diluted share) to \$222.4 million (\$1.60 per diluted share).



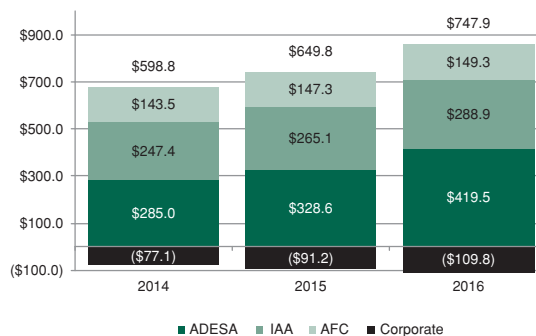
Net revenue was up 17% to over \$3.1 billion.



Total vehicles sold by ADESA, Inc. ("ADESA") and Insurance Auto Auctions, Inc. ("IAA") rose approximately 14% to 5.1 million units.

Through share buybacks and dividends, in 2016 we returned approximately \$237 million to stockholders and invested approximately \$587 million in our business through capital expenditures and strategic acquisitions.

Adjusted EBITDA* rose 15% to approximately \$748 million.



* Adjusted EBITDA is a non-GAAP measure and is defined and reconciled to the most comparable GAAP measure, net income, in our Annual Report on Form 10-K for the year ended December 31, 2016 in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA."

CORPORATE GOVERNANCE HIGHLIGHTS (PAGES 13-18)

We are committed to high standards of ethical and business conduct and strong corporate governance practices. This commitment is highlighted by the practices described below as well as the information contained on our website at www.karauctionservices.com on the “Investor Relations” page under the link “Corporate Governance”.

-  **Annual Elections:** Our directors are elected annually for one year terms.
-  **Majority Voting:** We maintain a majority voting standard for uncontested director elections with a policy for directors to tender their resignation should a majority of the votes cast not be in their favor.
-  **Director and Committee Independence:** Eight of our nine director nominees are independent, and all committees of our Board of Directors (the “Board”) are comprised entirely of independent directors.
-  **Executive Sessions:** Our independent directors meet in executive session at each regularly scheduled Board meeting.
-  **Lead Independent Director:** We have a lead independent director who presides over the executive sessions of the independent directors and serves as the principal liaison between the independent directors and the Company’s CEO and Chairman of the Board.
-  **Board Diversity:** More than twenty percent of our Board is comprised of women.
-  **Annual Board and Committee Evaluations:** The Board and each committee evaluates its performance each year.
-  **Robust Equity Ownership Requirements for Non-Employee Directors:** The stock ownership guideline for our non-employee directors is three times their annual cash retainer.
-  **Robust Equity Retention Requirements for Non-Employee Directors:** All shares of our common stock granted to non-employee directors must be held for four years after the grant while serving as a director and for six months after serving as a director.
-  **Robust Equity Ownership Requirements for Executive Officers:** We have stock ownership guidelines that are applicable to our executive officers. The stock ownership guideline for our CEO is five times his annual base salary. Executive officers are required to hold 60% of vested shares, net of taxes, until stock ownership guidelines are met.
-  **Anti-Hedging and Pledging Policies:** Our directors and executive officers are prohibited from hedging or pledging Company stock.
-  **Annual management and CEO evaluation and succession planning review:** Our Board conducts an annual evaluation and review of the CEO and each executive officer’s performance, development and succession plan.
-  **Board Risk Oversight:** The Risk Committee assists the Board in its oversight of: (i) the principal business, financial, technology and operational risks and other material risks and exposures of the Company; and (ii) the actions, activities and initiatives of the Company to mitigate such risks and exposures. The Risk Committee provides oversight with respect to risk practices implemented by management, except for the oversight of risks that have been specifically delegated to another committee of the Board (in which case the Risk Committee may maintain oversight over such risks through the receipt of reports from such committees).

EXECUTIVE COMPENSATION (PAGES 26-58)

We maintain a compensation program structured to achieve a close connection between executive pay and Company performance. We believe that this strong pay-for-performance orientation has served us well in recent years. For more information regarding our named executive officer compensation, see “Compensation Discussion and Analysis” and the compensation tables that follow such section.

WHAT WE DO

- ✓ **Stockholder alignment:** We have consistently demonstrated close alignment between our total stockholder return (“TSR”) performance and the compensation of our CEO, as shown in the chart on page 28.
- ✓ **Independent Compensation Committee:** All of the members of our Compensation Committee are independent under NYSE rules.
- ✓ **Independent compensation consultant:** The Compensation Committee retains its own independent compensation consultant to evaluate and review our executive compensation program and practices.
- ✓ **Pay for performance:** Our annual incentive program is 100% performance-based and our equity incentive program is heavily performance-based with 75% of our equity awards in the form of performance restricted stock units (“PRSUs”).
- ✓ **Maximum payout caps:** The Compensation Committee sets maximum amounts that may be payable for annual cash incentive compensation and PRSUs.
- ✓ **Clawback policy for financial misconduct:** Our clawback policy provides for the recovery and cancellation of incentive compensation of an executive officer in the event we are required to prepare an accounting restatement due to such executive officer’s intentional misconduct.
- ✓ **Moderate change-in-control benefits:** Change-in-control severance benefits are two times base salary and target bonus for the CEO and one times base salary and target bonus for the other executive officers.
- ✓ **Robust equity ownership requirements:** We have stock ownership guidelines that are applicable to our executive officers. The stock ownership guideline for our CEO is five times his annual base salary. Executive officers are required to hold 60% of vested shares, net of taxes, until stock ownership guidelines are met.

WHAT WE DON’T DO

- ✗ **Allow dividends or dividend equivalents to be paid on unvested PRSUs:** Dividend equivalents are accrued but not paid on PRSUs until (i) the performance conditions are satisfied; and (ii) the PRSUs vest after the performance measurement period.
- ✗ **Provide excessive perquisites:** We provide a limited number of perquisites that are designed to attract and retain highly qualified executives.
- ✗ **Allow hedging or pledging of the Company’s securities:** We prohibit hedging, pledging and short sales of Company stock by our directors and executive officers.
- ✗ **Reprice stock options:** Stock option exercise prices are set equal to the grant date market price and cannot be repriced or discounted without stockholder approval.
- ✗ **Maintain a defined benefit pension plan:** We do not maintain a defined benefit pension plan for our executive officers.

ELECTION OF DIRECTORS: PROPOSAL NO. 1

DIRECTORS ELECTED ANNUALLY

Our Board has nominated the nine individuals named below to stand for election to the Board at the 2017 annual meeting. The Company's directors are elected each year by the stockholders at the annual meeting. We do not have a staggered or classified board. Each director's term will last until the 2018 annual meeting of stockholders and until such director's successor is duly elected and qualified, or such director's earlier death, resignation or removal. Each director nominee must receive the affirmative vote of a majority of the votes cast in the election of directors at the 2017 annual meeting to be elected (i.e., the number of shares voted "FOR" a director nominee must exceed the number of votes cast "AGAINST" such nominee).

DIRECTOR INDEPENDENCE

The Board is responsible for determining the independence of our directors. Under the NYSE listing standards, a director qualifies as independent if the Board affirmatively determines that the director has no material relationship with us. While the focus of the inquiry is independence from management, the Board is required to broadly consider all relevant facts and circumstances in making an independence determination. Based upon its evaluation, our Board has affirmatively determined that the following directors and director nominees meet the standards of "independence" established by the NYSE: Todd F. Bourell, Donna R. Ecton, Mark E. Hill, J. Mark Howell, Lynn Jolliffe, Michael T. Kestner, John P. Larson and Stephen E. Smith. James P. Hallett, our CEO and Chairman of the Board, is not an independent director.

BOARD NOMINATIONS AND DIRECTOR NOMINATION PROCESS

The Board is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between the annual meetings of stockholders. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending candidates to the Board for Board membership. When formulating its Board membership recommendations, the Nominating and Corporate Governance Committee may also consider advice and recommendations from others, including stockholders, as it deems appropriate.

As detailed in both the Nominating and Corporate Governance Committee Charter and the Corporate Governance Guidelines, Board candidates also are selected based upon various criteria including experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board. Board members are expected to prepare for, attend and participate in all Board and applicable committee meetings and the Company's annual meetings of stockholders.

In accordance with its charter, the Board also considers candidates for election as a director of the Company recommended by any stockholder, provided that the recommending stockholder follows the procedures set forth in Section 5 of the Company's Second Amended and Restated By-Laws for nominations by stockholders of persons to serve as directors, including the requirements of timely notice and certain information to be included in such notice. Though the Nominating and Corporate Governance Committee does not have a formal policy regarding consideration of director candidates recommended by stockholders, the Board generally evaluates such candidates in the same manner by which it evaluates other director candidates considered by the Board. Deadlines for stockholder nominations for next year's annual meeting are included in the "Requirements, Including Deadlines, for Submission of Proxy Proposals" section on page 64.

An employment agreement entered into on February 27, 2012, between the Company and James P. Hallett, the Company's CEO and Chairman of the Board, provides that Mr. Hallett shall be entitled to serve as a member of the Board for so long as the employment agreement is in effect.

BOARD QUALIFICATIONS AND DIVERSITY

The Nominating and Corporate Governance Committee and the Board believe that diversity along multiple dimensions, including opinions, skills, perspectives, personal and professional experiences and other differentiating characteristics, is an important element of its nomination recommendations. The Nominating and Corporate Governance Committee has not identified any specific minimum qualifications which must be met for a person to be considered as a candidate for director. However, Board candidates are selected based upon various criteria including experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board. Although the Board does not have a formal diversity policy, the Nominating and Corporate Governance Committee and Board review these factors, including diversity, in considering candidates for Board membership.

INFORMATION REGARDING THE NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

The following information is furnished with respect to each nominee for election as a director. All of the nominees are currently directors and were elected by the stockholders at last year's annual meeting. Each of the nominees has consented to being named in this proxy statement and to serve as a director if elected. If a nominee is unavailable to serve as a director, your proxies will have the authority and discretion to vote for another nominee proposed by the Board or the Board may reduce the number of directors to be elected at the 2017 annual meeting. The ages of the nominees are as of the date of the 2017 annual meeting, June 5, 2017.

Todd F. Bourell



Independent Director

since June 2015

Age: 47

Current Board Committees:

Compensation Committee and
Nominating and Corporate Governance
Committee

Career Highlights

- Managing Partner of WLJ Capital, LLC, a public equities investment firm he founded in January 2015.
- Partner/Analyst at ValueAct Capital, LLC, a privately held hedge fund, from May 2001 to December 2014.
- Global Industry Analyst at Wellington Management Company, a worldwide private investment management company, from September 2000 to May 2001.
- Partner/Analyst at Peak Investment L.P., a private investment firm, from July 1994 to July 1998.
- Served as ValueAct Capital, LLC's representative on the board of directors of several publicly-traded companies, including IAA from October 2003 to May 2005, now a wholly-owned subsidiary of the Company.
- Graduate of Harvard College and the University of Pennsylvania (MBA).

Skills and Qualifications

- ✓ Extensive experience in finance, mergers and acquisitions and investment management, including experience in evaluating companies' strategies, operations and financial performance.
- ✓ Background provides perspective on institutional investors' approach to company performance, capital allocation and corporate governance.
- ✓ Extensive knowledge of IAA's business as a former owner (through ValueAct Capital, LLC) and board member on IAA's board of directors.
- ✓ Public company board experience.

Donna R. Ecton



Independent Director

since December 2013

Age: 70

Current Board Committees:

Compensation Committee (Chair) and
Audit Committee

Career Highlights

- Chairman and Chief Executive Officer of EEI Inc., a management consulting firm she founded in July 1998 to provide private equity firms with due diligence and market and operational assessments of companies being considered for acquisition, as well as turnaround management of troubled portfolio companies.
- Director (1994 to 1998) and Chief Operating Officer (1996 to 1998) of PetsMart, Inc.
- Chief Executive Officer of a number of companies, including Business Mail Express, Inc. (1995 to 1996) and Van Houten North America Inc./Andes Candies Inc. (1991 to 1994).
- Held senior corporate management positions at Nutri/System, Inc., Campbell Soup Company and Nordemann Grimm, Inc.
- Began career in banking at Chemical Bank and Citibank N.A. in New York City, running the Upper Manhattan middle market lending business and midtown Manhattan's retail banks.
- Previous public company board of director positions have included Mellon Bank Corporation and Mellon Bank N.A., Mellon PSFS, H&R Block, Inc., Tandy Corporation, Barnes Group Inc. and Vencor, Inc.
- Elected to and served on the Harvard University's Board of Overseers.
- Member of the Council on Foreign Relations in New York City.
- Serves on the NYSE Governance Services Advisory Council.
- Graduate of Wellesley College (BA) and the Harvard Graduate School of Business Administration (MBA).

Other Current Public Company Directorships: Director of CVR GP, LLC, the general partner of CVR Partners, LP, a nitrogen fertilizer business, since March 2008.

Other Public Company Directorships in Last Five Years: Former Director and Non-Executive Chairman of the Board of Body Central Corp. (2011 to 2014).

Skills and Qualifications

- ✓ More than 40 years of operational and management experience, including as a CEO, with established companies allows Ms. Ecton to provide to our Board insight into operations, marketing, finance, human resources and strategic planning.
- ✓ Experience in running multiple location businesses not only in the U.S., but also in Canada, the U.K. and Australia.
- ✓ Significant strategy and risk assessment experience developed in her roles as a management consultant and as a senior executive of multiple companies.
- ✓ Substantial financial experience gained in her roles as CEO, COO and other senior executive positions.
- ✓ Current and prior service on the board of directors of public companies, including several committee chair roles, provides additional perspective to our Board.

James P. Hallett



Director
since April 2007
Age: 64

**Chairman of the Board and
Chief Executive Officer**

Career Highlights

- Chairman of the Company since December 2014 and Chief Executive Officer since September 2009.
- Chief Executive Officer and President of ADESA from April 2007 to September 2009.
- President of Columbus Fair Auto Auction, a large independent automobile auction located in Columbus, Ohio, from May 2005 to April 2007.
- After selling his auctions to ADESA in 1996, Mr. Hallett held various senior executive leadership positions with ADESA between 1996 and 2005, including President and Chief Executive Officer of ADESA.
- Founded and owned two automobile auctions in Canada from 1990 to 1996.
- Graduate of Algonquin College.
- Managed and then owned a number of new car franchise dealerships for 15 years.
- Winner of multiple industry awards, including NAAA Pioneer of the Year in 2008.
- Recognized as the EY Entrepreneur of the Year 2014 National Services Award Winner and one of Northwood University's 2015 Outstanding Business Leaders.

Skills and Qualifications

- ✓ Committed and deeply engaged leader with over 20 years of experience in key leadership roles throughout the Company and over 35 years of experience in the industry.
- ✓ As Chief Executive Officer, Mr. Hallett has a thorough and in-depth understanding of the Company's business and industry, including its employees, business units, customers and investors, which provides an additional perspective to our Board.
- ✓ Utilizes strong communication skills to guide Board discussions and keep our Board apprised of significant developments in our business and industry; including our risk management practices, strategic planning and development.

Mark E. Hill



Independent Director
since June 2014
Age: 61

Current Board Committees:
Nominating and Corporate Governance
Committee (Chair)
and Risk Committee

Career Highlights

- Managing Partner of Collina Ventures, LLC, a private investment company that invests in software and technology companies, since 2006.
- Co-founder and Chairman of Bluelock, LLC, a privately held infrastructure as a services company, since 2006.
- Co-Founder, President and Chief Executive Officer of Baker Hill Corporation, a banking industry software and services business, from 1985 to 2006. Baker Hill Corporation was acquired by Experian PLC, a global information solutions company, in 2005.
- Graduate of the University of Notre Dame and Indiana University (MBA).

Other Public Company Directorships in Last Five Years: Lead Independent Director of Interactive Intelligence Group, Inc., a global software business, from 2005 to 2016.

Skills and Qualifications

- ✓ Significant executive leadership and management experience leading and owning a software and technology-based business provides our Board with expertise in technology, innovation, and strategic investments.
- ✓ Extensive experience as an investor and mentor to numerous early stage software and technology companies provides entrepreneurial perspective to the Board.
- ✓ Key leadership experience in numerous central Indiana business and community service organizations, including TechPoint, the Central Indiana Community Foundation, the Orr Fellowship and the local Teach For America board.
- ✓ Public company board experience, including serving as a lead independent director.

J. Mark Howell



Independent Director
since December 2014
Age: 52

Current Board Committees:
Risk Committee (Chair) and
Audit Committee

Career Highlights

- Chief Operating Officer of Angie's List, Inc., a publicly-traded, United States-based, leading consumer web services business connecting more than three million consumers to highly-rated local service providers via its online marketplace, since March 2013.
- President, Ingram Micro North America Mobility of Ingram Micro Inc., a technology distribution company, from 2012 to 2013.
- President, BrightPoint Americas of BrightPoint, Inc., a distributor of mobile devices for phone companies, including Chief Operating Officer, Executive Vice President and Chief Financial Officer, from 1994 to 2012. BrightPoint, Inc. was sold to Ingram Micro Inc. in 2012.
- Vice President and Corporate Controller of ADESA from August 1992 to July 1994.
- Audit Staff and Senior Staff at Ernst & Young LLP.
- Graduate of the University of Notre Dame (BBA in Accounting).

Skills and Qualifications

- ✓ Extensive senior leadership experience at internet-based and technology-driven companies provides valuable insight as an increasing amount of the Company's consigned vehicles are sold online.
- ✓ Provides unique, in-depth knowledge of ADESA and its industry as a former employee of ADESA.
- ✓ Substantial financial experience.
- ✓ Certified Public Accountant with experience in public accounting and public companies.

Lynn Jolliffe



Independent Director
since June 2014
Age: 65

Current Board Committees:
Compensation Committee and
Nominating and Corporate Governance
Committee

Career Highlights

- Chief Executive Officer of Jolliffe Solutions, Inc., providing consulting in human capital and talent management since June 2015.
- Executive Vice President, Global Human Resources of Ingram Micro Inc., a technology distribution company, from June 2007 to June 2015.
 - Vice President, Human Resources for the North America region from October 2006 to May 2007.
 - Served as Regional Vice President, Human Resources and Services for Ingram Micro European Coordination Center from August 1999 to October 2006.
- Served in various capacities, including Vice President and Chief Financial Officer with responsibility for human resources, at two Canadian retailers, including Holt Renfrew, from 1985 to 1999.
- Began career at Bell Canada and then moved to Bank of Montreal.
- Graduated from Queens University and University of Toronto (MBA).

Skills and Qualifications

- ✓ Extensive functional and leadership experience in finance, human resources and general management.
- ✓ Deep understanding of business drivers from the financial, operational and people perspective gained from experience in multiple industries across three continents.
- ✓ Diversity in viewpoint and international business experience as she has lived and worked in the U.S., Canada and abroad.
- ✓ Significant experience with executive compensation decisions, strategies and policies for the acquisition and development of employee talent.

Michael T. Kestner



Independent Director
since December 2013
Age: 63

Current Board Committees:
Audit Committee (Chair) and
Risk Committee

Career Highlights

- Consultant in the building products and automotive industry since December 2015.
- Chief Financial Officer of Building Materials Holding Corporation, a building products company, from August 2013 to December 2015.
- Partner in FocusCFO, LLC, a consulting firm providing part-time CFO services, from April 2012 to August 2013.
- Executive Vice President, Chief Financial Officer and a director of Hillite International, Inc., an automotive supplier of powertrain parts, from October 1998 to July 2011.
- Chief Financial Officer of Sinter Metals, Inc., a supplier of metal power precision components, from 1995 to 1998.
- Served in various capacities at Banc One Capital Partners, Wolfensohn Ventures LP and as a senior audit manager at KPMG LLP.
- Graduated from Southeast Missouri State University.

Skills and Qualifications

- ✓ Over 20 years as a CFO provides valuable experience and perspective as Chair of the Audit Committee.
- ✓ Brings experience as the former CFO of a large, United States-based company which includes experience with complex capital structures and mergers and acquisitions.
- ✓ Extensive experience in financial analysis and financial statement preparation.
- ✓ Management experience in the automotive industry both domestically and internationally provides him with additional insight into financial and business matters that are important to the Company.
- ✓ Certified Public Accountant with experience in public accounting and public companies.

John P. Larson



Lead Independent Director
since June 2014
Age: 54

Current Board Committees:
Compensation Committee and
Risk Committee

Career Highlights

- Chief Executive Officer of Bestop, Inc., a leading manufacturer of soft tops and accessories for Jeep vehicles, since August 2015.
- Chief Executive Officer of Escort Inc., an automotive electronics manufacturer, from January 2008 to January 2014 and prior to that as President and Chief Operating Officer from June 2007 to January 2008.
- Served in a number of capacities at General Motors Company from 1986 to 2007, most recently serving as General Manager overseeing operations for the Buick, Pontiac and GMC Divisions from January 2005 to May 2007 and as General Director of Finance (CFO) for U.S. Sales, Service and Marketing Operations from 2001 to 2004.
- Led General Motors Company's used car remarketing activity from 1999 to 2000.
- Graduated from Northern Illinois University and Purdue University (M.S., Management).

Skills and Qualifications

- ✓ Extensive business, management and operational experience as CEO in the automotive aftermarket and as a senior executive at one of the world's largest automakers, General Motors Company, provides him with perspective into the Company's challenges, operations, and strategic opportunities.
- ✓ Extensive experience in automotive remarketing, captive finance (GMAC), rental car program design and automotive dealer activities, as well as an in-depth understanding of the overall automotive business provide him a broad perspective on our industry and key customers.
- ✓ Extensive experience as a senior leader in corporate finance has provided him with key skills, including financial reporting, accounting and control, business planning and analysis and risk management, that are valuable to the oversight of our business.

Stephen E. Smith



Independent Director

since December 2013

Age: 68

Current Board Committees:

Audit Committee and
Nominating and Corporate
Governance Committee

Career Highlights

- Consultant in the automotive industry since October 2012.
- Senior Vice President, Financial Services of American Honda Finance Corporation (AHFC), a provider of financial services to automobile, motorcycle, marine and power equipment product dealers and their customers, from 1985 to October 2012 (including various other positions). Financial services included commercial lending, consumer lending and financing and vehicle service contracts. Started the consumer finance organization at AHFC.
- Served two terms as Chair of the Vehicle Finance Division for the American Financial Services Association. Member of the Financial Services Roundtable.
- Began career at Bullock's Dept. Stores, a division of Federated Department Stores. Held senior level positions in the credit card division and in store management.
- Member of the board of the directors of Carecredit Corporation, a privately-held consumer credit healthcare company, from 1996 to 2002.
- Interim President of the California Council on Economic Education, a not-for-profit organization that provides training and educational materials to California teachers relating to economics and personal finance, from July 2013 to February 2014.
- Graduated from California State University, Northridge (BA, MBA).

Skills and Qualifications

- ✓ Over 25 years of extensive operational and management experience in the automotive industry with particular insight into the financing and leasing of vehicles.
- ✓ Significant expertise in creating, building and developing consumer and commercial finance business. Expertise in strategy development, sales and marketing, operating efficiency and performance improvement, customer satisfaction and loyalty, and talent management.
- ✓ Extensive experience in managing lease residual setting, vehicle remarketing, dealer inventory financing and vehicle service contracts.
- ✓ Considerable financial skill and expertise.

KAR Auction Services' Board of Directors recommends a vote "FOR" the election of the foregoing nine nominees to the Board of Directors.

Proxies solicited by the Board of Directors will be voted "FOR" the election of each of the director nominees named in this proxy statement and on the proxy card unless stockholders specify a contrary vote.

BOARD OF DIRECTORS STRUCTURE AND CORPORATE GOVERNANCE

ROLE OF THE BOARD OF DIRECTORS

The Board oversees the Company's CEO and other senior management in the competent and ethical operation of the Company and assures that the long-term interests of the stockholders are being served. The Company's Corporate Governance Guidelines are available on our website at www.karauctionservices.com on the "Investor Relations" page under the link "Corporate Governance." The information on our website is not part of this proxy statement and is not deemed incorporated by reference into this proxy statement or any other public filing made with the Securities and Exchange Commission (the "SEC").

BOARD LEADERSHIP

Neither the Company's Second Amended and Restated By-Laws nor the Company's Corporate Governance Guidelines require that the Company separate the roles of Chairman of the Board and CEO, and the Board does not have a policy on whether the same person should serve as both the CEO and Chairman of the Board, or if the roles must remain separate. The Board believes that it should have the flexibility to make these determinations from time to time in the way that it believes best to provide appropriate leadership for the Company under then-existing circumstances.

At present, the Board has chosen to combine the positions of CEO and Chairman of the Board and to appoint a Lead Independent Director. Our Board believes that having the same person serve in the roles of Chairman of the Board and CEO is appropriate for the Company at this time, as it fosters clear accountability, effective decision making and alignment on corporate strategy. Given Mr. Hallett's unparalleled knowledge of the industry and the Company, the Board believes Mr. Hallett is in the best position to focus the independent directors' attention on critical business matters and to speak for and lead both the Company and the Board. In addition, the Board believes that the appointment of a Lead Independent Director helps ensure that the Company benefits from effective oversight by its independent directors. Our Lead Independent Director presides over the executive sessions of the independent directors and serves as the principal liaison between the independent directors and the Company's CEO and Chairman of the Board. Our Lead Independent Director, Mr. Larson, has served on the Board since 2014 and has strong communication and leadership skills, as well as extensive knowledge about the Company's strategic objectives, the industry in which we operate, and the areas of strategic importance to the Company.

In connection with the appointment of a Lead Independent Director, the Board adopted a Lead Independent Director Charter, which sets forth a clear mandate with significant authority and responsibilities, including:

Board Meetings and Executive Sessions	• Has the authority to call meetings of the independent members of the Board. • Presides at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent members of the Board.
Communications	• Serves as principal liaison on Board-wide issues between the independent directors and the Chairman and CEO and facilitates communication generally between and among directors.
Agendas	• Reviews, in consultation with the Chairman and CEO, the agenda for Board meetings.
Meeting Schedules	• Reviews, in consultation with the Chairman and CEO, the meeting schedules to assure there is sufficient time for discussion of all agenda items. • Reviews, in consultation with the Chairman and CEO, information sent to the Board, including the quality, quantity, appropriateness and timeliness of such information.
Communicating with Stockholders	• If requested by stockholders, ensures that he or she is available, when appropriate, for consultation and direct communication.
Chairman and CEO Performance Evaluation and Board Governance	• Together with the Compensation Committee, conducts an annual evaluation of the Chairman and CEO, including an annual evaluation of his or her interactions with the independent directors. • Guides the Board's governance process, including self-evaluations.

BOARD OF DIRECTORS MEETINGS AND ATTENDANCE

The Board held 13 meetings during 2016. All of the incumbent directors attended at least 75% of the meetings of the Board and Board committees on which they served during 2016. As stated in our Corporate Governance Guidelines, each director is expected to attend all annual meetings of stockholders. All of our directors attended last year's annual meeting of stockholders in person.

COMMITTEES OF THE BOARD OF DIRECTORS

In 2016, the Board maintained four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Risk Committee. Each of our committees operates pursuant to a written charter. Copies of the committee charters are available on our website at www.karauctionservices.com on the "Investor Relations" page under the link "Corporate Governance." The information on our website is not part of this proxy statement and is not deemed incorporated by reference into this proxy statement or any other public filing made with the SEC. The following table sets forth the current membership of each committee:

Name	Audit Committee	Nominating and Corporate Governance Committee	Compensation Committee	Risk Committee
Todd F. Bourell				
Donna R. Ecton			Chair	
James P. Hallett*				
Mark E. Hill		Chair		
J. Mark Howell				Chair
Lynn Jolliffe				
Michael T. Kestner	Chair			
John P. Larson**				
Stephen E. Smith				

* Chief Executive Officer and Chairman of the Board

** Lead Independent Director

A description of each Board committee is set forth below.

Audit Committee

Meetings Held in 2016: Six

Primary Responsibilities: Our Audit Committee assists the Board in its oversight of the integrity of our financial statements, our independent registered public accounting firm's qualifications and independence and the performance of our independent registered public accounting firm. The Audit Committee reviews the audit plans and findings of our independent registered public accounting firm and our internal audit team and tracks management's corrective action plans where necessary; reviews our financial statements, including any significant financial items and changes in accounting policies or practices, with our senior management and independent registered public accounting firm; reviews our financial risk and control procedures, compliance programs and significant tax, legal and regulatory matters; and has the sole discretion to appoint annually our independent registered public accounting firm, evaluate its independence and performance and set clear hiring policies for employees or former employees of the independent registered public accounting firm.

Independence: Each member of the Audit Committee is "financially literate" under the rules of the NYSE, and each of Messrs. Howell and Kestner and Ms. Ecton has been designated as an "audit committee financial expert" as that term is defined by the SEC. In addition, the Board has determined that each member of the Audit Committee meets the standards of "independence" established by the NYSE and is "independent" under the independence standards for audit committee members adopted by the SEC.

Compensation Committee

Meetings Held in 2016: Seven

Primary Responsibilities: The Compensation Committee reviews and recommends policies relating to compensation and benefits of our officers and employees. The Compensation Committee reviews and approves corporate goals and objectives relevant to the compensation of our CEO and other executive officers, evaluates the performance of these officers in light of those goals and objectives, and approves the compensation of these officers based on such evaluations. The Compensation Committee also administers the issuance of equity and other awards under our equity plans.

Independence: All of the members of the Compensation Committee are independent under the NYSE rules (including the enhanced independence requirements for compensation committee members).

Nominating and Corporate Governance Committee

Meetings Held in 2016: Four

Primary Responsibilities: The Nominating and Corporate Governance Committee is responsible for making recommendations to the Board regarding candidates for directorships and the size and composition of the Board. The Nominating and Corporate Governance Committee also reviews non-employee director compensation on an annual basis and makes recommendations to the Board. In addition, the Nominating and Corporate Governance Committee is responsible for overseeing our Corporate Governance Guidelines and reporting and making recommendations to the Board concerning governance matters.

Independence: All of the members of the Nominating and Corporate Governance Committee are independent under the NYSE rules.

Risk Committee

Meetings Held in 2016: Four

Primary Responsibilities: The Risk Committee assists the Board in its oversight of (i) the principal business, financial, technology and operational risks, and other material risks and exposures of the Company and (ii) the actions, activities and initiatives of the Company to mitigate such risks and exposures. The Risk Committee also provides oversight for matters specifically relating to cyber security and other risks related to information technology systems and procedures. The Risk Committee also oversees the Company's enterprise risk management ("ERM") program and has direct oversight over certain risks within the ERM framework.

Independence: All of the members of the Risk Committee are independent under the NYSE rules.

BOARD OF DIRECTORS' RISK OVERSIGHT

Our management is responsible for the management and assessment of risk at the Company, including communication of the most material risks to the Board and its committees. Oversight of the Company's risks is carried out by the Board as a whole and by each of its various committees. The Risk Committee provides oversight with respect to risk practices implemented by management, except for the oversight of risks that have been specifically delegated to another committee of the Board. Even when the oversight of a specific area of risk has been delegated to another committee, the Risk Committee may maintain oversight over such risks through the receipt of reports from the committee chairpersons to the Risk Committee. The Board maintains oversight over such risks through the receipt of reports from the chairperson of the Risk Committee and from the other committees at each regularly scheduled Board meeting. The Risk Committee and other committee reviews occur principally through the receipt of reports from management and third parties on these areas of risk, and discussions with management and third parties regarding risk assessment and risk management.

At its regularly scheduled meetings, the Board generally receives a number of reports which include information relating to risks faced by the Company. The Company's Chief Financial Officer provides a report on the Company's results of operations, its liquidity position, including an analysis of prospective sources and uses of funds, and the implications to the Company's debt covenants and credit rating, if any. The Chief Executive Officer of each primary business unit provides an operational report, which includes information relating to strategic, operational and competitive risks. Finally, the Company's General Counsel provides a privileged report which provides information regarding the status of the Company's material litigation and related matters, if any, including environmental updates and the Company's continuing compliance with applicable laws and regulations. At each regularly scheduled Board meeting, the Board also receives reports from the Risk Committee chairperson as well as other committee chairpersons, which may include a discussion of risks initially overseen by the committees for discussion and input from the Board. As noted above, in addition to these regular reports, the Risk Committee receives reports on specific areas of risk such as regulatory, cyclical or other risks and reports to the Board on these matters.

The Board's leadership structure, through its committees, also supports its role in risk oversight. In general, the committees oversee the following risks:

- **Audit Committee:** The Audit Committee maintains initial oversight over risks related to (i) the integrity of the Company's financial statements, (ii) internal controls over financial reporting and disclosure controls and procedures (including the performance of the Company's internal audit function), (iii) the performance of the independent registered public accounting firm; and (iv) ethics and related issues arising from the Company's whistleblower hotline.
- **Compensation Committee:** The Compensation Committee maintains oversight over risks related to the Company's compensation practices.
- **Nominating and Corporate Governance Committee:** The Nominating and Corporate Governance Committee monitors potential risks relating to the effectiveness of the Board, notably director succession, composition of the Board and the principal policies that guide the Company's governance.
- **Risk Committee:** The Risk Committee maintains oversight over the Company's enterprise-level risks generally and specifically with respect to cyber security and information technology systems and procedures as noted above.

CORPORATE GOVERNANCE DOCUMENTS

The Board has adopted the following corporate governance documents:

Document	Purpose/Application
Code of Business Conduct and Ethics	Applies to all of the Company's employees, officers and directors, including those officers responsible for financial reporting.
Code of Ethics for Principal Executive and Senior Financial Officers	Applies to the Company's principal executive officer, principal financial and accounting officer and such other persons who are designated by the Board.
Corporate Governance Guidelines	Contains general principles regarding the functions of the Board and its committees.
Committee Charters	Applies to the following Board committees, as applicable: Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Committee.
Lead Independent Director Charter	Sets forth a clear mandate and significant authority and responsibilities for the Lead Independent Director.

We expect that any amendment to or waiver of the codes of ethics that apply to executive officers or directors will be disclosed on the Company's website. The foregoing documents are available at www.karauctionservices.com on the "Investor Relations" page under the "Corporate Governance" link and in print to any stockholder who requests them. Requests should be made to KAR Auction Services, Inc., Investor Relations, 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032. The information on our website is not part of this proxy statement and is not deemed incorporated by reference into this proxy statement or any other public filing made with the SEC.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2016, Messrs. Bourell, Howell and Larson and Mmes. Ecton and Jolliffe served as members of the Compensation Committee. None of our executive officers serve, or in fiscal year 2016 has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board or our Compensation Committee. None of the individuals serving as members of the Compensation Committee during fiscal year 2016 are now or were previously an officer or employee of the Company or its subsidiaries, other than Mr. Howell who served as the Vice President and Corporate Controller of ADESA from August 1992 to July 1994. Our Board has affirmatively determined that Mr. Howell meets the standards of "independence" established by the NYSE. Mr. Howell transitioned from the Compensation Committee to the Audit Committee on June 8, 2016.

STOCKHOLDER COMMUNICATIONS WITH THE BOARD

Any stockholder or other interested parties desiring to communicate with the Board, the Chairman of the Board, a committee of the Board or any of the independent directors individually or as a group regarding the Company may directly contact such directors by delivering such correspondence to the Company's General Counsel at KAR Auction Services, Inc., 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032. Our General Counsel reviews all such correspondence and forwards to the applicable director(s) copies of all such applicable correspondence.

The Audit Committee has established procedures for employees, stockholders and others to submit confidential and anonymous reports regarding accounting, internal accounting controls, auditing or any other relevant matters.

EXECUTIVE SESSIONS

The independent directors of the Company meet in executive session at every regularly scheduled Board meeting. The Company's Corporate Governance Guidelines state that the Chairman of the Board (if an independent director) or the Lead Independent Director (if the Chairman of the Board is not an independent director) shall preside at such executive sessions, or in such director's absence, another independent director designated by the Chairman of the Board or the Lead Independent Director, as applicable. Currently, Mr. Larson, our Lead Independent Director, presides at the executive sessions of our independent directors.

DIRECTOR COMPENSATION

We use a combination of cash and stock-based incentive compensation to attract and retain independent, qualified candidates to serve on the Board. The Board makes all director compensation determinations after considering the recommendations of the Nominating and Corporate Governance Committee. In connection with the Board's 2016 director compensation decisions, the Nominating and Corporate Governance Committee retained Semler Brossy Consulting Group LLC ("Semler Brossy") as its independent consultant. In setting director compensation, we considered market comparison studies and other data obtained from Semler Brossy, the responsibilities of directors generally, including committee chairs, and the significant amount of time that directors expend in fulfilling their duties. In establishing the non-employee director compensation recommendations, the Nominating and Corporate Governance Committee utilized a balance of cash and equity, with the majority of the compensation delivered through equity grants. Directors who also serve as employees of the Company do not receive payment for service as directors.

In making non-employee director compensation recommendations, the Nominating and Corporate Governance Committee considers various factors, including the form and amount of compensation paid to directors by comparable companies, the responsibilities of directors generally, as well as committee chairs, and the time commitments and required skill level of Board members.

CASH AND STOCK RETAINERS

Non-employee directors who served for the entirety of 2016 received:

Components of Director Compensation Program For 2016 Service	Value of Cash Payment/Award	Form of Payment(1)
Annual Cash Retainer(2)	\$85,000	Cash
Annual Stock Retainer(3)	\$115,000	Restricted Stock
Lead Independent Director Fee	\$30,000	Cash
Audit and Compensation Committee Chair Fee	\$20,000	Cash
Nominating and Corporate Governance and Risk Committee Chair Fee	\$10,000	Cash

- (1) May elect to receive annual cash retainer in shares of our common stock.
- (2) One-fourth of the annual cash retainer is paid at the end of each quarter, provided that the director served as a director in such fiscal quarter.
- (3) Pursuant to our Policy on Granting Equity Awards, unless specifically provided otherwise by the Compensation Committee or the Board, annual grants for directors are effective on the date of the annual meeting at which the director was elected or re-elected. One-fourth of the annual restricted stock grant vests quarterly following the date of the grant. The number of shares of our common stock received is based on the value of the shares on the date of the restricted stock grant.

All of our directors are reimbursed for reasonable expenses incurred in connection with attending Board meetings, committee meetings and Board education events.

For any director who started after the beginning of the year, became a committee chair after the beginning of the year or retired during the fiscal year, relevant compensation was prorated according to the number of months during which he or she served as a director or in a committee chair position, as applicable, during that year.

DIRECTORS DEFERRED COMPENSATION PLAN

Our Board adopted the KAR Auction Services, Inc. Directors Deferred Compensation Plan (the "Director Deferred Compensation Plan") in December 2009. Pursuant to the terms of the Director Deferred Compensation Plan, each non-employee director may elect to defer the receipt of his or her cash director fees into a pre-tax interest-bearing deferred compensation account, which account accrues interest as described in the Director Deferred Compensation Plan. Amounts under the Director Deferred Compensation Plan may also be invested in the same investment choices as are available under our 401(k) plan. Non-employee directors also may choose to receive all or a portion of their annual stock retainer in the form of a deferred share account. The Director Deferred Compensation Plan provides that the amount of cash in a director's deferred cash account, plus the number of shares of our common stock equal to the number of shares in the director's deferred share account, will be delivered to a director in installments over a specified period or within 60 days following the date of the director's departure from the Board, with cash being paid in lieu of any fractional shares.

DIRECTOR STOCK OWNERSHIP AND HOLDING GUIDELINES

The Company's non-employee directors are subject to the Company's director stock ownership and holding guidelines. The stock holding guideline requires each non-employee director to hold any shares of the Company's common stock granted by the Company for at least four years and all shares must be held for six months after service as a director has ended with the Company, subject to certain exceptions approved by the Nominating and Corporate Governance Committee.

The Company's stock ownership guidelines require each non-employee director to own a minimum of three times his or her annual cash retainer amount in shares of Company stock.

DIRECTOR COMPENSATION PAID IN 2016

The following table provides information regarding the compensation paid to our non-employee directors.

Name	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Total
Todd F. Bourell	\$85,000	\$121,297	\$206,297
Donna R. Ecton	\$105,000	\$121,297	\$226,297
Peter R. Formanek(3)	\$37,185	\$6,276	\$43,461
Mark E. Hill	\$95,000	\$121,297	\$216,297
J. Mark Howell	\$95,000	\$121,297	\$216,297
Lynn Jolliffe	\$85,000	\$121,297	\$206,297
Michael T. Kestner	\$105,000	\$121,297	\$226,297
John P. Larson	\$115,000	\$121,297	\$236,297
Stephen E. Smith	\$85,000	\$121,297	\$206,297

- (1) The amounts represent the \$85,000 annual cash retainer paid to each non-employee director, plus an additional \$20,000 paid to the Chairman of the Audit Committee and the Chairman of the Compensation Committee and an additional \$10,000 paid to the Chairman of the Nominating and Corporate Governance Committee and the Chairman of the Risk Committee. Amounts are prorated to reflect partial years of service on the Board. Pursuant to the Director Deferred Compensation Plan, Mr. Kestner and Ms. Jolliffe elected to defer 100% of their annual cash retainer (including Mr. Kestner's additional Audit Committee Chairman fees) in a deferred account.
- (2) The amounts represent the aggregate grant date fair value, computed in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718"), of shares of restricted stock awarded to each non-employee director as an annual stock retainer. All non-employee directors received 170 shares of restricted stock in January 2016 and all non-employee directors re-elected to the Board in June 2016 received 2,785 shares of restricted stock as an annual stock retainer in June 2016. Pursuant to the Director Deferred Compensation Plan, Messrs. Bourell, Hill, Howell, Kestner and Larson and Ms. Ecton each elected to receive 100% of his or her annual stock retainer in a deferred share account.
- (3) Mr. Formanek served as a director until June 8, 2016.

Mr. Hallett was not entitled to receive any fees or other compensation for serving as a member of our Board in 2016 because he was employed by the Company.

OUTSTANDING DIRECTOR RESTRICTED STOCK AWARDS

The following table sets forth information regarding the number of unvested or deferred shares of our common stock held by each non-employee director as of December 31, 2016:

Name	Unvested Shares and Dividend Equivalents(1)	Deferred Phantom Shares and Dividend Equivalents(2)
Todd F. Bourell	1,415	4,319
Donna R. Ecton	1,415	9,557
Mark E. Hill	1,415	7,737
J. Mark Howell	1,415	5,656
Lynn Jolliffe	1,393	6,155
Michael T. Kestner	1,415	6,938
John P. Larson	1,415	7,737
Stephen E. Smith	1,393	7,976

- (1) This number represents unvested shares of restricted stock and, for those directors who deferred, unvested phantom stock and dividend equivalents.
- (2) This number represents vested phantom stock and dividend equivalents which are deferred in each director's account pursuant to the Director Deferred Compensation Plan. These shares will be settled for shares of our common stock on a one-for-one basis.

BENEFICIAL OWNERSHIP OF THE COMPANY'S COMMON STOCK

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of April 13, 2017 of: (1) each person or entity who owns of record or beneficially 5% or more of any class of the Company's voting securities of which 137,146,721 shares of common stock were outstanding as of April 13, 2017; (2) each of our directors, director nominees and named executive officers; and (3) all of our directors, director nominees and executive officers as a group. Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, each stockholder will have sole voting and investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated in a footnote to the following table. The percentage calculations below are based on shares of our common stock outstanding as of April 13, 2017 rather than the percentages set forth in any stockholder's Schedule 13D or Schedule 13G filing. Unless otherwise indicated in a footnote, the business address of each person is our corporate address, c/o KAR Auction Services, Inc., 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number of Shares(1)	Percent of Class(2)
5% BENEFICIAL OWNERS		
FMR LLC(3)	14,655,022	10.69%
The Vanguard Group(4)	10,765,216	7.85%
T. Rowe Price Associates, Inc.(5)	7,716,978	5.63%
NAMED EXECUTIVE OFFICERS, DIRECTORS AND DIRECTOR NOMINEES		
Todd F. Bourell	5,818	*
Donna R. Ecton	11,135	*
Donald S. Gottwald(6)	102,623	*
James P. Hallett(6)	498,444	*
Mark E. Hill	39,787	*
J. Mark Howell	7,175	*
Lynn Jolliffe	9,201	*
Peter Kelly(6)	172,414	*
Michael T. Kestner	14,399	*
John P. Larson	9,287	*
Eric M. Loughmiller(6)	195,349	*
Stephen E. Smith	11,048	*
Stéphane St-Hilaire(6)	116,428	*
Executive officers, directors and director nominees as a group 22 persons(7)	1,826,283	1.3%

* Less than one percent

- (1) The number of shares includes shares of our common stock subject to vesting requirements and options exercisable within 60 days of April 13, 2017.
- (2) Shares subject to options exercisable within 60 days of April 13, 2017 are considered outstanding for the purpose of determining the percent of the class held by the holder of such option, but not for the purpose of computing the percentage held by others.
- (3) Based solely on information disclosed in a Schedule 13G filed by FMR LLC on February 14, 2017. According to this Schedule 13G/A, FMR LLC has the sole voting power with respect to 2,135,772 shares, the sole dispositive power with respect to 14,655,022 shares, and the shared voting and dispositive power with respect to zero shares. The address of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210.
- (4) Based solely on information disclosed in a Schedule 13G/A filed by The Vanguard Group on February 10, 2017. According to this Schedule 13G/A, The Vanguard Group has sole voting power with respect to 80,427 shares, sole

dispositive power with respect to 10,676,693 shares, shared voting power with respect to 15,181 shares and shared dispositive power with respect to 88,523 shares. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

- (5) Based solely on information disclosed in a Schedule 13G filed by T. Rowe Price Associates, Inc. on February 7, 2017. According to this Schedule 13G, T. Rowe Price Associates, Inc. has sole voting power with respect to 2,513,578 shares, sole dispositive power with respect to 7,716,978 shares and shared voting and dispositive power with respect to zero shares. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.
- (6) Includes the following shares of our common stock issuable pursuant to options that are exercisable within 60 days of April 13, 2017: Mr. Gottwald, 98,125; Mr. Hallett, 295,803; Mr. Kelly, 170,000; Mr. Loughmiller, 72,903; Mr. St-Hilaire, 101,931.
- (7) Includes an aggregate of 1,199,860 shares of our common stock issuable pursuant to options that are exercisable within 60 days of April 13, 2017. This group includes Thomas J. Fisher, age 43, who has served as the Company's Executive Vice President and Chief Information Officer since April 1, 2017. Mr. Fisher was the Senior Vice President of Cloud Operations and General Manager, Indianapolis, of Genesys Telecommunications Laboratories, Inc. ("Genesys") from December 2016 to March 2017. Mr. Fisher was the Chief Services Officer at Interactive Intelligence Group, Inc. (which was acquired by Genesys) from January 2014 to December 2016 and also held other roles including Vice President of Global Sales Operations from May 2012 to January 2014, Senior Director of Solutions Engineering from January 2011 to May 2012 and Director of Systems Engineering from January 2005 to January 2011.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), requires KAR Auction Services' directors and executive officers and persons who own more than 10% of the issued and outstanding shares of the Company's common stock to file reports of initial ownership of common stock and other equity securities and subsequent changes in that ownership with the SEC and the NYSE. Based solely on a review of such reports and written representations from the directors and executive officers, the Company believes that all such filing requirements were met during 2016, except that Mark Hill filed one Form 4 late to report two transactions that occurred on May 21, 2015 whereby Mr. Hill indirectly acquired ownership of shares as the trustee of a family member's trust.

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION: PROPOSAL NO. 2

PROPOSAL

In accordance with Section 14A of the Exchange Act and related SEC rules, the Company seeks a non-binding advisory vote from its stockholders to approve the compensation of its named executive officers as described in the “Compensation Discussion and Analysis” section beginning on page 26 and the compensation tables that follow such section.

Our executive compensation program includes certain “best practices” in governance and executive compensation, including the following:

- Stockholder alignment: We have consistently demonstrated close alignment between our TSR performance and the compensation of our CEO.
- Independent Compensation Committee: All of the members of our Compensation Committee are independent under NYSE rules.
- Independent compensation consultant: The Compensation Committee retains its own independent compensation consultant to review our executive compensation program and practices.
- Pay for performance: Our annual incentive program is 100% performance-based and our equity incentive program is heavily performance-based with 75% of our equity awards in the form of PRSUs.
- Maximum payout caps: The Compensation Committee sets maximum amounts that may be payable for annual cash incentive compensation and PRSUs.
- Clawback policy for financial misconduct: Our clawback policy provides for the recovery and cancellation of an executive officer’s incentive compensation in the event we are required to prepare an accounting restatement due to such executive officer’s intentional misconduct.
- Moderate change-in-control benefits: Change-in-control severance benefits are two times base salary and target bonus for the CEO and one times base salary and target bonus for the other executive officers.
- Robust equity ownership requirements: We have stock ownership guidelines that are applicable to our named executive officers. The stock ownership guideline for our CEO is five times his annual base salary.

In deciding how to vote on this proposal, the Board encourages you to read the “Compensation Discussion and Analysis” section and the compensation tables that follow. Because this vote is advisory, it will not be binding upon the Board; however, the Board and the Compensation Committee value our stockholders’ opinions, and the Compensation Committee will take into account the outcome of the advisory vote when considering future executive compensation decisions.

KAR Auction Services’ Board of Directors recommends that you vote “FOR” the advisory vote to approve executive compensation.

Proxies solicited by the Board of Directors will be voted “FOR” the advisory vote to approve executive compensation unless stockholders specify a contrary vote.

ADVISORY VOTE ON THE FREQUENCY OF FUTURE VOTES TO APPROVE EXECUTIVE COMPENSATION: PROPOSAL NO. 3

PROPOSAL

Section 14A of the Exchange Act and related SEC rules require that we provide stockholders the opportunity to vote, on a non-binding, advisory basis, as to how frequently we should hold future non-binding, advisory votes on the compensation of our named executive officers as disclosed in our proxy statement in accordance with SEC rules. SEC rules provide that stockholders must have an opportunity to indicate whether they would prefer that we hold future advisory votes on executive compensation every year, once every two years, or once every three years.

The Board has determined that holding an advisory vote on executive compensation every year is most appropriate for the Company and recommends that you vote in favor of holding an advisory vote to approve named executive officer compensation every year. The Board believes that an annual “say-on-pay” vote enables stockholders to provide frequent, direct input to the Company regarding its executive compensation philosophy, policies and practices.

The proxy card (or voting instruction card, if you hold your shares through a bank, broker or other nominee) provides stockholders with the opportunity to vote as to the frequency of advisory votes on named executive officer compensation. Accordingly, in voting on this proposal, you should mark your proxy card (or voting instruction card) for every year, every two years, or every three years, based on your preference as to the frequency with which an advisory vote on named executive officer compensation should be held. You may also choose to abstain from voting on this proposal.

This vote is advisory and will not be binding on the Company or the Board. The Board will take the outcome of the vote into consideration when determining the frequency of future advisory votes on named executive officer compensation.

KAR Auction Services’ Board of Directors recommends that you vote FOR holding the vote to approve executive compensation “EVERY YEAR.”

Proxies solicited by the Board of Directors will be voted FOR “EVERY YEAR” unless stockholders specify a contrary vote.

COMPENSATION DISCUSSION AND ANALYSIS

OVERVIEW

The following discussion and analysis of our compensation program for named executive officers should be read in conjunction with the tables and text elsewhere in this proxy statement that describe the compensation awarded and paid to the named executive officers.

Named Executive Officers

Our named executive officers for the last completed fiscal year were (i) our chief executive officer; (ii) our chief financial officer; and (iii) each of the three other most highly compensated executive officers who were serving as executive officers at the end of the last completed fiscal year. Our named executive officers are:

Name	Title
Jim Hallett	Chief Executive Officer and Chairman of the Board
Eric Loughmiller	Executive Vice President and Chief Financial Officer
Don Gottwald	Chief Operating Officer
Stéphane St-Hilaire	Chief Executive Officer and President of ADESA
Peter Kelly	Chief Technology Officer and President of Digital Services

This Compensation Discussion and Analysis is organized into six sections:

-  **Executive Summary (pages 27–28)**
-  **Compensation Philosophy and Objectives (page 29)**
-  **The Role of the Compensation Committee and the Executive Officers in Determining Executive Compensation (page 29)**
-  **Elements Used to Achieve Compensation Philosophy and Objectives (pages 32–40)**
-  **Compensation Policies and Other Information (pages 40–42)**
-  **Results of Say on Pay Votes at 2014 Annual Meeting (page 42)**

2016 Executive Compensation Highlights

- Payouts based on Adjusted EBITDA performance in 2016 under our Annual Incentive Program (as subsequently defined) were at approximately 122% of the respective target amounts for our Chief Executive Officer, Chief Financial Officer and Chief Operating Officer and approximately 136% of the respective target amounts for the other named executive officers.
- The 2013 PRSUs were paid out at 199% of target, in line with strong TSR performance over the three-year measurement period.
- We continued our heavy focus on performance-based equity awards with 75% of our 2016 equity awards in the form of PRSUs that will pay out based on our Cumulative Operating Adjusted Net Income Per Share performance over a three-year measurement period.

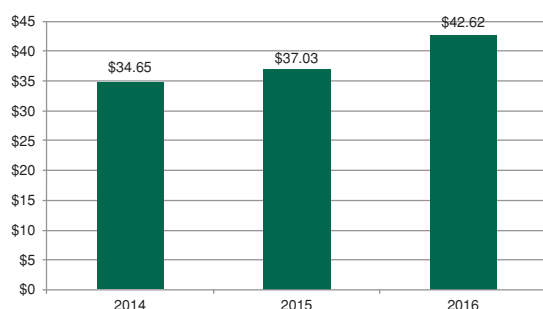
These compensation highlights are discussed in more detail below.

EXECUTIVE SUMMARY

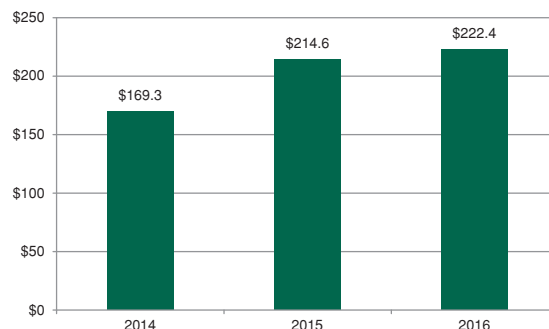
For the year ended December 31, 2016, the Company again delivered solid growth in volume of total vehicles sold, revenues, adjusted EBITDA and adjusted net income. Specific highlights for fiscal 2016 included:

2016 Business Highlights

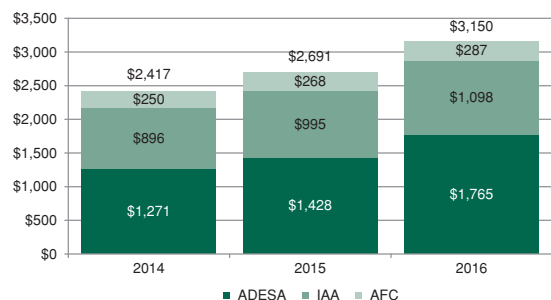
The closing stock price of KAR's common stock rose approximately 15% from \$37.03 at December 31, 2015 to \$42.62 at December 30, 2016. The closing price shown below for each year is the closing price of a share of the Company's common stock on the last trading day of each year.



Net income increased 3.6% from \$214.6 million (\$1.51 per diluted share) to \$222.4 million (\$1.60 per diluted share).



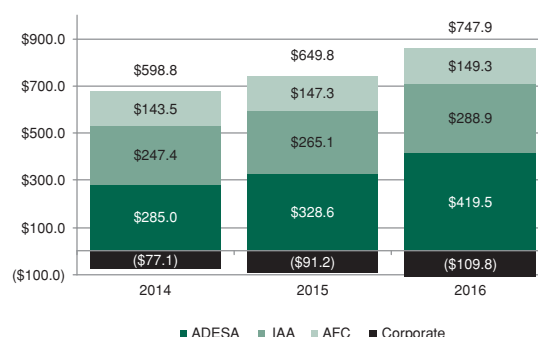
Net revenue was up 17% to over \$3.1 billion.



Total vehicles sold by ADESA and IAA rose approximately 14% to 5.1 million units.

Through share buybacks and dividends, in 2016 we returned approximately \$237 million to stockholders and invested approximately \$587 million in our business through capital expenditures and strategic acquisitions.

Adjusted EBITDA* rose 15% to approximately \$748 million.



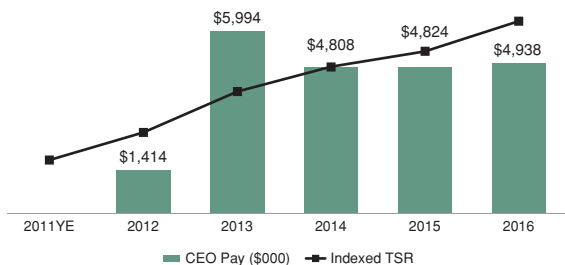
* Adjusted EBITDA is a non-GAAP measure and is defined and reconciled to the most comparable GAAP measure, net income, in our Annual Report on Form 10-K for the year ended December 31, 2016 in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—EBITDA and Adjusted EBITDA."

Our Executive Compensation Practices are Aligned with Stockholders' Interests

We maintain a compensation program structured to achieve a close connection between executive pay and Company performance. We believe that this strong pay for performance orientation has served us well in recent years.

WHAT WE DO

- ✓ **Stockholder alignment:** We have consistently demonstrated close alignment between our TSR performance and the compensation of our CEO, as shown in the chart below.
- ✓ **Independent Compensation Committee:** All of the members of our Compensation Committee are independent under NYSE rules.
- ✓ **Independent compensation consultant:** The Compensation Committee retains its own independent compensation consultant to evaluate and review our executive compensation program and practices.
- ✓ **Pay for performance:** Our annual incentive program is 100% performance-based and our equity incentive program is heavily performance-based with 75% of our equity awards in the form of PRSUs.
- ✓ **Maximum payout caps:** The Compensation Committee sets maximum amounts that may be payable for annual cash incentive compensation and PRSUs.
- ✓ **Clawback policy for financial misconduct:** Our clawback policy provides for the recovery and cancellation of incentive compensation of an executive officer in the event we are required to prepare an accounting restatement due to such executive officer's intentional misconduct.
- ✓ **Moderate change-in-control benefits:** Change-in-control severance benefits are two times base salary and target bonus for the CEO and one times base salary and target bonus for the other executive officers.
- ✓ **Robust equity ownership requirements:** We have stock ownership guidelines that are applicable to our executive officers. The stock ownership guideline for our CEO is five times his annual base salary. Executive officers are required to hold 60% of vested shares, net of taxes, until stock ownership guidelines are met.



Fiscal Year	2011 YE	2012	2013	2014	2015	2016
CEO Pay (\$000)		\$1,414	\$5,994	\$4,808	\$4,824	\$4,938
Indexed TSR	100	151.44	228.63	276.88	304.58	361.01

WHAT WE DON'T DO

- ✗ **Allow dividends or dividend equivalents to be paid on unvested PRSUs:** Dividend equivalents are accrued but not paid on PRSUs until (i) the performance conditions are satisfied; and (ii) the PRSUs vest after the performance measurement period.
- ✗ **Provide excessive perquisites:** We provide a limited number of perquisites that are designed to attract and retain highly qualified executives.
- ✗ **Allow hedging or pledging of the Company's securities:** We prohibit hedging, pledging and short sales of Company stock by our directors and executive officers.
- ✗ **Reprice stock options:** Stock option exercise prices are set equal to the grant date market price and cannot be repriced or discounted without stockholder approval.
- ✗ **Maintain a defined benefit pension plan:** We do not maintain a defined benefit pension plan for our executive officers.

COMPENSATION PHILOSOPHY AND OBJECTIVES

We design and administer our executive pay programs to help ensure the compensation of our named executive officers is (i) closely aligned with our performance on both a short-term and long-term basis; (ii) linked to specific, measurable results intended to create value for stockholders; and (iii) competitive in attracting and retaining key executive talent into the vehicle remarketing and auto finance industry. Each of the compensation programs that we have developed and implemented is intended to satisfy one or more of the following specific objectives:

- align the interests of our executive officers with the interests of our stockholders so that our executive officers manage from the perspective of owners with an equity stake in the Company;
- motivate and focus our executive officers through incentive compensation programs directly tied to our financial results;
- support a one-company culture and encourage synergies among all business units by aligning rewards with long-term, overall Company performance and stockholder value;
- provide a significant percentage of total compensation through variable pay based on pre-established, measurable goals and objectives;
- provide competitive upside opportunity without encouraging excessive risk-taking;
- enhance our ability to attract and retain skilled and experienced executive officers; and
- provide rewards commensurate with performance and with competitive market practices.

While the Company does not target any specific percentile positioning versus the market, the market median is used as a reference point but is not the sole determinant when making compensation decisions. Compensation decisions are made considering a number of factors including experience, tenure, specific requirements of roles relative to the market and individual and Company performance.

THE ROLE OF THE COMPENSATION COMMITTEE AND THE EXECUTIVE OFFICERS IN DETERMINING EXECUTIVE COMPENSATION

Composition of the Compensation Committee. The Compensation Committee of our Board is comprised of Mmes. Ecton (Chairman) and Jolliffe and Messrs. Bourell and Larson.

Role of the Compensation Committee. The Compensation Committee has primary responsibility for all compensation decisions relating to our named executive officers. The Compensation Committee reviews the aggregate level of our executive compensation, as well as the mix of elements used to compensate our named executive officers on an annual basis.

Compensation Committee's Use of Market and Survey Data. In light of the unique mix of businesses that comprise KAR Auction Services and the lack of directly comparable public companies, the Compensation Committee had traditionally not adopted a specific peer group of companies for the purpose of formally benchmarking compensation; however, the Compensation Committee understands that most companies consider pay levels at comparably-sized, peer companies when setting named executive officer compensation levels. With assistance from its independent compensation consultant, the Compensation Committee has developed a meaningful comparator group for the Company. The Compensation Committee has refined its comparator group selection process from 2016 to 2017, as described below.

In order to confirm competitiveness of compensation, the Compensation Committee reviews survey data and proxy compensation data of other comparably-sized companies. Prior to 2015, the Compensation Committee had not set compensation levels by reference to competitive market data using any specific target percentiles within such data. Beginning in late 2015, the Compensation Committee began using a combination of (i) survey data (cuts from the 2015 Aon Hewitt and Mercer general industry and service industry surveys); and (ii) proxy

compensation data of a “proxy comparator group” more formally in setting and adjusting base salary levels for 2016. In light of the lack of directly comparable companies for KAR Auction Services’ business, as noted above, companies in the proxy comparator group were selected based on (i) a focus on service-oriented industries; (ii) similarly-sized revenue and market capitalization levels; (iii) comparable growth, profitability and/or market valuation profiles; and (iv) the avoidance of over-representing any one industry. Where possible, the Compensation Committee included companies that are in related or similar industries to the Company. The proxy comparator group used in late 2015 until July 2016 consisted of the following 30 companies:

2016 Proxy Comparator Group

Allison Transmission Holdings, Inc.	Kansas City Southern	Steelcase, Inc.
AOL, Inc.	Kirby Corp.	Stericycle, Inc.
Cintas Corporation	Landstar System, Inc.	Teradata Corp.
Comerica, Inc.	LKQ Corp.	Tetra Tech, Inc.
Copart, Inc.	MSC Industrial Direct Co., Inc.	Total System Services, Inc.
Equifax, Inc.	Old Dominion Freight Line, Inc.	Trimble Navigation Ltd.
GATX Corp.	Plexus Corp.	Vantiv, Inc.
Heartland Payment Systems, Inc.	Ritchie Bros. Auctioneers, Inc.	Waste Connections, Inc.
HNI Corp.	Solera Holdings, Inc.	Werner Enterprises, Inc.
Itron, Inc.	Springleaf Holdings, Inc.	Westinghouse Air Brake Technologies Corporation

The Compensation Committee viewed the proxy comparator group and market data as an important guide, but not as the sole determinant in making its decisions regarding 2016 base salary levels. The Compensation Committee also considered experience and tenure, sustained performance and specific requirements of roles relative to market and individual and Company performance.

In July 2016, based on the recommendation of ClearBridge Compensation Group LLC (“ClearBridge”), the Compensation Committee continued to refine the comparator group and approved a revised proxy comparator group consisting of the following 17 companies (13 of which were part of the proxy comparator group for 2016) to be used in making 2017 compensation decisions:

Revised 2017 Proxy Comparator Group

Allison Transmission Holdings, Inc.	GATX Corp.	Stericycle, Inc.
Cintas Corporation	LKQ Corp.	Total System Services, Inc.
Copart, Inc.	MSC Industrial Direct Co. Inc.	Vantiv, Inc.
CDK Global, Inc.	Old Dominion Freight Line Inc.	Werner Enterprises, Inc.
ebay Inc.	Pitney Bowes Inc.	Westinghouse Air Brake Technologies Corporation
Equifax Inc.	Sotheby's	

Companies in the revised 2017 proxy comparator group were selected based on (i) a focus on companies in service-oriented industries; (ii) similarly-sized revenue and market capitalization levels; (iii) comparable growth, profitability and/or market valuation profiles; and (iv) companies with which KAR Auction Services competes for executive talent. Where possible, the Compensation Committee included companies that are in related or similar industries to the Company. The revised 2017 proxy comparator group does not include AOL, Inc., Heartland Payment Systems, Inc. and Solera Holdings, Inc. because these companies were recently acquired and thus are no longer viable comparator companies.

Role of the Independent Compensation Consultant. The Compensation Committee used Semler Brossy as its independent compensation consultant in 2015 and for the first half of 2016. In June 2016, the Compensation Committee retained ClearBridge as its independent compensation consultant following the conclusion of its engagement with Semler Brossy. Semler Brossy and ClearBridge each provided (i) advice to the Compensation Committee with respect to the assessment of the Company’s executive compensation practices; (ii) advice regarding the evaluation of long-term incentive compensation practices; (iii) advice and guidance regarding the design of new long-term equity awards; (iv) advice regarding related compensation matters; (v) advice to the Compensation Committee with respect to annual and long-term incentive plan design; and (vi) guidance on the competitiveness of the executive officers’ elements of compensation.

The Compensation Committee has reviewed the independence of Semler Brossy and ClearBridge in light of SEC rules and NYSE listing standards regarding compensation consultants and has concluded that (i) the work

of Semler Brossy for the Compensation Committee did not raise any conflict of interest; and (ii) the work of ClearBridge for the Compensation Committee does not raise any conflict of interest. All work performed by each of Semler Brossy and ClearBridge is and was subject to review and approval of the Compensation Committee.

Role of the Executive Officers. Mr. Hallett regularly participates in meetings of the Compensation Committee at which compensation actions involving our named executive officers are discussed. Mr. Hallett assists the Compensation Committee by making recommendations regarding compensation actions for the executive officers other than himself. Mr. Hallett recuses himself and does not participate in any portion of any meeting of the Compensation Committee at which his compensation is discussed.

ELEMENTS USED TO ACHIEVE COMPENSATION PHILOSOPHY AND OBJECTIVES

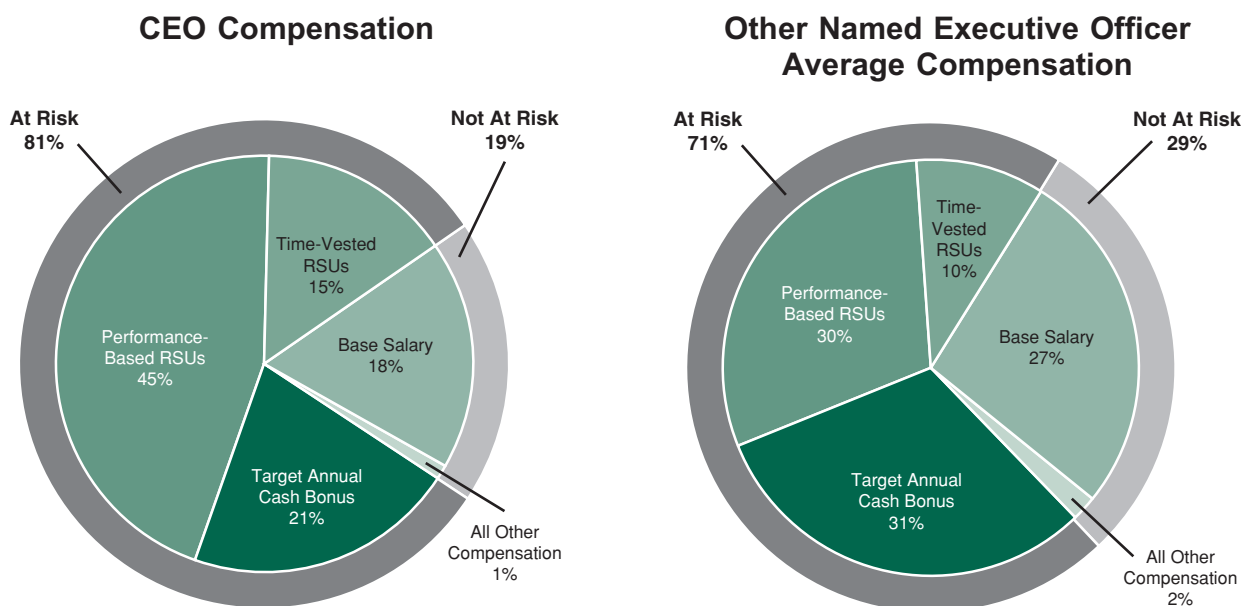
Elements of 2016 Executive Compensation Program Design

The following table lists the elements of compensation for our 2016 executive compensation program. The program uses a mix of fixed and variable compensation elements and provides alignment with both short- and long-term business goals through annual and long-term incentives. Our incentives are designed to drive overall corporate performance and business unit strategies that correlate to stockholder value and align with our strategic vision. In order to confirm competitiveness of compensation, the Compensation Committee reviews survey data and proxy compensation data of other companies.

	Element	Key Characteristics	Why We Pay This Element	How We Determine Amount	2016 Decisions
Fixed	Base salary	Fixed compensation component payable in cash. Reviewed annually and adjusted when appropriate.	Reward the NEOs for their past performance and facilitate the attraction and retention of a skilled and experienced executive management team.	Company performance, individual performance, experience, job scope, tenure, review of competitive pay practices and base salary as a percentage of total compensation.	Three named executive officers received a salary increase in 2016. See page 33–34.
	Annual cash incentive awards	Variable compensation component payable in cash based on performance against annually established targets.	Motivate and reward the successful achievement of pre-determined financial objectives at the Company.	Award opportunities are based on individual performance, experience, job scope and review of competitive pay practices. Actual award payouts are based on achievement of 2016 Adjusted EBITDA.	Strong performance resulted in 122% of target for the CEO and an average of 129% of target for the other named executive officers. See page 36.
Variable	Performance restricted stock units (PRSUs)	PRSUs vest at the end of a three-year performance period. See page 37 for the retention requirements for PRSUs.	Motivate and reward executives for performance on key long-term measures. Align the interests of executives with long-term stockholder value and serve to retain executive talent.	Award opportunities are based on individual's ability to impact future results, job scope, individual performance and review of competitive pay practices. Awards earned based on 3-year Cumulative Operating Adjusted Net Income Per Share performance through December 31, 2018. PRSU awards made up 75% of the value of the aggregate long-term incentives granted to the named executive officers in 2016.	The Compensation Committee granted PRSUs to all of the named executive officers in 2016. See page 37.
	Restricted stock units (RSUs)	RSUs vest ratably on each of the first three anniversaries of the grant date subject to the named executive officer's continued employment with the Company, provided that the Company achieves \$100 million in adjusted net income in its 2016 fiscal year, as reported by the Company (which condition was satisfied).	Align the interests of executives with long-term stockholder value and serve to retain executive talent.	Awards based on individual's ability to impact future results, job scope, individual performance and review of competitive pay practices. RSU awards made up 25% of the value of the aggregate long-term incentives granted to the named executive officers in 2016.	The Compensation Committee granted RSUs to all of the named executive officers in 2016. See page 37.

Compensation Structure and Goal Setting

Our executive compensation program is designed to deliver compensation in accordance with corporate and business unit performance with a large percentage of compensation at risk through long-term equity awards and annual cash incentive awards. These awards are linked to actual performance, consistent with our belief that a significant amount of executive compensation should be in the form of equity and that a greater percentage of compensation should be tied to performance for executives who bear higher levels of responsibility for our performance. The mix of target direct compensation for 2016 for our CEO and the average of our other named executives is shown in the charts below. Approximately 80% of our CEO's total compensation, and approximately 70% of the average total compensation of our other named executive officers, is at-risk, consisting of PRSUs, restricted stock units ("RSUs") and other performance-based incentives.



Base Salary

General. Annual salary levels for our named executive officers are based upon various factors, including the amount and relative percentage of total compensation that is derived from base salary when setting the compensation of our executive officers, Company performance, individual performance, experience, job scope and tenure. In view of the wide variety of factors considered by the Compensation Committee in connection with determining the base salary of each of our named executive officers, the Compensation Committee has not attempted to rank or otherwise assign relative weights to the factors that it considers. A description of how these factors were applied in 2016 is described below.

Base Salaries for 2016. In late 2015 and the first quarter of 2016, the Compensation Committee reviewed the base salaries of each of our named executive officers for 2016. After considering multiple factors as noted above, the Compensation Committee approved a base salary adjustment for Messrs. Gottwald, St-Hilaire and Kelly. The Compensation Committee did not approve base salary adjustments for Messrs. Hallett and

Loughmiller because the Compensation Committee determined that their base salaries were already set at competitive levels. The following base salaries were in effect for 2016:

Name	Base Salary	Increase %	Effective Date	Why Was Increase Approved?
Jim Hallett	\$900,000	0%	January 1, 2014	N/A
Eric Loughmiller	\$450,000	0%	January 1, 2015	N/A
Don Gottwald	\$566,500	3%	January 1, 2016	Merit increase.
Stéphane St-Hilaire	\$459,000	2%	January 1, 2016	Merit increase.
Peter Kelly	\$440,000	10%	January 1, 2016	Merit and market adjustment.

Base Salaries for 2017. In late 2016, the Compensation Committee reviewed the base salaries of each of our named executive officers for 2017. After considering multiple factors as noted above, the Compensation Committee approved the following base salaries, effective January 1, 2017:

Name	Base Salary	Increase %
Jim Hallett	\$900,000	0%
Eric Loughmiller	\$500,000	11.11%
Don Gottwald	\$583,000	2.9%
Stéphane St-Hilaire	\$472,770	3%
Peter Kelly	\$453,000	3%

The Compensation Committee did not approve a base salary adjustment for Mr. Hallett because the Compensation Committee determined that his base salary was already set at competitive levels. In order to confirm competitiveness of compensation, the Compensation Committee reviews survey data and proxy compensation data of other companies.

Annual Cash Incentive Programs

General. Named executive officers with greater job responsibilities have a significant proportion of their annual cash compensation tied to Company performance through their annual incentive opportunity.

The KAR Auction Services, Inc. Annual Incentive Program. Under the KAR Auction Services, Inc. Annual Incentive Program (the “Annual Incentive Program”), which is part of the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, as amended (the “Omnibus Plan”), the grant of cash-based awards to eligible participants is contingent upon the achievement of certain pre-established corporate performance goals as determined by the Compensation Committee.

Use of 2016 Adjusted EBITDA

In 2016, the Compensation Committee used “2016 Adjusted EBITDA” for KAR Auction Services, ADESA and/or Digital Services, depending upon the named executive officer, as the relevant metric for determining awards under the Annual Incentive Program.

“Adjusted EBITDA” is equal to EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude, among other things:

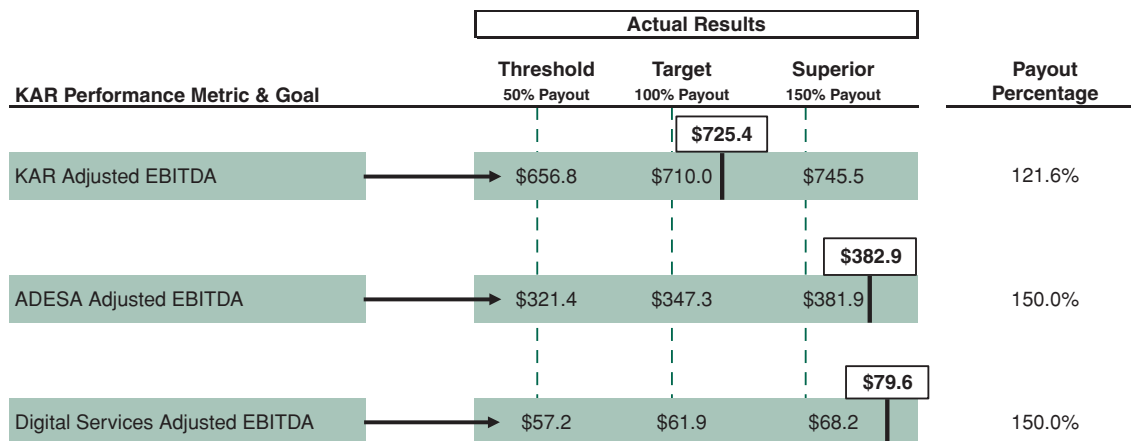
- gains and losses from asset sales;
- unrealized foreign currency translation gains and losses in respect of indebtedness;
- certain non-recurring gains and losses;
- stock based compensation expense;
- certain other non-cash amounts included in the determination of net income;
- charges and revenue reductions resulting from purchase accounting;
- minority interest;
- expenses associated with the consolidation of salvage operations;

- consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts;
- expenses realized upon the termination of employees and the termination or cancellation of leases, software licenses or other contracts in connection with the operational restructuring and business improvement efforts;
- expenses incurred in connection with permitted acquisitions;
- any impairment charges or write-offs of intangibles; and
- any extraordinary, unusual or non-recurring charges, expenses or losses.

Using these measures, the Compensation Committee establishes, on an annual basis, specific targets that determine the size of payouts under the Annual Incentive Plan. In 2016, the annual incentive opportunity for each named executive officer was as follows:

Name	Base Salary	Bonus Opportunity			Bonus Goal Weighting %		
		Threshold % of Base Salary	Target % of Base Salary	Superior % of Base Salary	2016 Adjusted EBITDA		
					KAR Auction Services	ADESA	Digital Services
Jim Hallett	\$900,000	50	100	150	100		
Eric Loughmiller	\$450,000	37.5	75	112.5	100		
Don Gottwald	\$566,500	50	100	150	100		
Stéphane St-Hilaire	\$459,000	50	100	150	50	50	
Peter Kelly	\$440,000	50	100	150	50		50

The chart below reflects Adjusted EBITDA performance metrics and actual results for 2016. The payout percentages are based on the achievement of the performance metrics set forth below, with payment amounts prorated for performance between the established levels.



Target Incentive Opportunity: Base Pay multiplied by Individual Target Opportunity

Business Performance Factor: 2016 Adjusted EBITDA of KAR (50% or 100%) and 2016 Adjusted EBITDA of Business Unit (0% to 50%)

Performance Targets for the Annual Incentive Program

The Compensation Committee reviews the Company's business plan approved by the Board and determines the level of performance required to receive threshold, target and superior annual incentive payouts. The Compensation Committee established the performance objectives in amounts which it believed would increase stockholder value and be achievable given a sustained performance on the part of the named executive officers and which would require increasingly greater results to achieve the target and superior objectives. The Compensation Committee may decrease the potential payouts at each performance target if, in the discretion

of the Compensation Committee, the circumstances warrant such an adjustment. In 2016, the Compensation Committee did not increase or decrease the performance targets or the payouts of any 2016 annual incentive program payout.

2016 Performance Targets. The chart which follows provides the 2016 Adjusted EBITDA performance targets established by the Compensation Committee for 2016 as well as the actual level of performance achieved (dollars in millions):

	Threshold	Target	Superior	Achieved Results(1)(2)	Percentage of Target Annual Incentive Award Earned
KAR Auction Services	\$656.8	\$710.0	\$745.5	\$725.4	121.6%
ADESA	\$321.4	\$347.3	\$381.9	\$382.9	150%
Digital Services	\$57.2	\$61.9	\$68.2	\$79.6	150%

- (1) KAR's reported Adjusted EBITDA for the year ended December 31, 2016 was approximately \$748 million, but for Annual Incentive Program purposes, certain acquisitions consummated in 2016 were excluded, which resulted in Adjusted EBITDA of \$725.4 million.
- (2) ADESA's performance targets and achieved results (in the above chart) are used for bonus purposes only and include certain technology expenses recorded in "holding company" expenses. ADESA's reported Adjusted EBITDA for the year ended December 31, 2016 was \$419.5 million and did not include such technology expenses recorded in "holding company" expenses.

2016 Annual Incentive Opportunities. Under the Annual Incentive Program, threshold performance objectives must be met in order for any payout to occur. Payouts can range from 50% of target awards for performance at threshold up to a maximum of 150% of target awards for superior performance or no payout if performance is below threshold. The table below shows the annual incentive opportunities for our named executive officers for 2016. Because KAR Auction Services, ADESA and Digital Services each achieved at least the threshold level of performance in 2016, each of our named executive officers was eligible to receive an award under the Annual Incentive Program in 2017, which are set forth in the "Summary Compensation Table for 2016" on page 44. Based on the Company's performance during 2016, and the accompanying payout percentages for the different performance goals set forth above, our named executive officers earned the following percentages and corresponding payout amounts of their target annual incentive awards:

Name	Target Annual Incentive Award	Percentage of Target Annual Incentive Award Earned	2016 Payout
Jim Hallett	\$900,000	121.6%	\$1,094,772
Eric Loughmiller	\$337,500	121.6%	\$410,540
Don Gottwald	\$566,500	121.6%	\$689,098
Stéphane St-Hilaire	\$459,000	135.8%(1)	\$623,417
Peter Kelly	\$440,000	135.8%(1)	\$597,611

- (1) These amounts are based on the average of the percentages of the target annual incentive awards earned for KAR and ADESA, in the case of Mr. St-Hilaire and KAR and Digital Services, in the case of Mr. Kelly.

Long-Term Incentive Opportunities

The Company provides long-term incentive compensation opportunities in the form of PRSUs and RSUs, each as described below.

2016 Long-Term Incentive Awards. As previously disclosed, on February 22, 2016, the Compensation Committee granted PRSUs and RSUs under its long-term incentive program to the Company's named executive officers, as described in the table below. The Company did not grant any stock options to its named executive officers in 2016. Awards were based on the individual's ability to impact future results, job scope, individual performance and a review of competitive pay practices. Mr. Loughmiller's 2016 award was enhanced for retentive purposes due to the fact that Mr. Loughmiller did not have any equity grants that carried forward following the sale by our former equity sponsors of all of their holdings of our common stock in late 2013.

The aggregate target award value for each named executive officer was allocated such that 75% of the value was in the form of PRSUs and 25% of the value was in the form of RSUs.

Name	Target PRSUs (Cumulative Operating Adjusted Net Income Per Share Goal)	Value of Target Shares at Grant	RSUs	Value of RSUs at Grant
Jim Hallett	65,651	\$2,280,059	21,884	\$760,031
Eric Loughmiller	28,298	\$982,790	9,433	\$327,608
Don Gottwald	16,031	\$556,757	5,344	\$185,597
Stéphane St-Hilaire	10,391	\$360,879	3,464	\$120,305
Peter Kelly	9,961	\$345,946	3,321	\$115,338

2016 Performance-Based RSU Awards

The PRSUs will vest if and to the extent that the Company's "Cumulative Operating Adjusted Net Income Per Share" exceeds certain levels over the three-year period beginning on January 1, 2016. "Cumulative Operating Adjusted Net Income Per Share" means the sum of the Company's Operating Adjusted Net Income Per Share for the three fiscal years in the measurement period beginning on January 1, 2016 and ending on December 31, 2018.

"Cumulative Operating Adjusted Net Income Per Share" for a fiscal year is calculated by dividing Operating Adjusted Net Income by the weighted average diluted common shares outstanding per year. "Operating Adjusted Net Income" for a fiscal year is equal to the Company's net income as reported in the Form 10-K filed by the Company with respect to such fiscal year, adjusted to (i) exclude gains/losses from certain non-recurring and unbudgeted capital transactions, including debt prepayment, debt refinancing, share repurchases and related financing costs not contemplated in the long term incentive targets; (ii) exclude amortization expense associated with acquired intangible assets recorded during purchase accounting of acquisitions; (iii) exclude acquisition contingent consideration; (iv) exclude the impact of significant acts of God or other events outside of the Company's control that may affect the overall economic environment; (v) exclude significant asset impairments; (vi) exclude the impact of adoption of new accounting standards; and (vii) exclude the impact of tax rate changes caused by changes in tax legislation.

The amount of the target PRSUs actually earned and paid in shares of common stock in a lump sum following the performance period will be: 0% for below threshold performance, 50% for threshold performance, 100% for target performance and up to 200% for achieving the maximum performance level or higher. Linear interpolation will be used to calculate the percentage of PRSUs earned and paid if performance falls between the levels described above.

2016 Time-Based RSU Awards

The RSUs will vest and convert into shares of common stock of the Company on each of the first three anniversaries of the grant date, subject to the named executive officer's continued employment with the Company through each such anniversary, provided that the Company has achieved the Section 162(m)

performance goal of \$100 million in adjusted net income in its 2016 fiscal year (as reported in the Form 10-K filed by the Company with respect to such fiscal year, and which condition was satisfied).

Prior Years' Awards.

2015 Performance-Based and Time-Based RSU Awards

As previously disclosed, on February 20, 2015, the Compensation Committee granted PRSUs and RSUs to certain of the Company's named executive officers, which remain outstanding. The amounts of PRSUs and RSUs are disclosed in the "Outstanding Equity Awards" table below.

These awards have terms substantially similar to those granted in 2016. As of December 30, 2016, one-third of the RSUs vested, as disclosed in the "Option Exercises and Stock Vested" table below.

2014 PRSU Awards

As previously disclosed, on February 27, 2014, the Compensation Committee approved the grant of PRSUs to certain of the Company's named executive officers. The number of PRSUs that vested on March 7, 2017 was determined as follows: (i) fifty percent was determined based on the Company's Cumulative Adjusted Net Income Per Share ("CANIPS") exceeding certain levels over the three-year period beginning on January 1, 2014 and ending on December 31, 2016; and (ii) fifty percent was determined based on the Company's TSR relative to that of companies within the S&P 500 Index over a three-year period from February 27, 2014 through February 27, 2017.

Performance Metric: CANIPS

The number of PRSUs that vested based on CANIPS achieved was determined in accordance with the chart below:

<u>CANIPS During the Measurement Period</u>	<u>Number of PRSUs Vesting</u>
Below Threshold:	
Below \$4.18	0% of Target
Threshold:	
\$4.18	50% of Target
Target:	
\$4.52	100% of Target
Maximum:	
Greater than or equal to \$5.42	200% of Target

The Company achieved CANIPS of \$4.75 versus a target of \$4.52 for the three-year performance period ended December 31, 2016. As such, on March 7, 2017, based on the CANIPS achieved, fifty percent of the 2014 PRSUs vested above the target level but below the maximum level and resulted in the following number of PRSUs vesting:

<u>Name</u>	<u>Number of PRSUs Vesting</u>	<u>2017 CANIPS Payout(1)</u>
Jim Hallett	29,984	\$1,340,885
Eric Loughmiller	14,992	\$670,443
Stéphane St-Hilaire	5,997	\$268,165

(1) Based on a share price of \$44.72.

Performance Metric: TSR

The number of PRSUs that vested based on TSR achieved was determined in accordance with the chart below:

TSR Percentile Rank vs. S&P 500 During the Measurement Period	Number of PRSUs Vesting
Below Threshold:	
Below 40th percentile	0% of Target
Threshold:	
40th percentile	50% of Target
Target:	
65th percentile	100% of Target
Maximum:	
Greater than or equal to 85th percentile	200% of Target

On March 7, 2017, based on TSR achieved, fifty percent of the 2014 PRSUs vested at the maximum level described in the table above (earned based on relative TSR at the 87th percentile) and resulted in the following number of PRSUs vesting:

Name	Number of PRSUs Vesting	2017 TSR Payout(1)
Jim Hallett	47,974	\$2,145,416
Eric Loughmiller	23,987	\$1,072,708
Stéphane St-Hilaire	9,597	\$429,162

(1) Based on a share price of \$44.72.

2013 PRSU Awards

As previously disclosed, on December 13, 2013, the Compensation Committee approved the grant of PRSUs to certain of the Company's named executive officers which vested on December 15, 2016. The number of PRSUs that vested was determined in accordance with the chart below based on the Company's TSR relative to that of companies within the S&P 500 Index over a three-year period from December 13, 2013 through December 13, 2016.

TSR Percentile Rank vs. S&P 500 During the Measurement Period	Number of PRSUs Vesting
Below Threshold:	
Below 40th percentile	0% of Target
Threshold:	
40th percentile	50% of Target
Target:	
65th percentile	100% of Target
Maximum:	
Greater than or equal to 85th percentile	200% of Target

On December 15, 2016, such PRSUs vested at 199% of target as described in the table above (earned based on relative TSR at the 84.8th percentile) and resulted in the following number of PRSUs vesting:

Name	Number of PRSUs Vesting	2016 Payout(1)
Jim Hallett	293,081	\$12,675,759
Eric Loughmiller	146,542	\$6,337,927

(1) Based on a share price of \$43.25.

Plans under which Long-Term Incentive Awards are Granted. The Company currently grants long-term incentive awards under the Omnibus Plan and formerly granted awards under the Stock Incentive Plan.

Omnibus Plan

Our Board initially adopted the Omnibus Plan on December 10, 2009, as amended. Under the Omnibus Plan, participants are eligible to receive options, restricted stock, RSUs, stock appreciation rights, other stock-based awards or cash-based awards, each as determined by the Compensation Committee.

Stock Incentive Plan

The Stock Incentive Plan was in effect prior to our initial public offering and was subsequently frozen as of December 10, 2009. No further awards have been issued under this plan.

Retirement, Health and Welfare Benefits

We offer a variety of health and welfare and retirement programs to all eligible employees, including our named executive officers. As with all Company employees, our named executive officers are eligible to receive 401(k) employer matching contributions equal to 100% of the first 4% of compensation contributed by the named executive officer. The health and welfare programs are intended to protect employees against catastrophic loss and encourage a healthy lifestyle. Our health and welfare programs include medical, dental, vision, pharmacy, life insurance, disability and accidental death and disability. We also provide travel insurance to all employees who travel for business purposes.

We also provide certain enhanced retirement vesting of equity-incentive awards as described in “Potential Payments Upon Termination of Change in Control—Potential Payments Upon Termination of Change of Control Table”.

Perquisites

The Company provides the named executive officers a limited number of perquisites that the Compensation Committee believes are reasonable and consistent with the objective of attracting and retaining highly qualified executive officers. The perquisites which are currently available to certain of our named executive officers include an automobile allowance or use of a Company-owned automobile, an allowance for executive physicals and Company-paid group term life insurance premiums. Please see footnote 4 to the “Summary Compensation Table for 2016” on page 44 for more information regarding perquisites.

COMPENSATION POLICIES AND OTHER INFORMATION

Employment and Severance Agreements

The Compensation Committee recognizes that, from time to time, it is appropriate to enter into agreements with our executive officers to ensure that we continue to retain their services and to promote stability and continuity within the Company. All of our named executive officers have an employment agreement with the Company or one of its subsidiaries. A description of these agreements can be found in the section titled “Potential Payments Upon Termination or Change in Control—Employment Agreements with Named Executive Officers.”

Tax and Accounting Considerations

Employment Agreements. Section 280G of the Internal Revenue Code of 1986, as amended (the “Code”) and related provisions impose substantial excise taxes under Section 4999 of the Code on so-called “excess parachute payments” payable to certain named executive officers upon a change in control and results in the loss of the compensation deduction for such payments by the Company.

Mr. Hallett’s employment agreement, which became effective as of February 27, 2012, provides for a potential “gross-up payment” in the event that such excise taxes result from any excess parachute payments. Mr. Hallett’s employment agreement provides that in the event that any payment or benefit under such agreement in connection with Mr. Hallett’s employment or termination of employment is or becomes subject to an excise tax under Section 4999 of the Code, then the Company will make a cash payment to Mr. Hallett, which, after the imposition of all income, employment, excise and other taxes thereon, as well as any penalty

and interest assessments associated therewith, will be sufficient to place Mr. Hallett in the same after-tax position as he would have been in had such excise tax not been applied. However, in the event that a reduction of the total payments to Mr. Hallett would avoid the application of the excise tax, then the total payments will be reduced to the extent necessary to avoid the excise tax, but in no event by more than 10% of the original amount of the total payments.

None of the employment agreements entered into with Messrs. Loughmiller, Gottwald, St-Hilaire or Kelly contain excise tax gross-up provisions.

Omnibus Plan. Certain awards under the Omnibus Plan are designed so that they may comply with the performance-based compensation exception to the \$1,000,000 per person annual deductibility limit under Section 162(m) of the Code ("Section 162(m)") applicable to Covered Employees (as defined in Section 162(m)). Though tax deductibility is one of many factors considered by the Compensation Committee when determining executive compensation, the Compensation Committee retains the discretion to award compensation that exceeds or does not qualify for the Section 162(m) deductibility limit. For example, in seeking to tie executive pay to company performance in a meaningful way, the Compensation Committee may make decisions in designing and approving pay programs that are not driven by tax consequences to the Company.

Accounting for Stock-Based Compensation. We account for stock-based compensation in accordance with the requirements of ASC 718.

Clawback Policy for Financial Restatements. The Company's clawback policy provides for the recovery of incentive compensation in the event the Company is required to prepare an accounting restatement due to any current or former executive officer's intentional misconduct. In such an event, the executive officer would be required to repay to the Company the excess amount of incentive compensation received under the inaccurate financial statement. The Company intends to revise this policy as needed to comply with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act when such requirements become effective.

Insider Trading Policy

Our insider trading policy expressly prohibits:

- ownership of margin securities;
- trading in options, warrants, puts and calls or similar instruments on the Company's securities; or
- selling the Company's securities "short."

We also prohibit officers, directors and employees from:

- pledging the Company's securities as collateral for loans; and
- purchasing or selling the Company's securities while in possession of material, non-public information, or otherwise using such information for their personal benefit.

Our executives and directors are permitted to enter into trading plans that are intended to comply with the requirements of Rule 10b5-1 of the Exchange Act so that they can prudently diversify their asset portfolios and exercise their stock options before their scheduled expiration dates.

Anti-Hedging Policy

In addition to the Company's existing anti-pledging of Company stock policy, the Company adopted a formal anti-hedging of Company stock policy, which prohibits our officers and directors from engaging in certain forms of hedging or monetization transactions with respect to the Company's stock, such as prepaid variable forward contracts, equity swaps, collars and exchange funds.

Stock Ownership Guidelines and Stock Holding Requirement

The Compensation Committee adopted the following stock ownership guidelines which are applicable to our named executive officers:

<u>Title</u>	<u>Stock Ownership Guideline</u>
CEO	5 times annual base salary
Other Named Executive Officers	3 times annual base salary

The named executive officers must hold 60% of the vested shares, net of taxes, of Company stock received under awards granted on or after January 1, 2015 until the applicable ownership guideline is met. All named executive officers are in compliance with the stock ownership guidelines.

RESULTS OF SAY ON PAY VOTES AT 2014 ANNUAL MEETING

At the Company's 2014 annual meeting of stockholders, the Company held a non-binding stockholder vote on executive compensation (commonly referred to as "Say on Pay"). At the meeting, excluding broker non-votes, over 95% of the votes on the matter were cast to approve the Company's executive compensation programs, less than 4% of the votes were cast against, and less than 1% abstained from voting.

The Compensation Committee considered the results of the vote, including the appropriateness of the compensation philosophy and objectives, the role of the Compensation Committee and executive officers in setting compensation, the elements used to achieve the compensation philosophy and objectives and the levels of compensation provided to the named executive officers. Following its review, the Compensation Committee decided to retain the Company's general approach to executive compensation in 2015, 2016 and 2017, in part due to the significant majority of stockholders that voted to approve the Company's executive compensation programs at the 2014 annual meeting of stockholders.

Previously, at the Company's 2011 annual meeting of stockholders, the Company held a non-binding stockholder vote on whether to hold a Say on Pay vote every one, two or three years. At that meeting, a majority of our stockholders voted in favor of holding a Say on Pay vote every three years, and accordingly, the Company adopted a triennial Say on Pay vote frequency. As described in more detail in Proposal No. 3 above, the Board now recommends that stockholders adopt an annual Say on Pay vote frequency to enable stockholders to provide more frequent, direct input to the Company regarding its executive compensation philosophy, policies and practices.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the Compensation Discussion and Analysis for executive compensation for 2016 and discussed that analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company's 2016 Annual Report on Form 10-K. This report is submitted by Donna R. Ecton, Todd F. Bourell, Lynn Jolliffe and John P. Larson, being all current members of the Compensation Committee, and J. Mark Howell, who was a member of the Compensation Committee for a portion of 2016.

Compensation Committee

Donna R. Ecton (Chairman)

Todd F. Bourell

J. Mark Howell

Lynn Jolliffe

John P. Larson

ANALYSIS OF RISK IN THE COMPANY'S COMPENSATION STRUCTURE

The Compensation Committee considers the potential risks in our business when designing and administering the Company's pay program, and the Compensation Committee believes its balanced approach to performance measurement and pay delivery works to avoid misaligned incentives for individuals to undertake excessive or inappropriate risk. Further, program administration is subject to considerable internal controls, and when determining the principal outcomes—performance assessments and pay decisions—the Compensation Committee relies on principles of sound governance and good business judgment. As part of its responsibilities to annually review all incentive compensation and equity-based plans, and evaluate whether the compensation arrangements of the Company's employees incentivize unnecessary and excessive risk-taking, the Compensation Committee evaluated the risk profile of all of the Company's compensation policies and practices for 2016.

In its evaluation, the Compensation Committee reviewed the Company's employee compensation structures and noted numerous design elements that manage and mitigate risk without diminishing the incentive nature of the compensation. There is a balanced mix between cash and equity and between annual and longer-term incentives. In addition, annual incentive awards and long-term incentive awards granted to executives are tied to corporate performance goals, including Adjusted EBITDA and Cumulative Operating Adjusted Net Income Per Share. These metrics encourage performance that supports the business as a whole. The executive annual incentive awards include a maximum payout opportunity equal to 150% of target. Our executives are also expected to meet share ownership guidelines in order to align the executives' interests with those of our stockholders. Also, the Company's clawback policy permits the Company to recover incentive compensation paid to an executive officer if the compensation resulted from any financial result or metric impacted by the executive officer's intentional misconduct. This policy helps to discourage inappropriate risks, as executives will be held accountable for misconduct which is harmful to the Company's financial and reputational health.

The Compensation Committee also reviewed the Company's compensation programs for certain design features that may have the potential to encourage excessive risk-taking, including: over-weighting towards annual incentives, highly leveraged payout curves, unreasonable thresholds and steep payout cliffs at certain performance levels that may encourage short-term business decisions to meet payout thresholds. The Compensation Committee concluded that the Company's compensation programs (i) do not include such elements; or (ii) have implemented features, steps and controls that are designed to limit risks of our compensation arrangements. In light of these analyses, the Compensation Committee concluded that the Company has a balanced pay and performance program that does not encourage excessive risk-taking that is reasonably likely to have a material adverse effect on the Company.

SUMMARY COMPENSATION TABLE FOR 2016

The table below contains information concerning the compensation of (i) our chief executive officer; (ii) our chief financial officer; and (iii) each of the three other most highly compensated executive officers who were serving as our executive officers as of December 31, 2016.

Name and Principal Position	Year	Salary	Stock Awards(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation(4)	Total
Jim Hallett, CEO and Chairman	2016	\$900,000	\$3,040,091	—	\$1,094,772	\$43,220	\$5,078,083
	2015	\$900,000	\$2,856,908	—	\$1,023,613	\$43,420	\$4,823,941
	2014	\$900,000	\$1,477,796	\$1,283,066	\$1,106,118	\$41,340	\$4,808,320
Eric Loughmiller, EVP and CFO	2016	\$450,000	\$1,310,398	—	\$410,540	\$46,780	\$2,217,717
	2015	\$450,000	\$1,322,651	—	\$383,855	\$37,456	\$2,193,962
	2014	\$442,534	\$738,898	\$641,546	\$407,913	\$32,026	\$2,262,917
Don Gottwald, Chief Operating Officer	2016	\$566,500	\$742,354	—	\$689,098	\$32,454	\$2,046,906
	2015	\$550,000	\$727,480	—	\$625,541	\$31,385	\$1,934,406
	2014	\$523,388	—	—	\$617,391	\$29,750	\$1,170,529
Stéphane St-Hilaire, CEO and President of ADESA	2016	\$459,000	\$481,184	—	\$623,417	\$64,803	\$1,628,404
	2015	\$447,937	\$476,188	—	\$553,145	\$80,059	\$1,557,329
	2014	\$434,363	\$295,582	\$256,634	\$456,113	\$93,051	\$1,535,743
Peter Kelly, CTO and President of Digital Services	2016	\$440,000	\$461,284	—	\$597,611	\$32,146	\$1,531,041
	2015	\$400,000	\$423,287	—	\$527,470	\$29,949	\$1,380,706
	2014	\$396,413	—	—	\$487,199	\$30,797	\$914,409

- (1) The amounts reported in this column for 2016 represent the grant date fair value of PRSUs and RSUs granted on February 22, 2016, computed in accordance with ASC 718. See Note 4 to our financial statements for 2016 regarding the assumptions made in determining the grant date fair value. The maximum award that can be earned at the end of the performance period if maximum performance is achieved with respect to the 2016 PRSU awards, based on the grant date value of our common stock, is as follows: Mr. Hallett – \$4,560,118; Mr. Loughmiller – \$1,965,579; Mr. Gottwald – \$1,113,513; Mr. St-Hilaire – \$721,759; and Mr. Kelly – \$691,891.
- (2) The amounts reported in this column represent the grant date fair value computed in accordance with ASC 718. See Note 4 to our financial statements for 2016 regarding the assumptions made in determining the grant date fair value.
- (3) The amount reported is equal to the amount paid to the named executive officer under the Annual Incentive Program, which is governed by the Omnibus Plan.
- (4) The amounts reported for 2016 consist of the following:
 - Automobile allowance: Mr. Hallett – \$25,000; Mr. Gottwald – \$18,000; Mr. Kelly – \$18,000.
 - Market value of Company cars utilized during 2016: Mr. Loughmiller – \$29,300; Mr. St-Hilaire – \$40,782.
 - 401(k) matching contributions: Mr. Hallett – \$10,600; Mr. Loughmiller – \$10,600; Mr. Gottwald – \$10,600; Mr. Kelly – \$10,600.
 - Company-paid group term life insurance premiums: Mr. Hallett – \$5,940; Mr. Loughmiller – \$3,870; Mr. Gottwald – \$2,070; Mr. St-Hilaire – \$1,350; Mr. Kelly – \$1,350.
 - Executive physicals: Mr. Hallett – \$1,680; Mr. Loughmiller – \$3,010; Mr. Gottwald – \$1,784; Mr. Kelly – \$2,196.
 - Tax assistance: Mr. St-Hilaire – \$22,671.

GRANTS OF PLAN-BASED AWARDS FOR 2016

The following table summarizes the payouts which our named executive officers could or may have received upon the achievement of certain performance objectives under the Annual Incentive Program and the grants of PRSUs and RSUs made under the Omnibus Plan in 2016. We did not grant any option awards in 2016.

Name (a)	Grant Date (b)	Estimated Future Payouts under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts under Equity Incentive Plan Awards(2)			Number of Securities Underlying Restricted Stock Units (#)(3)(i)	Grant Date Fair Value of Stock Awards \$(4)(i)
		Threshold \$(c)(1)	Target \$(d)(1)	Maximum \$(e)(1)	Threshold #(f)(2)	Target #(g)(2)	Maximum #(h)(2)		
Jim Hallett	—	450,000	900,000	1,350,000					
	2/22/2016				32,826	65,651	131,302		2,280,059
	2/22/2016							21,884	760,031
Eric Loughmiller	—	225,000	450,000	675,000					
	2/22/2016				14,149	28,298	56,596		982,790
	2/22/2016							9,433	327,608
Don Gottwald	—	283,250	566,500	849,750					
	2/22/2016				8,016	16,031	32,062		556,757
	2/22/2016							5,344	185,597
Stéphane St-Hilaire	—	229,500	459,000	688,500					
	2/22/2016				5,196	10,391	20,782		360,879
	2/22/2016							3,464	120,305
Peter Kelly	—	220,000	440,000	660,000					
	2/22/2016				4,981	9,961	19,922		345,946
	2/22/2016							3,321	115,338

- (1) Columns (c), (d) and (e) include the potential awards for performance at the threshold, target and maximum ("superior") levels, respectively, under the Annual Incentive Program. See, "Compensation Discussion and Analysis—Elements Used to Achieve Compensation Philosophy and Objectives—Annual Cash Incentive Programs" for further information on the terms of the Annual Incentive Program.
- (2) Columns (f), (g) and (h) include the potential number of PRSUs which may be earned for performance at the threshold, target and maximum levels, respectively. These awards vest if and to the extent that the Company's Cumulative Operating Adjusted Net Income Per Share exceeds certain levels over the three-year period beginning on January 1, 2016.
- (3) Column (i) includes the number of RSUs granted in 2016. These awards vest ratably on each of the first three anniversaries of the grant date subject to the executive's continued employment with the Company and provided that the Company achieves \$100 million in adjusted net income in its 2016 fiscal year (as reported by the Company and which condition was satisfied).
- (4) The amounts reported in this column represent the grant date fair value of awards granted on February 22, 2016, computed in accordance with ASC 718 (for PRSUs, grant date fair market value is based on target awards). See Note 4 to our financial statements for 2016 regarding the assumptions made in determining the grant date fair value.

Additional information concerning our cash and equity incentive plans may be found in the sections titled "Compensation Discussion and Analysis—Elements Used to Achieve Compensation Philosophy and Objectives—Annual Cash Incentive Programs" and "Long-Term Incentive Opportunities," respectively.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2016

Name (a)	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have Not Vested (\$) (j)
Jim Hallett	150,000			13.46	03/01/2020		
	97,202	97,202(1)		30.89	02/27/2024		
						47,633(2)	2,030,107(2)
						47,633(3)	2,030,107(3)
						121,783(4)	5,190,377(4)
						12,862(5)	574,946(5)
						134,110(6)	5,715,779(6)
Eric Loughmiller	48,602	48,602(1)		30.89	02/27/2024		
						21,884(7)	952,823(7)
						23,816(2)	1,015,054(2)
						23,816(3)	1,015,054(3)
						56,381(4)	2,402,967(4)
						5,954(5)	266,152(5)
						57,806(6)	2,463,711(6)
Don Gottwald	116,250			10.00	05/06/2019		
						9,433(7)	410,710(7)
						31,010(4)	1,321,650(4)
						3,275(5)	146,397(5)
						30,162(6)	1,285,493(6)
Stéphane St-Hilaire	72,768			13.46	03/01/2020		
	19,442	19,442(1)		30.89	02/27/2024		
						5,344(7)	232,676(7)
						9,528(2)	406,092(2)
						9,526(3)	406,007(3)
						20,298(4)	865,108(4)
						2,144(5)	95,937(5)
Peter Kelly	185,000			12.97	11/04/2021		
						21,226(6)	904,673(6)
						3,464(7)	150,821(7)
						18,043(4)	768,975(4)
						1,906(5)	85,287(5)
						20,348(6)	867,235(6)
						3,321(7)	144,595(7)

(1) These service options were granted on February 27, 2014 and vest ratably on each of the first four anniversaries of the date of grant.

- (2) The total amounts and values in columns (i) and (j) equal the total number of PRSUs granted on February 27, 2014 that may be earned and vest based on the extent to which the Company's TSR relative to that of companies within the S&P 500 Index exceeds certain levels over a three-year period, at the maximum level, held by each named executive officer multiplied by the market price of Company common stock at the close of the last trading day in 2016, which was \$42.62 per share, including reinvested dividends on such PRSUs. In calculating the number of PRSUs and their value, we are required by SEC rules to compare our performance through 2016 under the PRSU grants against the threshold, target and maximum performance levels for the grant and report in these columns the applicable potential share number and payout amount. If the performance is between levels, we are required to report the potential payout at the next highest level. Through December 31, 2016, we exceeded target levels of TSR relative to that of companies within the S&P 500 Index and have accordingly reported the PRSUs at the maximum award level.
- (3) The total amounts and values in columns (i) and (j) equal the total number of PRSUs granted on February 27, 2014 that may be earned and vest based on the Company's Cumulative Adjusted Net Income Per Share performance over a three-year period, at the maximum level, held by each named executive officer multiplied by the market price of Company common stock at the close of the last trading day in 2016, which was \$42.62 per share, including reinvested dividends on such PRSUs. In calculating the number of PRSUs and their value, we are required by SEC rules to compare our performance through 2016 under the PRSU grants against the threshold, target and maximum performance levels for the grant and report in these columns the applicable potential share number and payout amount. If the performance is between levels, we are required to report the potential payout at the next highest level. Through December 31, 2016, we exceeded target levels of Cumulative Adjusted Net Income Per Share performance and have accordingly reported the PRSUs at the maximum award level.
- (4) The total amounts and values in columns (i) and (j) equal the total number of PRSUs granted on February 20, 2015 that may be earned and vest based on the Company's Cumulative Adjusted Net Income Per Share performance over a three-year period, at the maximum level, held by each named executive officer multiplied by the market price of Company common stock at the close of the last trading day in 2016, which was \$42.62 per share, including reinvested dividends on such PRSUs. In calculating the number of PRSUs and their value, we are required by SEC rules to compare our performance through 2016 under the PRSU grants against the threshold, target and maximum performance levels for the grant and report in these columns the applicable potential share number and payout amount. If the performance is between levels, we are required to report the potential payout at the next highest level. Through December 31, 2016, we exceeded target levels of Cumulative Adjusted Net Income Per Share performance and have accordingly reported the PRSUs at the maximum award level.
- (5) The total amounts and values in columns (i) and (j) equal the total number of RSUs granted on February 20, 2015 that vest ratably on each of the first three anniversaries of the grant date during the named executive officer's continued employment with the Company through each such anniversary, multiplied by the market price of Company common stock at the close of the last trading day in 2016, which was \$42.62 per share. The total amount in column (j) includes accrued and unpaid cash dividend equivalents in the following amounts:

Name	Amount
Jim Hallett	\$26,767
Eric Loughmiller	\$12,392
Don Gottwald	\$6,816
Stéphane St-Hilaire	\$4,560
Peter Kelly	\$4,053

- (6) The total amounts and values in columns (i) and (j) equal the total number of PRSUs granted on February 22, 2016 that may be earned and vest based on the Company's Cumulative Operating Adjusted Net Income Per Share performance over a three-year period, at the maximum level, held by each named executive officer multiplied by the market price of Company common stock at the close of the last trading day in 2016, which was \$42.62 per share, including reinvested dividends on such PRSUs. In calculating the number of PRSUs and their value, we are required by SEC rules to compare our performance through 2016 under the PRSU grants against the threshold, target and maximum performance levels for the grant and report in these columns the applicable potential share number and payout amount. If the performance is between levels, we are required to report the potential payout at the next highest level. Through December 31, 2016, we exceeded target levels of Cumulative Operating Adjusted Net Income Per Share performance and have accordingly reported the PRSUs at the maximum award level.
- (7) The total amounts and values in columns (i) and (j) equal the total number of RSUs granted on February 22, 2016 that vest ratably on each of the first three anniversaries of the grant date during the named executive officer's continued employment with the Company through each such anniversary, multiplied by the market price of Company common

stock at the close of the last trading day in 2016, which was \$42.62 per share. The total amount in column (j) includes accrued and unpaid cash dividend equivalents in the following amounts:

Name	Amount
Jim Hallett	\$20,126
Eric Loughmiller	\$8,675
Don Gottwald	\$4,915
Stéphane St-Hilaire	\$3,186
Peter Kelly	\$3,054

OPTION EXERCISES AND STOCK VESTED DURING FISCAL YEAR 2016

Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e)
Jim Hallett	—	—	299,512 (1)	12,898,400 (3)
Eric Loughmiller	—	—	149,520 (1)	6,442,097 (3)
Don Gottwald	48,750	1,442,332	1,638 (2)	56,707 (3)
Stéphane St-Hilaire	59,335	1,751,311	1,072 (2)	37,113 (3)
Peter Kelly	60,000	1,649,886	953 (2)	32,993 (3)

- (1) This amount includes shares vested with respect to the full amount of the 2013 PRSUs at 199% of target and one-third of the 2015 RSUs.
- (2) This amount includes shares vested with respect to one-third of the 2015 RSUs.
- (3) This amount includes accumulated dividend equivalents paid in cash with respect to the 2015 RSUs.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following is a discussion of the treatment of equity-based awards held by our named executive officers and annual cash incentive awards due to our named executive officers upon certain types of employment terminations or the occurrence of a change in control of the Company. For a discussion of our named executive officers' severance payments and the treatment of their annual cash incentive awards that may become due upon certain types of employment terminations pursuant to their employment agreements, see "Employment Agreements with Named Executive Officers" below.

EQUITY-BASED AWARDS—STOCK INCENTIVE PLAN AND OMNIBUS PLAN

To the extent a named executive officer's employment agreement does not provide otherwise, the Stock Incentive Plan and the Omnibus Plan (and the related award agreements thereunder) provide for the following treatment of stock options and other equity awards issued pursuant to the plans upon the termination of employment scenarios or a change in control, as set forth below. As a result of the Stock Incentive Plan being frozen by the Company on December 10, 2009, no additional stock options will be granted under this plan. Since December 10, 2009, all grants of stock options and other equity awards have been and will be made pursuant to the terms of the Omnibus Plan.

Award Type	Termination or Change in Control Scenario				
	Voluntary Termination	Termination by the Company for Cause	Death, Disability or Retirement	Termination without Cause or for Good Reason	Effect of Change in Control or Exit Event
Unless otherwise specified in an award agreement, all unvested equity-based awards under the Stock Incentive Plan and the Omnibus Plan will be forfeited upon a termination of employment for any reason.					
Options	Omnibus Plan: Voluntary resignation: vested options remain exercisable for 90 days (or until earlier expiration date). For Cause: all vested and unvested options are cancelled. Stock Incentive Plan: All vested and unvested options are cancelled.		All vested options remain exercisable for one year (or until earlier expiration date). In the event of death or disability, all unvested options vest in full, with performance awards remaining subject to achievement of goals.	Unless otherwise specified in an award agreement, vested options remain exercisable for 90 days (or until earlier expiration date).	Single trigger vesting with committee discretion to cash out or substitute with successor company awards.

Award Type	Termination or Change in Control Scenario				Effect of Change in Control or Exit Event
	Voluntary Termination	Termination by the Company for Cause	Death, Disability or Retirement	Termination without Cause or for Good Reason	
<u>2014 TSR PRSUs</u> <u>2014 CANIPS PRSUs</u> <u>2015 PRSUs</u> <u>2016 PRSUs</u>	Automatic forfeiture.		Without Cause or for Good Reason: Prorated portion of the PRSUs based on the Company's actual performance during the performance period and the number of full months he/she was employed during such performance period. Death or Disability: Full vesting of PRSU award based on the Company's actual performance during the performance period. Retirement: For 2014 TSR and CANIPS PRSUs and 2015 PRSUs – Prorated portion of the PRSUs based on the Company's actual performance during the performance period and the number of full months he/she was employed during such performance period. For 2016 PRSUs – Prorated portion of the PRSUs based on the Company's actual performance during the performance period and the number of months worked through the retirement date (including the "early retirement date" which is the date of the executive's voluntary termination of employment after attaining a combination of years of age and service with the Company and its affiliates of at least 70, with a minimum age of 60) plus a credit of an additional 12 months.		2014 TSR PRSUs: Double trigger vesting based on actual performance through date of Change in Control. 2014 CANIPS PRSUs: Double trigger vesting at target performance level. 2015/2016 PRSUs: Single trigger vesting at target performance level.*
<u>2015 RSUs</u> <u>2016 RSUs</u>	Voluntary Termination (with or without Good Reason), or Termination by the Company (for Cause or without Cause): Forfeiture of any unvested 2015 RSUs. Death or Disability: Full vesting of any unvested 2015 or 2016 RSUs. Retirement: Forfeiture of any unvested 2015 RSUs. Immediate vesting (subject to achievement of adjusted net income target) of any unvested 2016 RSUs scheduled to vest in the 12 months following the retirement date (including the "early retirement date") and a prorated portion of the 2016 RSUs based on the number of full months he/she was employed since the most recent anniversary of the grant date (after giving 12 months vesting credit following the date of retirement).				Single trigger vesting if adjusted net income goal is attained.*

* Double trigger vesting applies to the 2017 RSUs and the 2017 PRSUs (with vesting at the target performance level with respect to the 2017 PRSUs).

Unless specified otherwise in a named executive officer's employment agreement, the termination of a named executive officer's employment with the Company or any subsidiary shall be deemed to be for "cause" under the Omnibus Plan and the Stock Incentive Plan upon any of the following events: (i) the refusal or neglect of the named executive officer to perform substantially his employment-related duties; (ii) the named executive officer's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty; (iii) the named executive officer's indictment for, conviction of, or entering a plea of guilty or nolo contendere to a crime constituting a felony or his willful violation of any applicable law; (iv) the named executive officer's failure to reasonably cooperate, following a request to do so by the Company or any subsidiary, in any internal or governmental investigation; or (v) the named executive officer's material breach of any written covenant or agreement not to disclose any information pertaining to the Company or any subsidiary or not to compete or interfere with the Company or any subsidiary.

Unless specified otherwise in a named executive officer's employment agreement, the termination of a named executive officer's employment with the Company or any subsidiary shall be deemed to be for "good reason" under the Stock Incentive Plan if such named executive officer voluntarily terminates his or her employment with the Company or any subsidiary as a result of (i) the Company or any subsidiary significantly reducing the named executive officer's current salary without the named executive officer's prior written consent; or (ii) the Company or any subsidiary taking any action that would substantially diminish the aggregate value of the benefits provided to the named executive officer under the Company's or such subsidiary's accident, disability, life insurance, or any other employee benefit plans in which the named executive officer participates. The Omnibus Plan does not provide a default "good reason" definition in the event such term is not specified in a named executive officer's employment agreement.

ANNUAL CASH INCENTIVE AWARDS—OMNIBUS PLAN

Termination or Change in Control Scenario				
Voluntary Termination	Termination by the Company for Cause	Death, Disability or Retirement	Termination without Cause or for Good Reason	Effect of Change in Control or Exit Event
Death, Disability, Voluntary Termination (with or without Good Reason) or Termination by the Company (for Cause or without Cause): Annual cash incentive awards are treated as described in the executive's employment agreement with the Company, to the extent applicable. See "Employment Agreements with Named Executive Officers" above for more information. Retirement: Unless otherwise specified in an employment agreement, an executive receives a pro-rated amount of the incentive award based on actual performance for the performance period.				Unless otherwise determined by the administrator of the Omnibus Plan or as evidenced in an award agreement, pro rata payment based on actual performance, in the administrator's discretion.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL TABLE

The amounts in the table below assume that the termination and/or change in control, as applicable, was effective as of December 30, 2016, the last business day of the prior fiscal year, and that the respective named executive officers exercised all options and/or received cash in exchange for vested PRSUs and RSUs at such time. The table is merely an illustrative example of the impact of a hypothetical termination of employment or change in control. The amounts that would actually be paid upon a termination of employment can only be determined at the time of such termination, based on the facts and circumstances then prevailing.

Named Executive Officer and Triggering Event	Cash Severance	Non- Equity Incentive Pay(1)	Stock Options (2)	PRSUs (3)	RSUs (4)	Excise Tax Gross- Up(5)	Life Insurance (6)	Total
Jim Hallett								
• Death	—	\$1,094,772	\$1,140,179	\$7,536,836	\$1,527,768	—	\$800,000	\$12,099,555
• Disability(7)	—	\$1,094,772	\$1,140,179	\$7,536,836	\$1,527,768	—	—	\$11,299,555
• Retirement(8)	—	\$1,094,772	—	\$5,592,516	\$835,130	—	—	\$7,522,418
• Voluntary / for Cause	—	—	—	—	—	—	—	—
• Termination w/o Cause or for Good Reason	\$3,600,000(9)	\$1,094,772	—	\$4,633,054	—	—	—	\$9,327,826
• CIC (single trigger)	—	\$1,094,772	\$1,140,179	\$7,536,836	\$1,527,768	—	—	\$11,299,555
• Termination after CIC (double trigger) . . .	\$3,600,000(9)	\$1,094,772	\$1,140,179	\$7,536,836	\$1,527,768	\$3,248,649	—	\$18,148,204
Eric Loughmiller								
• Death	\$21,165(10)	\$410,540	\$570,101	\$3,473,189	\$676,890	—	\$800,000	\$5,951,886
• Disability(7)	\$21,165(10)	\$410,540	\$570,101	\$3,473,189	\$676,890	—	—	\$5,151,886
• Retirement(8)	—	—	—	—	—	—	—	—
• Voluntary / for Cause	—	—	—	—	—	—	—	—
• Termination w/o Cause or for Good Reason	\$808,665(9)	\$410,540	—	\$2,185,880	—	—	—	\$3,405,086
• CIC (single trigger)	—	\$410,540	\$570,101	\$3,473,189	\$676,890	—	—	\$5,130,721
• Termination after CIC (double trigger) . . .	\$808,665(9)	\$410,540	\$570,101	\$3,473,189	\$676,890	—	—	\$5,939,386
Don Gottwald								
• Death	\$30,208(10)	\$689,098	—	\$1,415,705	\$379,087	—	\$800,000	\$3,314,098
• Disability(7)	\$30,208(10)	\$689,098	—	\$1,415,705	\$379,087	—	—	\$2,514,098
• Retirement(8)	—	—	—	—	—	—	—	—
• Voluntary / for Cause	—	—	—	—	—	—	—	—
• Termination w/o Cause or for Good Reason	\$1,841,125(9)	\$689,098	—	\$677,985	—	—	—	\$3,208,208
• CIC (single trigger)	—	\$689,098	—	\$1,368,400	\$379,087	—	—	\$2,436,585
• Termination after CIC (double trigger) . . .	\$1,841,125(9)	\$689,098	—	\$1,368,400	\$379,087	—	—	\$4,277,710
Stéphane St-Hilaire								
• Death	\$9,975(10)	\$623,417	\$228,055	\$1,300,166	\$246,758	—	\$800,000	\$3,208,371
• Disability(7)	\$9,975(10)	\$623,417	\$228,055	\$1,300,166	\$246,758	—	—	\$2,408,371
• Retirement(8)	—	—	—	—	—	—	—	—
• Voluntary / for Cause	—	—	—	—	—	—	—	—
• Termination w/o Cause or for Good Reason	\$927,975(9)	\$623,417	—	\$828,516	—	—	—	\$2,379,908
• CIC (single trigger)	—	\$623,417	\$228,055	\$1,300,166	\$246,758	—	—	\$2,398,396
• Termination after CIC (double trigger) . . .	\$927,975(9)	\$623,417	\$228,055	\$1,300,166	\$246,758	—	—	\$3,326,371
Peter Kelly								
• Death	\$33,188(10)	\$597,611	—	\$823,972	\$229,882	—	\$800,000	\$2,484,654
• Disability(7)	\$33,188(10)	\$597,611	—	\$823,972	\$229,882	—	—	\$1,684,654
• Retirement(8)	—	—	—	—	—	—	—	—
• Voluntary / for Cause	—	—	—	—	—	—	—	—
• Termination w/o Cause or for Good Reason	\$1,320,000(9)	\$597,611	—	\$403,739	—	—	—	\$2,321,350
• CIC (single trigger)	—	\$597,611	—	\$823,972	\$229,882	—	—	\$1,651,466
• Termination after CIC (double trigger) . . .	\$1,320,000(9)	\$597,611	—	\$823,972	\$229,882	—	—	\$2,971,466

Footnotes to Potential Payments Upon Termination or Change in Control Table

- (1) The amounts reported are equal to the full amount of the named executive officer's 2016 annual bonus (a December 30, 2016 termination results in a 100% payout, whereas a termination on any other date would result in a prorated amount, assuming payment upon a change in control), payable under the terms of such officer's employment agreement or the Omnibus Plan, as applicable.
- (2) The amounts reported assume a Company common stock price of \$42.62, which was the closing price on December 30, 2016. Messrs. Kelly and Gottwald did not have any outstanding, unvested options as of such date.
- (3) The amounts reported assume a Company common stock price of \$42.62, which was the closing price on December 30, 2016. In the event that a named executive officer is terminated without Cause or resigns for Good Reason (each as defined in the applicable employment agreement), or such officer terminates employment due to his death, Disability or Retirement (each as defined in the Omnibus Plan), he would be entitled to receive, at the same time as active Company employees, a prorated portion of the 2014, 2015 and/or 2016 PRSUs based on the Company's actual performance during each performance period and the number of full months he was employed during each such performance period. Therefore, assuming a termination without Cause, resignation for Good Reason, or the named executive officer's death, Disability or Retirement as of December 30, 2016 and a full year of vesting, (i) Messrs. Hallett and Loughmiller would be entitled to 34/36ths of the 2014 CANIPS PRSUs and the 2014 TSR PRSUs, 24/36ths of the 2015 PRSUs and 12/36ths of the 2016 PRSUs; (ii) Mr. St-Hilaire would be entitled to 34/36ths of the 2014 CANIPS PRSUs and the 2014 TSR PRSUs, 24/36ths of the 2015 PRSUs and 12/36ths of the 2016 PRSUs; and (iii) Messrs. Kelly and Gottwald would be entitled to 24/36ths of the 2015 PRSUs and 12/36ths of the 2016 PRSUs; in each case, based on actual performance. The amounts disclosed in the table assume performance at the target level.

If a Change in Control (as defined in the Omnibus Plan) occurs prior to the termination of such officer's employment, assuming a Change in Control date of December 30, 2016, he would be entitled to receive immediate vesting and payout of the target number of 2015 PRSUs and 2016 PRSUs, without proration.

If Messrs. Hallett, Loughmiller or St-Hilaire are terminated without Cause or resign for Good Reason after the consummation of a Change in Control but before the 2014 PRSUs vest, then, assuming performance at the target level, each would be entitled to receive (a) the full number of 2014 TSR PRSUs earned based on actual performance from January 1, 2014 until the Change in Control date of December 30, 2016, and (b) the target number of 2014 CANIPS PRSUs.

- (4) The amounts reported assume a Company common stock price of \$42.62, which was the closing price on December 30, 2016. In the event a named executive officer's employment is terminated for any reason prior to a Change in Control, such officer would forfeit the unvested portion of his 2016 RSU award. Therefore, assuming a termination date of December 30, 2016 prior to a Change in Control, each named executive officer would forfeit his entire 2016 RSU award, because no portion of such award would be vested as of such date. If a Change in Control occurs prior to the termination of such officer's employment, assuming a Change in Control date of December 30, 2016, he would be entitled to receive immediate vesting and payout of the unvested portion of his 2016 RSU award as of the Change in Control.
- (5) This calculation was made using conservative assumptions, not taking into account any reductions in parachute payments attributable to reasonable compensation payable before or after a Change in Control and not assigning any value to Mr. Hallett's non-compete obligations. Actual excise tax amounts and tax gross-up payments, if any, would be calculated at the time of an actual Change in Control based on all factors and assumptions applicable at that time. No other named executive officer is entitled to an excise tax gross-up.
- (6) Under the Group Term Life Policy, each named executive officer's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding \$800,000.
- (7) Long-term disability is a Company-paid benefit for all employees and only paid after six months on short-term disability. The benefit is 66.67% of base pay capped at \$15,000 per month.
- (8) Pursuant to the terms of his employment agreement, Mr. Hallett would be entitled to a prorated payout of his 2016 annual bonus (the full bonus for a termination date of December 30, 2016) upon his "retirement" (i.e., a voluntary termination of his employment, provided that he announces his retirement at least 12 months prior to such termination). Assuming a "retirement" date of December 30, 2016, with respect to equity awards granted in 2015 and earlier, Mr. Hallett would not have been entitled to receive accelerated vesting of such equity awards because he had not met the requirements for a Retirement under the Omnibus Plan and the applicable award agreements as of such "retirement" date (he had not reached the age of 65). However, Mr. Hallett would have been entitled to receive accelerated vesting of the 2016 RSUs and PRSUs because he had met the requirements for a Retirement as of

December 30, 2016 under the applicable award agreements (he had reached the age of 60 and had a combination of years of age and service with the Company and its affiliates of at least 70).

Messrs. Loughmiller, Gottwald, St-Hilaire and Kelly had not satisfied the Retirement requirements under the Omnibus Plan and the applicable award agreements as of December 30, 2016 (i.e., with respect to the annual bonus and equity awards granted in 2015 and earlier, none had reached the age of 65 and with respect to the 2016 RSUs and PRSUs and none had reached the age of 60 and met the applicable age and service requirements), and thus, they would not have been entitled to a prorated payout of their annual bonuses or accelerated vesting of their equity for a Retirement as of such date.

- (9) These amounts are equal to (i) for Mr. Hallett, (a) two times the sum of Mr. Hallett's current annual base salary (\$900,000 as of December 30, 2016) and 2016 target bonus amount; and (b) COBRA premium payments for 18 months (because Mr. Hallett did not participate in our group health plans as of December 30, 2016, no COBRA premium amount is included in the figures above); and (ii) for all other named executive officers, (a) one times the sum of the officer's current annual base salary (\$450,000 for Mr. Loughmiller, \$566,500 for Mr. Gottwald, \$459,000 for Mr. St-Hilaire and \$440,000 for Mr. Kelly) and 2016 target bonus amount; and (b) COBRA premium payments for 12 months.
- (10) Under the terms of each named executive officer's employment agreement, he (or his estate) would be entitled to COBRA premium payments for 12 months in the event of his death or Disability. Mr. Hallett (or his estate) would be entitled to COBRA premium payments for 18 months in the event of his death or Disability, but would not have received this benefit with respect to a termination occurring on December 30, 2016 because he did not participate in our group health plans as of such date.

EMPLOYMENT AGREEMENTS WITH NAMED EXECUTIVE OFFICERS

Each of our named executive officers has an employment agreement with the Company. A summary of each of the agreements is provided below.

CEO

Mr. Hallett's employment agreement, which became effective as of February 27, 2012, provides for the following severance and change of control payments:

Termination Due to Mr. Hallett's Death or Disability. If Mr. Hallett's employment is terminated as a result of his death or disability, we will pay Mr. Hallett, or in the case of his death, Mr. Hallett's estate or beneficiaries, an amount equal to the sum of (i) any accrued but unpaid base salary and accrued but unused vacation days; (ii) any earned and vested benefits and payments pursuant to the terms of any benefit plan (collectively, the amounts described in (i) and (ii) above are, the "Accrued Obligations"); and (iii) subject to Mr. Hallett or his estate executing a general release of any claims that he may have against the Company (the "Release"), any annual bonus for a prior completed calendar year that has not yet been calculated or paid to Mr. Hallett (the "Earned but Unpaid Bonus").

In addition, if Mr. Hallett is participating in the health plans of the Company at the time of his termination, we will pay him, or in the case of his death, his estate or beneficiaries, his or their premiums attributable to maintaining insurance coverage under COBRA for the shorter of (i) 18 months; or (ii) until Mr. Hallett becomes eligible for comparable coverage under the health plans of another employer (the "Continued Benefits"). Subject to receipt and effectiveness of the Release, we also will pay Mr. Hallett, or his estate or beneficiaries, a prorated bonus based upon the portion of the year during which Mr. Hallett was employed by us (the "Prorated Bonus").

For purposes of Mr. Hallett's employment agreement, "disability" means a "Total Disability" (or equivalent) as defined in the Company's long term disability plan in effect at the time of the disability.

Termination by the Company for Cause. Following a majority vote of the Board (excluding Mr. Hallett or any other employee of the Company), we may terminate Mr. Hallett's employment at any time for "Cause." In such event, our only obligation to Mr. Hallett would be the payment, in a lump sum, of Mr. Hallett's Accrued Obligations.

"Cause" is defined in the employment agreement to mean (i) Mr. Hallett's willful, continued and uncured failure to perform substantially his duties under the employment agreement for a period of 14 days following notice to Mr. Hallett of such failure; (ii) Mr. Hallett engaging in illegal conduct or gross misconduct that is demonstrably likely to lead to material injury to the Company; (iii) Mr. Hallett's indictment or conviction of, or plea of *nolo contendere* to, a crime constituting a felony or any other crime involving moral turpitude; or (iv) Mr. Hallett's failure to comply with the provisions of the employment agreement relating to confidential information, intellectual property, non-competition and non-solicitation which is not cured within the 14 day period following written notice to Mr. Hallett of such failure.

Termination by the Company Without Cause. Mr. Hallett's employment may be terminated without Cause at any time upon 30 days' prior written notice. In the event of a termination without Cause, the Company will pay Mr. Hallett the following "Severance Benefits": (i) two times the sum of Mr. Hallett's (a) annual base salary and (b) target bonus for the year in which termination occurs which, for this purpose, shall not equal less than 100% of Mr. Hallett's base salary; (ii) a Prorated Bonus in a lump sum; and (iii) the Continued Benefits. In addition to the Severance Benefits described above, we will also pay Mr. Hallett the Accrued Obligations and any Earned but Unpaid Bonus.

Termination by Mr. Hallett for Good Reason. Mr. Hallett may terminate his employment for "Good Reason" within 90 days following the occurrence of an event constituting "Good Reason," if such event remains uncured for a period of 30 days following notice of the event by Mr. Hallett to the Company. Upon such termination, the Company will pay Mr. Hallett the sum of the Severance Benefits, the Accrued Obligations and any Earned but Unpaid Bonus.

“Good Reason” is defined in the employment agreement to mean the occurrence of any of the following:

- A material reduction of Mr. Hallett’s authority, duties and responsibilities, or the assignment to Mr. Hallett of duties materially inconsistent with Mr. Hallett’s position as Chief Executive Officer;
- A requirement by the Company that Mr. Hallett relocate his principal business location to a location more than 50 miles from the Company’s executive offices as of the effective date of the employment agreement;
- Any material failure by the Company to comply with any of the terms and conditions of the employment agreement;
- Any failure to timely pay or provide Mr. Hallett’s base salary, or any reduction in Mr. Hallett’s base salary below \$816,000, other than in connection with across-the-board salary reductions;
- Any material reduction in Mr. Hallett’s base salary or annual bonus opportunity; or
- A “Change of Control,” defined by reference to the term “Change in Control” used the Omnibus Plan, occurs and, if applicable, the Company fails to cause its successor to assume or reaffirm the Company’s obligations under the employment agreement without change.

Termination by Mr. Hallett without Good Reason. Mr. Hallett may terminate his employment under the employment agreement at any time without Good Reason upon 30 days’ prior written notice. In such event, we will pay Mr. Hallett a lump sum amount equal to the Accrued Obligations.

Termination by Mr. Hallett upon Retirement. Mr. Hallett may voluntarily terminate his employment under the employment agreement due to retirement by announcing his retirement at least 12 months prior to such termination. In the event of such a termination, we will pay Mr. Hallett a lump sum amount equal to the Accrued Obligations and a Prorated Bonus.

Excise Tax Gross-Up. As described above in “Compensation Policies and Other Information—Tax and Accounting Considerations—Employment Agreements,” Mr. Hallett’s employment agreement provides that in the event that any payment or benefit in connection with his employment is or becomes subject to an excise tax under Section 4999 of the Code, the Company will make a cash payment to Mr. Hallett, which after the imposition of all income, employment, excise and other taxes thereon as well as any penalty and interest assessments associated therewith, will be sufficient to place Mr. Hallett in the same after-tax position as he would have been in had such excise tax not applied. However, in the event that a reduction of the total payments due to Mr. Hallett would avoid the application of the excise tax, then the total payments will be reduced to the extent necessary to avoid the excise tax, but in no event by more than 10% of the original amount of the total payments due.

Requirements With Respect to Non-Competition and Non-Solicitation. Upon a termination of employment for any reason, Mr. Hallett is subject to the following two year post-termination restrictive covenants (except in the case of retirement): (i) non-competition restrictions; and (ii) non-solicitation of Company employees and customers.

Other Named Executive Officers

The Company has entered into substantially similar employment agreements with Messrs. Loughmiller, Gottwald, St-Hilaire and Kelly, providing for their at-will employment and the following severance and change of control payments.

Termination Due to Death or Disability. If Messrs. Loughmiller, Gottwald, St-Hilaire or Kelly terminates his employment due to death or disability, the Company will be obligated to pay to the executive (or his legal representatives) an amount equal to the sum of (i) any earned but unpaid base salary; (ii) accrued but unpaid vacation earned through the date of termination; (iii) unreimbursed business expenses; and (iv) any vested employee benefits. The aggregate of the foregoing is referred to as the “Accrued Obligations.” In addition, the executive or his estate/beneficiaries would be entitled to receive (i) COBRA premium payments for 12 months or until the executive becomes eligible for coverage under another employer’s health plan, if the executive is participating in the Company’s health plans on the date of such termination of employment (the “Continued

Benefits”); (ii) the prorated portion of his annual bonus for the calendar year in which such termination of employment occurred, calculated based on the executive’s actual performance and based on the number of days the executive was employed by the Company during such calendar year; and (iii) a payment equal to the amount of any annual bonus which has been earned in a prior year but which has not yet been paid to the executive (the “Earned but Unpaid Bonus”).

For purposes of their employment agreements, “disability” means a “Total Disability” (or equivalent) as defined in the Company’s long term disability plan in effect at the time of the disability.

Voluntary Termination or Termination for Cause. If Messrs. Loughmiller, Gottwald, St-Hilaire or Kelly voluntarily terminates his employment or if the Company terminates his employment for Cause, the Company’s sole obligation will be to pay him the Accrued Obligations. For purposes of their employment agreements, “Cause” means the (i) executive’s willful, continued and uncured failure to perform substantially their duties under the agreement (other than any such failure resulting from incapacity due to medically documented illness or injury) for a period of 14 days following written notice by the Company to the executive of such failure; (ii) executive engaging in illegal conduct or gross misconduct that is demonstrably likely to lead to material injury to the Company, monetarily or otherwise; (iii) executive’s indictment or conviction of, or plea of *nolo contendere* to, a crime constituting a felony or any other crime involving moral turpitude; or (iv) executive’s violation of the restrictive covenants under the agreement or any other covenants owed to the Company by executive.

Termination Without Cause or Resignation for Good Reason. In the event Messrs. Loughmiller, Gottwald, St-Hilaire or Kelly is terminated by the Company without Cause or such executive resigns for Good Reason, the executive would be entitled to receive, subject to the execution and non-revocation of a release of claims, (i) a lump sum cash payment equal to the sum of his annual base salary plus target annual bonus for the year in which such termination of employment occurs; (ii) the Continued Benefits; and (iii) the Earned but Unpaid Bonus. For purposes of their employment agreements, “Good Reason” means (i) any material reduction of the executive’s authority, duties and responsibilities; (ii) any material failure by the Company to comply with any of the terms and conditions of the agreement; (iii) any failure to timely pay or provide the executive’s base salary, or any reduction in the executive’s base salary, excluding any base salary reduction made in connection with across the board salary reductions; (iv) the requirement by the Company that the executive relocate his principal business location to a location more than 50 miles from the executive’s principal base of operation as of the effective date of the agreement; or (v) a Change of Control occurs and, if applicable, the Company fails to cause its successor (whether by purchase, merger, consolidation or otherwise) to assume or reaffirm the Company’s obligations under the agreement without change. For purposes of the foregoing, “Change of Control” has the same meaning as the term “Change in Control” under the Omnibus Plan.

Requirements With Respect to Non-Competition and Non-Solicitation. Upon a termination of employment for any reason, Messrs. Loughmiller, Gottwald, St-Hilaire and Kelly are subject to the following one year post-termination restrictive covenants: (i) non-competition restrictions; and (ii) non-solicitation of Company employees and customers.

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM: PROPOSAL NO. 4

PROPOSAL

The Audit Committee has appointed KPMG LLP (“KPMG”) to serve as the Company’s independent registered public accounting firm for its fiscal year ending December 31, 2017. The Audit Committee and the Board seek to have the stockholders ratify the Audit Committee’s appointment of KPMG, which has served as the Company’s independent registered public accounting firm since 2006. Although the Company is not required to seek stockholder approval of this appointment, the Board believes it to be sound corporate governance to do so. If the appointment of KPMG is not ratified by the stockholders, the Audit Committee will consider the vote of the Company’s stockholders and may appoint another independent registered public accounting firm or may decide to maintain its appointment of KPMG. Ratification of the appointment of our independent registered public accounting firm requires the affirmative vote of the majority of shares present in person or represented by proxy at the 2017 annual meeting.

Representatives of KPMG will be present at the 2017 annual meeting and will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

KAR Auction Services’ Board of Directors recommends that you vote “FOR” the ratification of the appointment of KPMG as our independent registered public accounting firm for 2017.

Proxies solicited by the Board of Directors will be voted “FOR” Proposal No. 4 unless stockholders specify a contrary vote.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is comprised of four independent directors, each of whom satisfies the independence requirements of Section 10A of the Exchange Act and Rule 10A-3 under the Exchange Act. The Audit Committee oversees our financial reporting process on behalf of the Board and serves as the primary communication link between the Board as the representative of our stockholders, the independent auditors, KPMG and our internal auditors. Our management has the primary responsibility for financial statements and the reporting process, including the systems of internal controls and for assessing the effectiveness of internal controls over financial reporting. The Audit Committee, at least quarterly, meets with the Company's Chief Financial Officer, the Company's Vice President of Internal Audit and representatives of KPMG and conducts separate executive sessions to discuss the audited consolidated financial statements, the evaluations of the Company's internal controls and the overall quality of the Company's financial reporting and compliance programs.

In fulfilling its responsibilities during the fiscal year, the Audit Committee reviewed and discussed with management the consolidated financial statements and related financial statement disclosures included in our Quarterly Reports on Form 10-Q and the audited consolidated financial statements and related financial statement disclosures included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Also, the Audit Committee reviewed with the independent auditors their judgments as to both the quality and the acceptability of our accounting policies. The Audit Committee's review with the independent auditors included a discussion of other matters required under Auditing Standards promulgated by the Public Company Accounting Oversight Board ("PCAOB"), including PCAOB Auditing Standard No. 1301, *Communications with Audit Committees*. The Audit Committee received the written disclosures and the letter from the independent auditors required by the PCAOB Rule Nos. 3524 and 3526 regarding communications with the Audit Committee concerning independence and has discussed those disclosures with the independent auditors. The Audit Committee has also reviewed non-audit services performed by KPMG and considered whether KPMG's provision of non-audit services was compatible with maintaining its independence from the Company.

The Audit Committee discussed with our internal auditors and independent auditors the overall scope and plans for their respective audits and reviewed our plans for compliance with management certification requirements pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee met with the internal auditors and independent auditors, with and without management present, to discuss the results of the auditors' examinations, their evaluations of our internal controls, including a review of the disclosure control process, and the overall quality of our financial reporting. Management represented to the Audit Committee that the Company's consolidated audited financial statements as of and for the fiscal year ended December 31, 2016 were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent auditors. The Audit Committee, or the Chairman of the Audit Committee, also pre-approved all audit and non-audit services provided by the independent auditors during and relating to fiscal year 2016. In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The Audit Committee evaluates the performance of the independent auditors each year and determines whether to re-engage the current independent auditors or consider other audit firms. In doing so, the Audit Committee considers the quality and efficiency of the services provided by the independent auditors, along with the independent auditor's capabilities, technical expertise, and knowledge of our operations and industry. In addition, the Audit Committee reviews with our Chief Financial Officer and our Vice President of Internal Audit, the overall audit scope and plans, the results of internal and external audit examinations, evaluations by management and the independent auditors of our internal controls over financial reporting, the quality of our financial reporting and the ability of the independent auditors to remain independent. Based on these evaluations, the Audit Committee approved the engagement of KPMG as our independent auditors for fiscal year 2017.

Although the Audit Committee has the sole authority to appoint the independent auditors, the Audit Committee has continued its long-standing practice of recommending that the Board ask our stockholders to ratify the appointment of the independent auditors at our annual meeting of stockholders. This report is submitted by Michael T. Kestner, Donna R. Ecton, J. Mark Howell and Stephen E. Smith, being all current members of the Audit Committee, and Lynn Jolliffe, who was a member of the Audit Committee for a portion of 2016.

The Audit Committee

Michael T. Kestner (Chairman)

Donna R. Ecton

J. Mark Howell

Lynn Jolliffe

Stephen E. Smith

FEES PAID TO KPMG LLP

The following table sets forth the aggregate fees charged to KAR Auction Services by KPMG for audit services rendered in connection with the audit of our consolidated financial statements and reports for 2016 and 2015 and for other services rendered during 2016 and 2015 to KAR Auction Services and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services:

Fee Category	2016	2015
Audit Fees(1)	\$2,745,568	\$2,359,561
Audit-Related Fees(2)	24,000	33,000
Tax Fees(3)	92,128	248,615
All Other Fees(4)	225,847	160,432
Total Fees	\$3,087,543	\$2,801,608

- (1) **Audit Fees:** Consists of fees for professional services rendered for the audit of our consolidated financial statements, review of the interim condensed consolidated financial statements included in the Company's quarterly reports, the audit of our internal controls over financial reporting and services that are normally provided by independent registered public accounting firms in connection with statutory and regulatory filings or engagements, and attest services, except those not required by statute or regulation (2016 fee increase resulted in part from acquisition activity).
- (2) **Audit-Related Fees:** Consists principally of professional services rendered in connection with the audit of our 401(k) benefit plan. Also includes professional services rendered with respect to AFC's consolidating report in 2015.
- (3) **Tax Fees:** Consists of fees for various tax planning projects.
- (4) **All Other Fees:** Consists principally of fees for professional services rendered with respect to SOC 1 readiness assessments and reporting (2016 fee increase resulted in part from an increase in the number of SOC 1 report issuances compared to 2015). Also includes a license to use KPMG's accounting research software.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KAR Auction Services' independent registered public accounting firm fee pre-approval policy provides for an annual process through which the Audit Committee evaluates the nature and scope of the audit prior to the commencement of the audit. The Audit Committee also evaluates audit-related, tax and other services that are proposed, along with the anticipated cost of such services. The Audit Committee reviews schedules of specific services to be provided. If other services are provided outside of this annual process, under the policy they may be (i) pre-approved by the Audit Committee at a regularly scheduled meeting; or (ii) pre-approved by the Chairman of the Audit Committee, acting between meetings and reporting back to the Audit Committee at the next scheduled meeting. All audit fees, audit-related fees, tax fees and all other fees described above were approved by the Audit Committee or the Chairman of the Audit Committee before such services were rendered.

CERTAIN RELATED PARTY RELATIONSHIPS

REVIEW AND APPROVAL OF TRANSACTIONS WITH RELATED PERSONS

Pursuant to our written related party transactions policy, the Company reviews relationships and transactions in which the Company, or one of its business units, and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest.

In the course of the review and approval of a related party transaction, the Board or the Audit Committee may consider the following factors:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to the Company;
- whether the transaction would impair the judgment of a director or executive officer to act in our best interest; and
- any other matters that we deem appropriate.

Transactions in which the amount involved exceeds \$120,000 in which the Company, or one of its business units, was a participant and a related person had a direct or indirect material interest are required to be disclosed in this proxy statement. Thomas J. Caruso, currently the Company's Chief Client Officer, has a son, Joseph Caruso, who is currently employed as the Manager of Major Dealer Accounts at ADESA. During 2016, Mr. Joseph Caruso earned approximately \$143,000 in total compensation. Joseph Caruso does not report to Thomas J. Caruso.

REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS

NOMINATION OF DIRECTORS AND OTHER BUSINESS OF STOCKHOLDERS

In order to submit stockholder proposals for inclusion in our proxy statement related to the 2018 annual meeting of stockholders pursuant to SEC Rule 14a-8, materials must be received by the Secretary at the Company's principal office in Carmel, Indiana, no later than December 26, 2017.

The proposals must comply with all of the requirements of SEC Rule 14a-8. Proposals should be addressed to: Rebecca C. Polak, Executive Vice President, General Counsel and Secretary, KAR Auction Services, Inc., 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032. As the SEC's shareholder proposal rules make clear, simply submitting a proposal does not guarantee its inclusion.

The Company's By-Laws also establish an advance notice procedure with regard to director nominations and stockholder proposals that are not submitted for inclusion in the proxy statement, but that a stockholder instead wishes to present directly at an annual meeting. To be properly brought before the 2018 annual meeting, a notice of the nomination or the matter the stockholder wishes to present at the meeting must be delivered to the Secretary at the Company's principal office in Carmel, Indiana (see above), not less than 90 or more than 120 days prior to the first anniversary of the date of this year's annual meeting. As a result, any notice given by or on behalf of a stockholder pursuant to these provisions of the Company's By-Laws (and not pursuant to SEC Rule 14a-8) must be received no earlier than February 5, 2018, and no later than March 7, 2018. All director nominations and stockholder proposals must comply with the requirements of the Company's By-Laws, a copy of which may be obtained at no cost from the Secretary of the Company by writing to KAR Auction Services, Inc., Secretary, 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

Other than the proposals described in this proxy statement, KAR Auction Services does not expect any matters to be presented for a vote at the 2017 annual meeting. If you grant a proxy, the persons named as proxy holders on the proxy card will have the discretion to vote your shares on any additional matters properly presented for a vote at the 2017 annual meeting. If for any unforeseen reason, any one or more of the Board's nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated as a substitute by the Board.

The chairman of the meeting may refuse to allow the transaction of any business not presented beforehand, or to acknowledge the nomination of any person not made in compliance with the foregoing procedures.

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Q: Why am I receiving these materials?

A: We are providing these proxy materials to you in connection with the solicitation, by the Board of KAR Auction Services, of proxies to be voted at the Company's 2017 annual meeting of stockholders and at any adjournments or postponements thereof. Stockholders are invited to attend the 2017 annual meeting to be held on June 5, 2017 beginning at 9:00 a.m., Eastern Daylight Time, at the Renaissance Indianapolis North Hotel, 11925 North Meridian Street, Carmel, Indiana 46032. Our proxy materials are first being distributed to stockholders on or about April 25, 2017.

Q: What proposals will be voted on, what is the Board's voting recommendation, and what are the standards for determining whether a proposal has been approved?

A:	Proposal	Voting Choices and Board Recommendation	Voting Standard	Effect of Abstention	Effect of Broker Non-Vote
	1. Election of Directors	• Vote "FOR" all nominees • Vote "FOR" specific nominees • Vote "AGAINST" all nominees • Vote "AGAINST" specific nominees • Abstain from voting for all nominees • Abstain from voting for specific nominees The Board recommends a vote "FOR" each of the director nominees.	More votes "FOR" than "AGAINST"	No effect	No effect
	2. Advisory Vote to Approve Executive Compensation	• Vote "FOR" the advisory proposal • Vote "AGAINST" the advisory proposal • Abstain from voting on the advisory proposal The Board recommends a vote "FOR" the advisory vote to approve executive compensation.	Majority of the shares present and entitled to vote	Vote against	No effect
	3. Advisory Vote to Approve the Frequency of Future Votes to Approve Executive Compensation	• Vote FOR holding the say-on-pay vote "EVERY YEAR" • Vote FOR holding the say-on-pay vote "EVERY TWO YEARS" • Vote FOR holding the say-on-pay vote "EVERY THREE YEARS" • Abstain from voting on the advisory proposal The Board recommends a vote FOR holding the vote to approve executive compensation "EVERY YEAR."	Frequency receiving most votes "FOR" will be the recommendation of stockholders	No effect	No effect
	4. Ratification of Appointment of KPMG as our Independent Registered Accounting Firm	• Vote "FOR" the ratification • Vote "AGAINST" the ratification • Abstain from voting on the ratification The Board recommends a vote "FOR" the ratification of the appointment of KPMG as our independent registered accounting firm for 2017.	Majority of the shares present and entitled to vote	Vote against	Not applicable

Q: Who is entitled to vote?

A: All shares owned by you as of the record date, which is the close of business on April 13, 2017, may be voted by you. You may cast one vote per share of our common stock that you held on the record date.

These shares include shares that are:

- held directly in your name as the stockholder of record; and
- held for you as the beneficial owner through a broker, bank or other nominee, including shares purchased under the KAR Auction Services, Inc. Employee Stock Purchase Plan (the “Employee Stock Purchase Plan”).

On the record date, KAR Auction Services had 137,146,721 shares of common stock issued and outstanding.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: Stockholder of Record. If your shares are registered directly in your name with the Company’s transfer agent, American Stock Transfer & Trust Company, LLC, you are considered a “stockholder of record” with respect to those shares. As the stockholder of record, you have the right to grant your voting proxy directly to the Company or to vote in person at the 2017 annual meeting.

Beneficial Owner. If your shares are held in a brokerage account or by a bank or other nominee, you hold your shares in “street name” and are considered a “beneficial owner” with respect to those shares. These proxy materials are being forwarded to you by your broker or nominee who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker on how to vote your shares and are also invited to attend the 2017 annual meeting.

Q: How can I vote my shares in person at the 2017 annual meeting?

A: Stockholder of Record. Shares held directly in your name as the stockholder of record may be voted in person at the 2017 annual meeting. If you choose to vote your shares in person at the 2017 annual meeting, please bring proof of identification.

Beneficial Owner. If you are a beneficial owner and want to vote your shares in person at the 2017 annual meeting, you will need to ask your bank, broker or other nominee to furnish you with a legal proxy and an account statement or letter indicating that you are the beneficial owner of the shares. The account statement or letter must show that you were the beneficial owner of shares on April 13, 2017, the record date.

Even if you plan to attend the 2017 annual meeting, the Company strongly recommends that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the 2017 annual meeting. See “How can I vote my shares without attending the 2017 annual meeting?” below.

Q: How can I vote my shares without attending the 2017 annual meeting?

A: Whether you hold your shares directly as the stockholder of record or beneficially in street name, you may vote **without attending** the 2017 annual meeting in one of the following manners:

By Internet. Go to www.proxyvote.com and follow the instructions. You will need the control number included on your proxy card or voting instruction form;

By Telephone. Dial 1-800-690-6903. You will need the control number included on your proxy card or voting instruction form; or

By Mail. Complete, date and sign your proxy card or voting instruction card and mail it using the enclosed, pre-paid envelope.

If you vote on the internet or by telephone, you do not need to return your proxy card or voting instruction card. Internet and telephone voting for stockholders will be available 24 hours a day, and will close at 11:59 p.m., Eastern Daylight Time, on June 4, 2017.

Q: If I am an employee holding shares pursuant to the Employee Stock Purchase Plan, how will my shares be voted?

A: Employees holding stock acquired through the Employee Stock Purchase Plan will receive a voting instruction card covering all shares held in their individual account from Computershare, the plan record keeper. The voting instruction cards have an earlier return date than proxy cards. The record keeper for the Employee Stock Purchase Plan will vote your shares (i) in accordance with the specific instructions on your returned voting instruction card; or (ii) in its discretion, if you return a signed voting instruction card with no specific voting instructions.

Q: What is the quorum requirement for the 2017 annual meeting?

A: A quorum of stockholders is necessary to hold the 2017 annual meeting. A quorum at the 2017 annual meeting exists if the holders of a majority of the Company's capital stock issued and outstanding and entitled to vote at the 2017 annual meeting are present in person or represented by proxy. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs on an item when a broker, bank or other nominee is not permitted to vote on that item absent instruction from the beneficial owner of the shares and no instruction is given.

Q: What happens if I do not give specific voting instructions?

A: **Stockholder of Record.** If you are a stockholder of record and you sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by the Board on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the 2017 annual meeting.

Beneficial Owner. If you are a beneficial owner of shares and do not provide the organization (e.g., broker, bank or other nominee) that holds your shares in "street name" with specific voting instructions, the organization that holds your shares may generally vote in its discretion on "routine" matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on "non-routine" matters, such organization cannot vote your shares and will inform the inspector of election that it does not have the authority to vote on these matters with respect to your shares. This is generally referred to as a "broker non-vote." Therefore, we urge you to give voting instructions to your broker, bank or other nominee. Shares represented by such broker non-votes will be counted in determining whether there is a quorum. Because broker non-votes are not considered shares entitled to vote, they will have no effect on the outcome of any proposal other than reducing the number of shares present in person or by proxy and entitled to vote from which a majority is calculated.

- **Routine Matters.** The ratification of the appointment of KPMG as our independent registered public accounting firm for 2017 (Proposal No. 4) is considered a routine matter under applicable rules. A broker, bank or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal No. 4.
- **Non-Routine Matters.** The election of directors (Proposal No. 1), the advisory vote to approve executive compensation (Proposal No. 2) and the advisory vote to approve the frequency of future votes to approve executive compensation (Proposal No. 3) are considered non-routine matters under applicable rules. A broker, bank or other nominee cannot vote without instructions on non-routine matters, and therefore there may be broker non-votes on Proposal No. 1, Proposal No. 2 and Proposal No. 3.

Q: What does it mean if I receive more than one proxy or voting instruction card?

A: It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Q: Who will count the vote?

A: The votes will be counted by the inspector of election appointed for the 2017 annual meeting.

Q: Can I revoke my proxy or change my vote?

A: Yes. You may revoke your proxy or change your voting instructions at any time prior to the vote at the 2017 annual meeting by:

- providing written notice of revocation to the Secretary of the Company at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032;
- delivering a valid, later-dated proxy or a later-dated vote on the internet or by telephone; or
- attending the 2017 annual meeting and voting in person.

Please note that your attendance at the 2017 annual meeting in person will not cause your previously granted proxy to be revoked unless you vote in person at the 2017 annual meeting. If you wish to revoke your proxy, you must do so in sufficient time to permit the necessary examination and tabulation of the subsequent proxy or revocation before the vote is taken. Shares held in street name may be voted in person by you at the 2017 annual meeting only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

Q: Who will bear the cost of soliciting proxies for the 2017 annual meeting?

A: The Company pays the cost of soliciting your proxy and reimburses brokers and others for forwarding to you the proxy materials as beneficial owners of our common stock. The Company's directors, officers and employees also may solicit proxies by mail, telephone and personal contact. They will not receive any additional compensation for these activities.

Q: Why did I receive a notice in the mail regarding the internet availability of the proxy materials instead of a paper copy of the proxy materials?

A: This year, we are again taking advantage of the SEC rules that allow us to furnish our proxy materials over the internet. As a result, most of our stockholders will be mailed a Notice of Internet Availability of Proxy Materials ("Notice"), rather than a full paper set of the proxy materials. The Notice includes information on how to access the proxy materials via the internet as well as how to vote via the internet. We believe this method of delivery will decrease printing and shipping costs, expedite distribution of proxy materials to you, and reduce our impact on the environment. Stockholders who receive the Notice but would like to receive a printed copy of the proxy materials in the mail should follow the instructions in the Notice for requesting such materials.

Q: I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

A: We have adopted a procedure called "householding," which the SEC has approved. Under this procedure, we may deliver a single copy of the Notice and, if applicable, this proxy statement and the Company's Annual Report to multiple stockholders who share the same address unless we received contrary instructions from one or more of the stockholders. This procedure reduces our printing and mailing costs and also reduces our impact on the environment. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written or oral request, a separate copy of the Notice or this proxy statement and the Company's Annual Report, as requested, will be promptly delivered to any stockholder at a shared address to which we delivered a single copy of any of these documents. If you prefer to receive separate copies of the Notice, the proxy statement or Annual Report, contact Broadridge Financial Solutions, Inc. by calling 1-866-540-7095 or in writing at 51 Mercedes Way, Edgewood, New York 11717, Attention: Householding Department.

If you are a stockholder of record and are receiving more than one copy of the proxy materials at a single address and would like to participate in householding, please notify us by contacting Broadridge Financial Solutions, Inc. using the mailing address and phone number above. Stockholders who hold shares in "street name" may contact their broker, bank or other nominee to request information about householding.

Q: How can I obtain a copy of KAR Auction Services' Annual Report on Form 10-K?

A: Copies of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the SEC, are available to stockholders free of charge on our website at www.karauctionservices.com or by writing to KAR Auction Services, Inc., Investor Relations, 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032.

Q: Where can I find the voting results of the 2017 annual meeting?

A: KAR Auction Services will announce preliminary voting results at the 2017 annual meeting and publish preliminary, or final results if available, in a Current Report on Form 8-K within four business days of the 2017 annual meeting.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

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

For the fiscal year ended December 31, 2016

OR

☐ **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**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.01 per share

Name of each exchange on which registered

New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒ No ☐

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was \$5,748,110,691 at June 30, 2016.

As of February 15, 2017, 136,728,422 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Documents Incorporated by Reference

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference herein from the registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the registrant's fiscal year ended December 31, 2016.

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DEFINED TERMS

Unless otherwise indicated or unless the context otherwise requires, the following terms used in this Annual Report on Form 10-K have the following meanings:

- "we," "us," "our" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries;
- "ADESA" or "ADESA Auctions" refer, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including Openlane, Inc. (together with Openlane, Inc.'s subsidiaries, "Openlane") and ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited"));
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries and other related entities, including PWI Holdings, Inc.;
- "AutoVIN" refers to AutoVIN, Inc., our wholly-owned subsidiary;
- "Credit Agreement" refers to the Amended and Restated Credit Agreement, dated March 11, 2014, as amended on March 9, 2016, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent;
- "Credit Facility" refers to the three-year senior secured term loan B-1 facility ("Term Loan B-1"), the seven-year senior secured term loan B-2 facility ("Term Loan B-2"), the seven-year senior secured term loan B-3 facility ("Term Loan B-3"), the \$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 Limited ("HBC"); and
- "KAR Auction Services" refers to KAR Auction Services, Inc., and not to its subsidiaries.

PART I

Item 1. Business

Overview

We are a leading provider of used car auction services and salvage auction services in North America and the United Kingdom. We facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles and salvage vehicles through our 249 North American physical auction locations at December 31, 2016, and multiple proprietary Internet venues. In 2016, we facilitated the sale of approximately 5.1 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers, as well as by providing value-added ancillary services, including transportation, reconditioning, inspections, marshalling, titling and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold through our auctions.

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

At December 31, 2016, we had a North American network of 77 whole car auction locations and 172 salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services Limited, which operates from 11 locations in the United Kingdom. Our auction locations are primarily standalone facilities dedicated to either whole car or salvage auctions; however, some of our sites are utilized to service both whole car and salvage customers at the same location. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with providers and buyers of used and salvage vehicles.

Our Corporate History

KAR Auction Services (formerly KAR Holdings, Inc.) was incorporated in 2006 and commenced operations in April 2007. On November 3, 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle remarketing industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC. ADESA remained a public company until 1995 when ALLETE, Inc. purchased a majority of its outstanding equity interests. In June 2004, ALLETE, Inc. sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders in September 2004. ADESA was acquired by the Company in April 2007. IAA entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAA was acquired by two private equity firms in 2005. The two private equity firms and certain members of IAA management contributed IAA to KAR Auction Services in April 2007. In a series of transactions between December 2012 and November 2013, our former owners (private equity firms) sold all of their common stock in secondary offerings.

Our Industry

Auctions are the hub of the remarketing system for used and salvage vehicles, bringing professional sellers and buyers together and creating a marketplace for the sale of these vehicles. Whole car auction vehicles include vehicles from dealers turning their inventory, off-lease vehicles, vehicles repossessed by financial institutions and rental and other program fleet vehicles that have reached a predetermined age or mileage. The salvage vehicle auction industry provides a venue for sellers, primarily automobile insurance companies, to dispose or liquidate damaged or low value vehicles to dismantlers, rebuilders, scrap dealers or qualified public buyers. The following are key industry highlights:

Whole Car Auction Industry Volumes

Whole car auction volumes in North America, including online only volumes, were approximately 9.2 million and 9.9 million in 2014 and 2015, respectively. Data for the whole car auction industry is collected by the National Auto Auction Association ("NAAA") through an annual survey. NAAA industry volumes for 2016 have not yet been released; however, we estimate that used vehicle auction volumes in North America in 2016 will be approximately 10.6 million vehicles (including approximately 0.7 million vehicles sold online by ADESA prior to reaching a physical auction). We expect the industry to experience an increase in whole car auction volumes in 2017 as a result of increasing new vehicle sales and lease originations since 2009, as well as readily available credit, which supports retail used car sales.

Salvage Auction Industry Volumes

We believe that the North American salvage vehicle auction industry volumes are affected primarily by accident rates, the age of the vehicle fleet on the road, miles driven, weather, the complexity of vehicles in operation, repair costs and recycled parts utilization. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicle design becomes more complex with additional enhancements, such as airbags and electrical components, vehicles are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. In addition, the utilization of recycled parts from salvage vehicles by the collision repair industry continues to increase as the quality of these parts gains wider acceptance and insurance companies attempt to reduce their repair claim costs. We believe that salvage volumes will continue to grow for the foreseeable future as the number of total loss vehicles increases.

Consolidated Whole Car and Salvage Auction Markets

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA together represent approximately 70% of the North American whole car auction market. We estimate that ADESA represents approximately 28% of the North American whole car auction market. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAA and Copart, Inc., together representing over 80% of the market.

Our Business Strategy

The Company has a comprehensive strategy that leverages KAR's unique collection of assets, proven track record with commercial sellers, extensive North American physical footprint, global network of customers and unique set of transaction data. The Company's strategy for the future builds on this base, and we believe it will enable the Company to meet new opportunities emerging in the automotive remarketing industry, which is being impacted by several meaningful trends, including:

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

KAR is focused on expanding our end-to-end remarketing platform across the used vehicle industry through innovation, data science, and a strategic physical footprint. We have invested in technology and talent and deployed a suite of complementary online, digital and mobile capabilities that we believe will simplify and streamline the buying and selling experience for our customers. Additionally we believe our unique, integrated platform of whole car, salvage, and finance solutions deliver differentiated value to customers across North America, and positions the Company for further growth around the globe. To execute our strategy of providing the best remarketing venue and analytical evidence for every vehicle, while generating value for our shareholders and customers, we intend to focus on the following strategic initiatives:

- Extend and integrate our platform
- Leverage unique data and analytic capabilities
- Continue to improve operating efficiency

- Using excess cash flow to invest in strategic growth initiatives and return capital to shareholders

Extend and Integrate Our Platform

We believe that the Company's collection of 260 whole car and salvage auction sites, along with their online counterparts, makes us uniquely qualified to provide the best set of remarketing marketplaces for our customers. Additionally, these venues provide the opportunity to anchor further expansion and growth of the catalog of integrated ancillary and related services offered by the Company. We are therefore focused on the following strategies to further extend and integrate our platform.

- **Establishing Physical Auction Presence in Key Automotive Marketplaces:** The Company is focused on expanding its physical auction footprint into key markets where there is opportunity for growth and meaningful customer demand for greater choice, technology, and integrated remarketing solutions. These geographies also provide a platform for the regional deployment and expansion of the Company's other ancillary and related services, as well as enhancing AFC's floorplan financing to independent used vehicle dealers. In 2016, the Company completed acquisitions or opened new physical sites as follows:
 - Brasher's Auto Auctions: adding eight auction locations and Brasher's floorplan financing business to the ADESA and AFC business units and establishing the Company's physical presence in northern California, Oregon, Washington, Utah and Washington.
 - Sanford Auto Dealers Exchange: establishing the Company's presence in the Orlando and central Florida marketplaces.
 - Flint Auto Auction: located in the Detroit metropolitan area serving customers in Michigan, Ohio, Indiana and Illinois.
 - ADESA Chicago: KAR successfully opened a new used car auction site in Chicago in October 2016. Chicago is one of the largest automotive markets in the U.S. The Company now delivers the full range of whole car, salvage, and financing solutions in the Chicago marketplace.
- **Expanding Opportunities for Customers to Buy and Sell Online:** We are focused on enhancing our Internet solutions in all of the key channels in which we operate, and we will continue to invest in technology platforms in order to capitalize on new opportunities and attract new customers. Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. Online buying activity continues to accelerate and represents an increasing portion of wholesale transactions across the industry. Providing consistent, accurate and user-friendly online solutions remains a strategic priority. Advancing our online solutions allows us to connect more effectively with our current customers and engage with a broader range of geographically diverse customers.

We acquired Openlane in order to better capitalize on the increasing use of the Internet as a means to purchase wholesale vehicles. Powered by Openlane technology, ADESA offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions throughout the United States and Canada. IAA is the only national salvage auction company that offers buyers both live and Internet purchasing opportunities. ADESA provides online solutions to sell vehicles directly from a dealership or other interim storage location (upstream selling); online solutions to offer vehicles for sale while in transit to auction locations (midstream selling); simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock®); and bulletin-board or real-time online auctions (DealerBlock®).

We will continue to make investments in our online technology to enhance the selling and buying experience for our customers. These investments involve creating a more streamlined user experience and embedding additional Company capabilities and offerings within our online tools.

- **Expanding our International Presence:** In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 110 countries. We believe we are well positioned to grow internationally. We continue to identify opportunities to expand certain of our service offerings globally. We expect that our ability to efficiently layer in our product and technology licensing will allow us to enter other mature auction markets.

In 2016, the Company acquired GRS Remarketing Limited, a subsidiary of Greenhouse Group Limited. GRS is a U.K.-based remarketing business with robust technology, effective operations and relationships with commercial customers. We believe GRS' technology platform will complement our physical auction presence to bring U.K. customers

additional value and choice. The Company has renamed GRS to ADESA Remarketing Limited to help bring additional awareness, brand recognition and interest to the Company's whole-car auction solution.

Also in 2016, TradeRev U.K. announced a partnership with Arval to provide upstream remarketing services for a luxury segment of the leasing firm's U.K. portfolio. KAR business unit ADESA holds a 50 percent stake in TradeRev. The Company believes this partnership is strategically complementary to the GRS acquisition and will help build a platform to bring additional KAR services to the U.K. and position ADESA Remarketing Limited in the active European marketplace.

- **Develop alternative marketplaces:** The Company is identifying innovative venues for the exchange of used vehicles through internal development, targeted partnerships and acquisitions.

Leverage Unique Data and Analytic Capabilities

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

Continue to Improve Operating Efficiency

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

The Company is highly focused on integrating the newly acquired sites and facilities from its 2016 acquisitions. Since the time of acquisition, work has been underway to evaluate the sites and assess their current levels of performance, resources, and productivity and ensure they are operating as efficiently and effectively as possible. Where practical and beneficial, the Company will implement its data-driven and efficiency-based operating model that has been successful at our existing auction locations. We expect this work to continue through 2017 and into 2018.

The company also introduced two internal technology and communication tools to help connect our 17,400 employees and foster greater collaboration, innovation, and sharing of expertise and best practices across our locations and businesses. By streamlining the employee and manager experience, we believe we will be able to return additional productive hours to employees. Additionally, the Company launched a new internal communications tool that provides communication, information sharing, and virtual collaboration space across our businesses.

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

We generate strong cash flows as a result of our attractive margins, the ability to leverage our corporate infrastructure across our multiple auction locations, relatively low levels of capital expenditures and limited working capital requirements. Management plans to utilize excess cash generated by the business to invest in strategic growth initiatives and return capital to shareholders. We generated \$360.8 million and \$475.0 million of cash flow from operations for the twelve months ended December 31, 2016 and 2015, respectively. After paying any future dividends to shareholders (subject to prior declaration by our board of directors), we expect that significant cash flow will remain to support growth initiatives or return additional capital to shareholders.

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

We paid cash dividends to shareholders of \$157.1 million and \$151.9 million for the years ended December 31, 2016 and 2015, respectively. In addition, we paid \$80.4 million and \$227.6 million for the years ended December 31, 2016 and 2015, respectively, to repurchase and retire shares of our common stock.

Our Business Segments

We operate as three reportable business segments: ADESA Auctions, IAA and AFC. Our revenues for the year ended December 31, 2016 were distributed as follows: ADESA 56%, IAA 35% and AFC 9%. No single customer accounted for more than 10% of our total revenue, including seller, buyer, ancillary and other related services revenue. Geographic information as well as comparative segment revenues and related financial information pertaining to ADESA, IAA and AFC for the years ended December 31, 2016, 2015 and 2014 are presented in the tables in Note 18, *Segment Information*, to the Consolidated Financial Statements for KAR Auction Services, Inc., which are included under Item 8 in this Annual Report on Form 10-K.

ADESA

Overview

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

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

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

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

Customers

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

Services

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

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

Sales and Marketing

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

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

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

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

Online Solutions

Our current ADESA online solutions include:

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

Competition

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

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

Overview

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

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

Auctions are typically held weekly at most locations. Vehicles are marketed at each respective auction site to live bidders as well as to online bidders via IAA's dual platform auction model. In addition, auction listings are available online, allowing prospective bidders to preview and bid on vehicles prior to the actual auction event. IAA's Auction Center feature provides Internet buyers with an open, competitive bidding environment that reflects the dynamics of a live salvage auction. The Auction Center includes such services as comprehensive auction lists featuring links to digital images of vehicles available for sale, a "Find a Vehicle" function that promotes the search for specific vehicles within the auction system and special auction notifications such as "Rental," "Classic," or "Motorcycles." Higher prices at auction are generally driven by broader market exposure and increased competitive bidding. Our mobile device applications provide great flexibility for buyers who interact with our auctions. In addition, our mobile applications are designed for the latest handheld devices, including Apple and Android, and are optimized for the most recent operating systems.

Tools and services focused on total loss claims have been developed to assist insurance consignors in improving policy holder satisfaction and more effectively managing costs during the total loss claims process. Further building upon the IAA Total Loss Solutions® suite of products launched with IAA Inspection Services™ and IAA Title Services™ in 2015, IAA launched an additional five product offerings within the suite of products in 2016. The new products and services deliver additional cycle time reduction, further provide transparency for the insured, and greater integrate within IAA's flagship salvage management tool, CSAToday®. Through IAA's auction model, vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVESM. We believe the capability of the auction models maximizes auction proceeds and returns to our customers. First, the physical auctions allow buyers to inspect and compare the vehicles, enabling them to make fully-informed bidding decisions. These physical auction abilities are an important part of the bidding process. Second, our Internet auction capabilities allow buyers to participate in a greater number of auctions than if physical attendance was required. Online inventory browsing and digital alerts (via email or through buyer app) reduce the time required to acquire vehicles.

In June 2015, we acquired HBC, a salvage vehicle auction business operating in the United Kingdom. HBC provides salvage collection and disposal services for the U.K.'s top insurance, fleet and accident management companies, and conducts business using a variety of sales channels, including online auctions. HBC's business model differs from that of IAA, as the majority of HBC's vehicles are sold under purchase contracts, rather than under consignment.

Services

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

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

Customers

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

Sales and Marketing

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

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

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

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

Online Solutions

Our current IAA online solutions include:

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

Competition

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

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

AFC

Overview

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2016, AFC serviced over 1.7 million loan transactions, which includes both loans paid off and loans extended, or curtailed. We sell the majority of our U.S. dollar-denominated finance receivables without recourse to a wholly-owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a group of bank purchasers on a revolving basis. We also securitize the majority of our Canadian dollar denominated finance receivables through a separate third-party facility. We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

In June 2013, we acquired Preferred Warranties, Inc., a vehicle service contract business, as part of our strategy to provide new services to independent used vehicle dealers. We receive advance payments for the vehicle service contracts and unearned revenue is deferred and recognized over the terms of the contracts, which range from 3 months to 7 years, on an individual contract basis. The average term of these contracts originated in 2016 was approximately 1.6 years. We currently purchase program insurance which provides for satisfaction of certain of the Company's vehicle service contracts related liabilities in the event the Company is unable to perform under the terms of specific vehicle service contracts covered by program insurance.

Customers and Locations

Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles from our auctions, other auctions and non-auction purchases. In 2016, over 83% of the vehicles floorplanned by AFC were vehicles purchased by dealers at auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. As of December 31, 2016, we serviced auctions through 126 locations which are conveniently located at or within close proximity of auctions held by ADESA and other auctions, which allows dealers to reduce transaction time by providing immediate payment for vehicles purchased at auction. We provide availability lists on behalf of our customers to auction representatives regarding the financing capacity of our customers, thereby increasing the purchasing potential at auctions. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days, as well as maintaining a presence at the ADESA auctions. Geographic proximity to the customers gives our employees the ability to stay in close contact with outstanding accounts, thereby better enabling them to manage credit risk.

As of December 31, 2016, AFC had approximately 12,200 active dealers with an average line of credit of approximately \$260,000 and no one dealer representing greater than 1.3% of our portfolio. An average of approximately 15 vehicles per active dealer was floorplanned with an approximate average value outstanding of \$9,500 per vehicle as of December 31, 2016.

Sales and Marketing

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

Credit

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

The extension of a credit line to a dealer starts with the underwriting process. Credit lines up to \$500,000 are extended using a proprietary scoring model developed internally by AFC. Credit lines in excess of \$500,000 may be extended using underwriting guidelines which generally require dealership and personal financial statements, monthly bank statement, sales reports and tax returns. The underwriting of each line of credit requires an analysis, write-up and recommendation by the credit department and, in case of credit lines in excess of \$500,000, final review by a credit committee.

Collateral Management

Collateral management is an integral part of daily operations at each AFC branch and our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables branch and corporate personnel to assess and manage potential collection issues. Restrictions are automatically placed on customer accounts in the event of a delinquency, payments by dealers from bank accounts with insufficient funds or poor audit results. Branch personnel are proactive in managing collateral by monitoring loans and notifying dealers that payments are coming due. In addition, over 81,000 routine audits, or lot checks, are performed annually on the dealers' lots through our AutoVIN subsidiary. Poor results from lot checks typically require branch personnel to take actions to determine the status of missing collateral, including visiting the dealer personally, verifying units held off-site and collecting payments for units sold. Audits also identify troubled accounts, triggering the involvement of AFC's collections department.

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

Securitization

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC's securitization facility has been in place since 1996. AFC Funding Corporation had a committed facility of \$1.50 billion from a third party facility for U.S. finance receivables at December 31, 2016. The agreement expires on January 31, 2020.

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

Competition

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

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

Seasonality

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

Vehicle and Lending Regulation

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

Environmental Regulation

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

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

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

Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period.

Employees

At December 31, 2016, we had a total of approximately 17,400 employees, of which approximately 12,900 were located in the U.S. and approximately 4,500 were located in Canada, Mexico and the United Kingdom. Approximately 75% of our workforce consists of full-time employees. Currently, none of our employees participate in collective bargaining agreements.

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

Available Information

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

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

Item 1A. Risk Factors

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

Risks Related to Our Business

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

Our strategy is to provide the best remarketing venue and analytical evidence for every vehicle. To execute our strategy, we are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to developing alternative marketplaces, establishing exceptional analytics capabilities, leveraging the Company's unique remarketing portfolio and data and growing the Company's buyer base. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash provided by operations (we generated \$360.8 million and \$475.0 million of cash flow from operations for the years ended December 31, 2016 and 2015, respectively), we may be unable to reinvest in our business, return capital to shareholders or reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives, if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

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

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

Cyber-security Environment

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

We are subject to cyber-threats and our information technology has been subject to cyber-attacks and we believe we will continue to be a potential target of such threats and attacks. In June 2015, we identified that unauthorized third parties had gained access to legacy servers containing archived data that would likely be considered to be personal information. We immediately investigated, including the engagement of an external expert security firm, and although we had no evidence that any information had been misused, stolen or compromised, we notified all of the individuals whose information may have been accessed and any applicable regulatory agencies. To date, this incident has not been material to our operations or financial results.

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

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

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

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

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

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

Some of our competitors may have greater financial and marketing resources than we do, may be able to respond more quickly to evolving industry dynamics and changes in customer requirements, or may be able to devote greater resources to the development, promotion and sale of new or emerging services and technologies. If we are unable to compete successfully or to successfully adapt to industry changes, our business, revenues and profitability could be materially adversely affected.

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

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

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

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

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

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

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

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

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

Acquisitions are a significant part of our growth strategy and have enabled us to further broaden and diversify our service offerings. Our strategy generally involves the acquisition and integration of additional physical auction sites, technologies and personnel. Acquisition of businesses requires substantial time and attention of management personnel and may also require additional equity or debt financings. Further, integration of newly established or acquired businesses is often disruptive. Since we have acquired or in the future may acquire one or more businesses, there can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, or will be able to successfully integrate such organizations into our business. Failure to do so could materially adversely affect our business, financial condition and results of operations. In addition, we expect to compete against other auction groups or new industry consolidators for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

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

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

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

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

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

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

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

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

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

Furthermore, online only auction platforms were utilized for the sale of approximately 26% of vehicles sold by ADESA in 2016, compared with 24% in 2015. If sellers and buyers increase the number of vehicles transacted on online only auction platforms, our revenue per vehicle will likely decline. In connection with online auctions, ADESA offers physical auctions, which allow buyers to physically inspect and compare vehicles. In addition, our cost structure includes a significant fixed cost component, including occupancy costs, that cannot be readily reduced if revenue per vehicle declines. If a shift in the percentage of used vehicles sold on online only auction platforms as compared with used vehicles sold at physical auctions occurs, and we are unable to generate new sources of revenue, our operating results and financial condition could be adversely affected.

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

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

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

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

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

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

auction declines significantly, our revenues and profitability may be adversely affected. In addition, decreases in commodity prices, such as steel and platinum, may negatively affect vehicle values and demand at salvage auctions.

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

Loss of business from, or changes in the consignment patterns of, our key customers could have a material adverse effect on our business and operating results. Generally, institutional and dealer customers make no binding long-term commitments to us regarding consignment volumes. Any such customer could reduce its overall supply of vehicles for our auctions or otherwise seek to materially change the terms of its business relationship with us at any time. Any such change could harm our business and operating results. While no single customer accounted for 10% or more of our consolidated revenues in 2016, the loss of, or material reduction in business from, our key customers could have a material adverse effect on our business and operating results.

At a segment level, approximately 80% of IAA segment's revenues derive from insurance company customers and a small number of these customers account for a large share of IAA's revenues. In 2016, approximately 40% of IAA's revenues were associated with the fees generated from the auction of salvage vehicles, including buyer fees, from its three largest insurance customers, each of which accounted for over 10%. If one or more of IAA's large customers were to significantly reduce consignments for any reason or favor competitors or new entrants, IAA may not be successful in replacing such business and IAA's profitability and operating results would be materially adversely affected.

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

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

- *Fluctuations in the supply of used vehicles.* We are dependent on the supply of used vehicles coming to auction, and our financial performance depends, in part, on conditions in the automotive industry. During the past global economic downturn and credit crisis, there was an erosion of retail demand for new and used vehicles that led many lenders to cut back on originations of new loans and leases and led to significant manufacturing capacity reductions by automakers selling vehicles in the United States and Canada. Capacity reductions could depress the number of vehicles received at auction in the future and could lead to reduced vehicles from various suppliers, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.
- *Decline in the demand for used vehicles.* We may experience a decrease in demand for used vehicles from buyers due to factors including the lack of availability of consumer credit and declines in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles at auction, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers may reduce dealer demand for used vehicles.
- *Decrease in consumer spending.* Consumer purchases of new and used vehicles may be adversely affected by economic conditions such as employment levels, wage and salary levels, trends in consumer confidence and spending, reductions in consumer net worth, interest rates, inflation, the availability of consumer credit and taxation policies. Consumer purchases in general may decline during recessions, periods of prolonged declines in the equity markets or housing markets and periods when disposable income and perceptions of consumer wealth are lower. Changes to U.S. federal tax policy may negatively affect consumer spending. In addition, the increased use of vehicle sharing and alternate methods of transportation, including autonomous vehicles, could lead to a decrease in consumer purchases of new and used vehicles and a decrease in vehicle rentals. To the extent retail and rental car company demand for new and used vehicles decreases, negatively impacting our auction volumes, our results of operations and financial position could be materially and adversely affected.
- *Volatility in the asset-backed securities market.* Volatility and disruption in the asset-backed commercial paper market could lead to a narrowing of interest rate spreads at AFC in certain periods. In addition, any volatility and disruption has affected, and could affect, AFC's cost of financing related to its securitization facility.
- *Ability to service and refinance indebtedness.* Uncertainty in the financial markets may negatively affect our ability to service our existing debt, access additional financing or to refinance our existing indebtedness on favorable terms or at all. If economic weakness exists, it may affect our cash flow from operations and results of operations, which may affect our ability to service payment obligations on our debt or to comply with our debt covenants.

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

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

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

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

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

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

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

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

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

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

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

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

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

Fluctuations between U.S. and foreign currency values may adversely affect our results of operations and financial position, particularly fluctuations with Canadian currency values. In addition, there may be tax inefficiencies in repatriating cash from Canada. Approximately 11% of our revenues were attributable to our Canadian operations for the year ended December 31, 2016. A decrease in the value of the Canadian currency relative to the U.S. dollar would reduce our profits from Canadian operations and the value of the net assets of our Canadian operations when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars. A 1% change in the average Canadian exchange rate for the year ended December 31, 2016 would have impacted net income by approximately \$0.9 million.

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

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

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

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

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

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

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

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

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

As of December 31, 2016, our total corporate debt was approximately \$2.5 billion, exclusive of liabilities related to our securitization facilities which are not secured by the general assets of KAR, and we had \$219.5 million of borrowing capacity under our senior secured credit facilities. In addition, we had related outstanding letters of credit in the aggregate amount of \$29.7 million at December 31, 2016, which would reduce the \$219.5 million available for borrowings under the credit facilities.

Our indebtedness could have important consequences including:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, debt service requirements, execution of our business strategy, acquisitions and other purposes;
- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on debt, which would reduce the funds available for other purposes, including funding future expansion;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, in government regulation and in our business by limiting our flexibility in planning for, and making it more difficult to react quickly to, changing conditions; and
- exposing us to risks inherent in interest rate fluctuations because the majority of our indebtedness is at variable rates of interest, which could result in higher interest expenses in the event of increases in interest rates.

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

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

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

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

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

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

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

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

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

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

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

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

- The acquisition and sale of used, leased, totaled and recovered theft vehicles are regulated by state or other local motor vehicle departments in each of the locations in which we operate.
- Some of the transport vehicles used at our auctions are regulated by the U.S. Department of Transportation or similar regulatory agencies in the other countries in which we operate.
- In many states and provinces, regulations require that a salvage vehicle be forever "branded" with a salvage notice in order to notify prospective purchasers of the vehicle's previous salvage status.
- Some state, provincial and local regulations limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts or scrap only.
- AFC is subject to laws in certain states and in Canada which regulate commercial lending activities and interest rates and, in certain jurisdictions, require AFC or one of its subsidiaries to be licensed.
- PWI is subject to laws, regulations and insurance licensing requirements in certain states which are applicable to the sale of vehicle service contracts.
- We are subject to various local zoning requirements with regard to the location of our auction and storage facilities, which requirements vary from location to location.

- Certain of the Company's subsidiaries are indirectly subject to the regulations of the Consumer Financial Protection Act of 2010, or the CFPA, due to their vendor relationships with financial institutions.
- PAR is subject to laws in certain states which regulate repossession administration activities and, in certain jurisdictions, require PAR to be licensed.
- We deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations.

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

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

We are partially self-insured for certain losses.

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

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

Currently, none of our employees are covered by collective bargaining agreements. If we negotiate a first-time collective bargaining agreement, we could be subject to a substantial increase in labor and benefits expenses that we may be unable to pass through to customers for some period of time, if at all.

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

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

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

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

Risks Related to Ownership of Our Common Stock

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

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

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

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

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

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

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

Future sales by us or by our existing stockholders of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. These sales also could impede our ability to raise future capital. Under our amended and restated certificate of incorporation, we are authorized to issue up to 400,000,000 shares of common stock, of which 136,639,217 shares of common stock were outstanding as of December 31, 2016. In addition, pursuant to a registration statement under the Securities Act, we have registered shares of common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of

our employees. If any of these holders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. We cannot predict the size of future sales of shares of our common stock or the effect, if any, that future sales, or the perception that such sales may occur, would have on the market price of our common stock.

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

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

These provisions include:

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

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

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

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We are not required to declare cash dividends on our common stock. Future dividend decisions will be based on and affected by a variety of factors, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our Credit Agreement and AFC's securitization facilities, capital requirements and other factors that our board of directors deems relevant. Therefore, no assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

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

Repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of a share repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. There can be no assurance that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased the shares of common stock. Although our share repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness. Furthermore, the program does not obligate the Company to repurchase any dollar amount or number of shares of common stock, and may be suspended or discontinued at any time, which could cause the market price of our stock to decline.

In October 2014, our board of directors authorized a repurchase of up to \$300 million of the Company's outstanding common stock through October 28, 2016. Approximately \$227.6 million of the Company's common stock was repurchased under the October 2014 authorization. In October 2016, our board of directors authorized a repurchase of up to \$500 million of the Company's outstanding common stock through October 26, 2019. As of December 31, 2016, approximately \$80.4 million of the Company's common stock had been repurchased under the October 2016 authorization. No assurance can be given as to whether the board of directors will authorize additional shares for repurchase, which could cause the market value of our stock to decline.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

The corporate headquarters of KAR Auction Services, ADESA and AFC are located in Carmel, Indiana. The facilities are leased properties, with office space being leased in each case through 2019. At December 31, 2016, properties utilized by the ADESA business segment include 77 used vehicle auction facilities in North America, which are either owned or leased. Each auction is generally a multi-lane, drive-through facility, and may have additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles. The ADESA facilities in North America consist on average of approximately 65 acres of land per site.

IAA is headquartered in Westchester, Illinois, with office space being leased through 2027. At December 31, 2016, properties utilized by the IAA business segment include 172 salvage vehicle auction facilities in the United States and Canada, most of which are leased. IAA also includes HBC, which operates from 11 locations in the United Kingdom. Salvage auctions are generally smaller than used vehicle auctions in terms of acreage and building size and some locations share facilities with ADESA. The IAA North American properties are used primarily for auction and storage purposes consisting on average of approximately 30 acres of land per site.

Of AFC's 126 locations in North America at December 31, 2016, 91 are physically located at auction facilities (including 60 at ADESA and 14 at IAA). Each of the remaining AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its branches.

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

Item 3. Legal Proceedings

We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Such litigation is generally not, in the opinion of management, likely to have a material adverse effect on our financial condition, results of operations or cash flows. Legal and regulatory proceedings which could be material are discussed below.

IAA—Lower Duwamish Waterway

Since June 2004, IAA has operated a branch on property it leases in Tukwila, Washington just south of Seattle. The property is located adjacent to a Superfund site known as the Lower Duwamish Waterway Superfund Site ("LDW Site"). The LDW Site had been designated a Superfund site in 2001, three years prior to IAA's tenancy. On March 25, 2008, the United States Environmental Protection Agency, or the "EPA," issued IAA a General Notice of Potential Liability, or "General Notice," pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act, or "CERCLA," related to the LDW Site. On November 7, 2012, the EPA issued IAA a Second General Notice of Potential Liability, or "Second General Notice," for the LDW Site. The EPA's website indicates that the EPA has issued general notice letters to approximately 116 entities, and has issued Section 104(e) Requests to more than 300 entities related to the LDW Site. In the General Notice and Second General Notice, the EPA informed IAA that the EPA believes IAA may be a Potentially Responsible Party, or "PRP," but the EPA did not specify the factual basis for this assertion. At this time, the EPA still has not specified the factual basis for this assertion and has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. Four PRPs, The Boeing Company, the City of Seattle, the Port of Seattle and King County - the Lower Duwamish Waterway Group ("LDWG"), have funded a remedial investigation and feasibility study related to the cleanup of the LDW Site. In December 2014, the EPA issued a Record of Decision (ROD), detailing the final cleanup plan for the LDW Site. The ROD estimates the cost of cleanup to be \$342 million, with the plan involving dredging of 105 acres, capping 24 acres, and enhanced natural recovery of 48 acres. The estimated length of the cleanup is 17 years, including 7 years of active remediation, and 10 years of monitored natural recovery. IAA is aware that certain authorities may bring natural resource damage claims against PRPs. On February 11, 2016, IAA received a Notice of Intent letter from the United States National Oceanic and Atmospheric Administration informing IAA that the Elliott Bay Trustee Council are beginning to conduct an injury assessment for natural resource damages in the LDW. The Notice of Intent indicates that the decision of the trustees to proceed with this natural resources injury assessment followed a pre-assessment screen performed by the trustees. More recently, in a letter dated August 16, 2016, EPA issued a status update to the PRPs at the LDW Site. The letter stated that EPA expects the bulk of the pre-remedial design work currently being performed by the LDWG to be completed by the beginning of 2018, with the Remedial Design/Remedial Action ("RD/RA") phase to follow. EPA expects to initiate RD/RA negotiations with all PRPs beginning in early 2018. At this time, however, the Company does not have adequate information to determine IAA's responsibility, if any, for contamination at this site, or to estimate IAA's loss as a result of this potential liability.

In addition, the Washington State Department of Ecology ("Ecology") is working with the EPA in relation to the LDW Site, primarily to investigate and address sources of potential contamination contributing to the LDW Site. In 2007, IAA installed a stormwater capture and filtration system designed to treat sources of potential contamination before discharge to the LDW site. The immediate-past property owner, the former property owner and IAA have had discussions with Ecology concerning possible source control measures, including an investigation of the water and soils entering the stormwater system, an analysis of the source of contamination identified within the system, if any, and possible repairs and upgrades to the stormwater system if required. Additional source control measures, if any, are not expected to have a material adverse effect on future recurring operating costs.

PART II

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

Market Information and Holders of Record

KAR Auction Services' common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KAR" and has been traded on the NYSE since December 11, 2009. As of February 15, 2017, there was one stockholder of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by this holder of record.

The following table sets forth the range of high and low intraday sales prices per share of common stock for each quarter during fiscal years 2016 and 2015:

	2016		2015	
	High	Low	High	Low
4th Quarter (October 1 - December 31)	\$ 44.10	\$ 38.16	\$ 38.98	\$ 35.26
3rd Quarter (July 1 - September 30)	\$ 43.91	\$ 40.23	\$ 39.87	\$ 34.70
2nd Quarter (April 1 - June 30)	\$ 41.76	\$ 35.68	\$ 38.77	\$ 35.87
1st Quarter (January 1 - March 31)	\$ 38.44	\$ 31.54	\$ 39.52	\$ 33.25

Dividend Policy

The following table presents the dividends declared per share of common stock for each quarter during fiscal years 2016 and 2015:

	2016	2015
4th Quarter (October 1 - December 31)	\$ 0.32	\$ 0.27
3rd Quarter (July 1 - September 30)	\$ 0.29	\$ 0.27
2nd Quarter (April 1 - June 30)	\$ 0.29	\$ 0.27
1st Quarter (January 1 - March 31)	\$ 0.29	\$ 0.27

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

Issuer Purchases of Equity Securities

The following table provides information about purchases by KAR Auction Services of its shares of common stock during the quarter ended December 31, 2016:

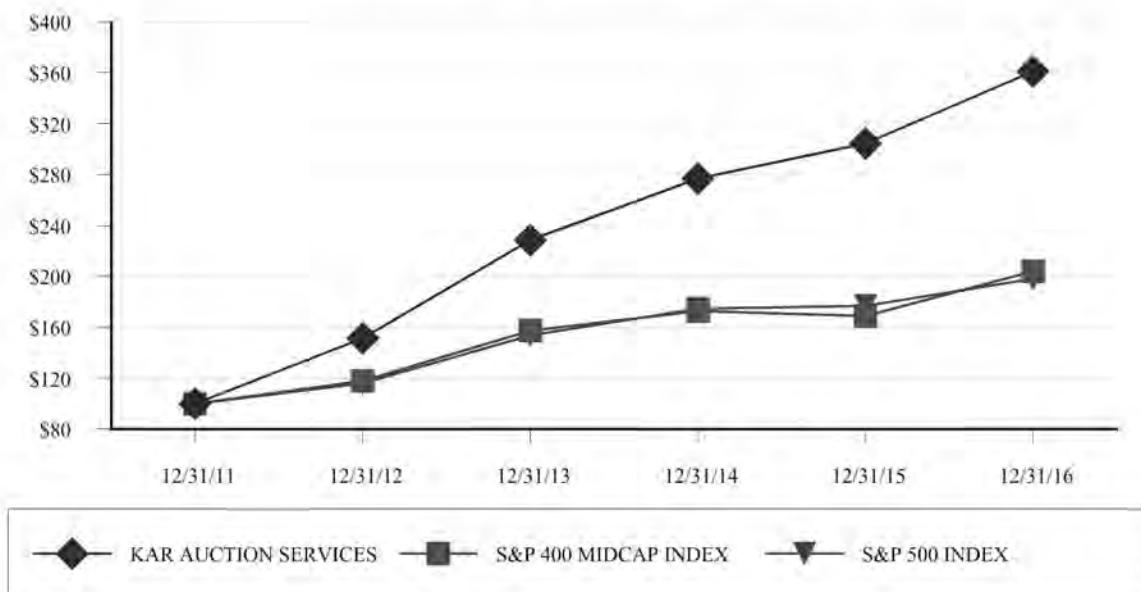
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) <i>(Dollars in millions)</i>
October 1 - October 31	—	\$ —	—	\$ 500.0
November 1 - November 30	1,131,000	41.33	1,131,000	453.3
December 1 - December 31	800,200	42.01	800,200	419.6
Total	<u>1,931,200</u>	<u>\$ 41.61</u>	<u>1,931,200</u>	

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

Stock Price Performance Graph

The graph below shows the cumulative total stockholder return, assuming an investment of \$100 and dividend reinvestment, for the period beginning on December 31, 2011 and ending on December 31, 2016, on each of KAR Auction Services' common stock, the Standard & Poor's 400 Midcap Index and the Standard and Poor's 500 Index. Our stock price performance shown in the following graph is not indicative of future stock price performance.

Comparison of Cumulative Total Return



<u>Company/Index</u>	<u>Base Period</u> <u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>
KAR Auction Services, Inc.	\$ 100	\$ 151.44	\$ 228.63	\$ 276.88	\$ 304.58	\$ 361.01
S&P 400 Midcap Index	\$ 100	\$ 117.88	\$ 157.37	\$ 172.74	\$ 168.99	\$ 204.03
S&P 500 Index	\$ 100	\$ 116.00	\$ 153.57	\$ 174.60	\$ 177.01	\$ 198.18

Item 6. Selected Financial Data

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

Selected Financial Data of KAR Auction Services For the Years Ended December 31, 2016, 2015, 2014, 2013 and 2012

The following consolidated financial data for the years ended December 31, 2016, 2015, 2014, 2013 and 2012 is based on our audited financial statements.

<i>(Dollars in millions except per share amounts)</i>	Year Ended December 31,				
	2016	2015	2014	2013	2012
Operations:					
Operating revenues					
ADESA ⁽¹⁾	\$ 1,765.3	\$ 1,427.8	\$ 1,271.0	\$ 1,165.5	\$ 1,097.2
IAA	1,098.0	994.4	895.9	830.0	716.1
AFC	286.8	268.4	250.1	224.7	193.8
Total operating revenues	\$ 3,150.1	\$ 2,690.6	\$ 2,417.0	\$ 2,220.2	\$ 2,007.1
Operating expenses (exclusive of depreciation and amortization) ⁽¹⁾	2,410.5	2,050.5	1,842.7	1,769.1	1,549.9
Operating profit	499.0	427.3	377.7	256.7	267.0
Interest expense	138.8	91.4	86.2	104.7	119.4
Net income	222.4	214.6	169.3	67.7	92.0
Net income per share					
Basic	1.62	1.53	1.21	0.49	0.67
Diluted	1.60	1.51	1.19	0.48	0.66
Weighted average shares outstanding					
Basic	137.6	140.1	140.2	137.9	136.5
Diluted	139.1	142.3	141.8	140.8	139.0
Cash dividends declared per common share	1.19	1.08	1.02	0.82	0.19

	As of December 31,				
	2016	2015	2014	2013	2012
Financial Position:					
Working capital ⁽²⁾⁽³⁾	\$ 506.2	\$ 232.2	\$ 490.2	\$ 366.0	\$ 297.6
Total assets ⁽³⁾	6,557.6	5,771.5	5,334.8	5,089.3	4,897.4
Total debt, net of unamortized debt issuance costs/discounts ⁽²⁾	2,470.3	1,865.1	1,743.5	1,738.4	1,796.5
Total stockholders' equity	1,397.3	1,386.1	1,547.1	1,481.8	1,443.7

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Other Financial Data:					
Net cash provided by operating activities	\$ 360.8	\$ 475.0	\$ 431.3	\$ 434.0	\$ 290.2
Capital expenditures	155.1	134.7	101.0	96.6	102.0
Depreciation and amortization	240.6	212.8	196.6	194.4	190.2

⁽¹⁾ Prior to 2016, the gross selling prices for certain vehicles owned and subsequently sold by ADESA were incorrectly netted against cost of services, but have been deemed immaterial. Beginning in 2016, the gross selling prices of the owned vehicles were included in revenue and costs of services, resulting in an increase to ADESA's revenue and a corresponding increase in cost of services. Prior year amounts have been revised to reflect these changes. For the years ended December

31, 2016, 2015, 2014, 2013 and 2012 “ADESA revenue” and “Cost of services” were increased by \$60.6 million, \$51.0 million, \$52.5 million, \$46.9 million and \$43.7 million, respectively. For further information, see Note 2 to the Consolidated Financial Statements, included elsewhere in this Annual Report on Form 10-K.

- ⁽²⁾ Working capital is defined as current assets less current liabilities.
- ⁽³⁾ Amounts prior to 2016 have been adjusted to reflect the adoption of ASU 2015-03. 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. For further information, see Note 2 to the Consolidated Financial Statements, included elsewhere in this Annual Report on Form 10-K.

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

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

Forward-Looking Statements

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

- our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;
- our ability to effectively maintain or update information and technology systems;
- our ability to implement and maintain measures to protect against cyber-attacks;
- significant current competition and the introduction of new competitors;
- competitive pricing pressures;
- any losses of key personnel;
- our ability to meet or exceed customers' expectations, as well as develop and implement information systems responsive to customer needs;
- business development activities, including greenfields, acquisitions and integration of acquired businesses;
- costs associated with the acquisition of businesses or technologies;
- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;
- our ability to obtain land or renew/enter into new leases at commercially reasonable rates;
- decreases in the number of used vehicles sold at physical auctions;
- changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- the ability of consumers to lease or finance the purchase of new and/or used vehicles;
- the ability to recover or collect from delinquent or bankrupt customers;
- economic conditions including fuel prices, commodity prices, foreign exchange rates and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- trends in the number of commercial vehicles being brought to auction, in particular off-lease volumes;
- changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;

- our ability to maintain our brand and protect our intellectual property;
- the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;
- weather, including increased expenses as a result of catastrophic events;
- general business conditions;
- our substantial amount of debt;
- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- litigation developments;
- our self-insurance for certain risks;
- interruptions to service from our workforce;
- any impairment to our goodwill or other intangible assets;
- changes in effective tax rates;
- changes to accounting standards; and
- other risks described from time to time in our filings with the SEC, including the Quarterly Reports on Form 10-Q to be filed by us in 2017.

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 77 whole car auction facilities in North America that are developed and strategically located to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely or in person. Through ADESA.com, powered by Openlane technology, ADESA offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies and other institutions to offer vehicles via the Internet prior to arrival at the physical auction. Vehicles at ADESA's auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, new and used vehicle dealers and vehicle manufacturers and their captive finance companies to franchise and independent used vehicle dealers. ADESA also provides value-added ancillary services including inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification, titling, administrative and collateral recovery services. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom.
- The IAA segment serves a domestic and international customer base through live and online auctions and through 172 salvage vehicle auction sites in the United States and Canada at December 31, 2016. IAA also includes HBC, which operates from 11 locations in the United Kingdom. The salvage auctions facilitate the remarketing of damaged vehicles designated as total losses by insurance companies, charity donation vehicles, recovered stolen (or theft) vehicles and low value used vehicles. The salvage auction business specializes in providing services such as inbound transportation, titling, salvage recovery and claims settlement administrative services.

- The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At December 31, 2016, AFC conducted business at 126 locations in the United States and Canada. The Company also sells vehicle service contracts through Preferred Warranties, Inc. ("PWI").

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

Industry Trends

Whole Car

Used vehicles sold in North America through whole car auctions, including online only sales, were approximately 9.2 million, 9.9 million and an estimated 10.6 million in 2014, 2015 and 2016, respectively. We expect that used vehicle auction volumes in North America, including online only volumes, will be over 10.6 million units in 2017, 2018 and 2019. Our estimates are based on information from the Bureau of Economic Analysis, IHS Automotive, Kontos Total Market Estimates, NAAA's 2015 Annual Review and management estimates. A primary driver of the anticipated improvement is more off-lease and repossessed 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 17% in 2016, 16% in 2015 and 14% in 2014. There is no central reporting system for the salvage vehicle auction industry that tracks the number of salvage vehicle auction volumes in any given year, which makes estimating industry volumes difficult.

Fluctuations in used vehicle and commodity pricing (aluminum, steel, etc.) have an impact on proceeds received in the salvage vehicle auction industry. In times of rising prices, revenue and gross profit are positively impacted. If used vehicle and commodity prices decrease, as the industry has recently experienced, proceeds, revenue and gross profit at salvage auctions may be negatively impacted, which could adversely affect the level of profitability. For example, the average price per ton of crushed auto bodies in North America decreased from \$312 in December 2013 to \$198 in December 2014 to \$115 in December 2015. This reduction in the price of crushed auto bodies has had an adverse impact on the value of salvage vehicles being sold in the salvage auction industry and resulted in reduced revenue per vehicle sold and gross profit. During 2016, the price per ton of crushed auto bodies in North America has ranged from \$109 to \$188 and finished December 2016 at \$136.

Automotive Finance

AFC works with independent used vehicle dealers to improve their results by providing a comprehensive set of business and financial solutions that leverages its local branches, industry experience and scale, as well as KAR affiliations. Over the last few years AFC's North American dealer base grew from over 9,700 dealers in 2009 to approximately 15,700 dealers in 2016 and loan transactions, which includes both loans paid off and loans curtailed, grew from approximately 800,000 in 2009 to approximately 1,718,000 in 2016. As a result of this increased activity, AFC is experiencing increased competition.

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

Seasonality

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

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.

Prior to 2016, the gross selling prices for certain vehicles owned and subsequently sold by ADESA were incorrectly netted against cost of services. Beginning in 2016, the gross selling prices of the owned vehicles were included in revenue and costs of services, resulting in an increase to ADESA's revenue and a corresponding increase in cost of services. Prior year amounts have been reclassified to reflect these changes. For further information, see Note 2 to the Consolidated Financial Statements, included elsewhere in this Annual Report on Form 10-K.

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

Results of Operations

Overview of Results of KAR Auction Services, Inc. for the Years Ended December 31, 2016 and 2015:

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

* Exclusive of depreciation and amortization

Overview

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

Depreciation and Amortization

Depreciation and amortization increased \$27.8 million, or 13%, to \$240.6 million for the year ended December 31, 2016, compared with \$212.8 million for the year ended December 31, 2015. The increase in depreciation and amortization was primarily the result of certain assets placed in service over the last twelve months and depreciation and amortization for the assets of businesses acquired in 2015 and 2016.

Interest Expense

Interest expense increased \$47.4 million, or 52%, to \$138.8 million for the year ended December 31, 2016, compared with \$91.4 million for the year ended December 31, 2015. The increase was primarily attributable to the interest associated with the new Term Loan B-3, the increase in interest rate on Term Loan B-2, as well as the interest associated with outstanding revolver borrowings. In addition, there was an increase in interest expense at AFC of \$10.0 million, which resulted from an increase in the average portfolio financed in 2016 as compared with 2015.

Loss on Extinguishment of Debt

In March 2016, we amended our Credit Agreement and recorded a \$4.0 million pretax charge resulting from the write-off of unamortized debt issue costs associated with Term Loan B-1 and unamortized debt issue costs associated with the old revolving credit facility. Additionally, in December 2016, we recorded a \$1.4 million pretax charge primarily resulting from the write-off of a portion of unamortized securitization issuance costs associated with AFC's Receivables Purchase Agreement.

Income Taxes

We had an effective tax rate of 37.4% for the year ended December 31, 2016, compared with an effective tax rate of 37.0% for the year ended December 31, 2015.

Impact of Foreign Currency

The strengthening of the U.S. dollar has impacted the reporting of our Canadian operations in U.S. dollars. For the year ended December 31, 2016, fluctuations in the Canadian exchange rate decreased revenue by \$11.9 million, operating profit by \$4.0 million, net income by \$2.3 million and net income per diluted share by \$0.02.

ADESA Results

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2016	2015
ADESA revenue	\$ 1,765.3	\$ 1,427.8
Cost of services*	1,036.5	836.9
Gross profit*	728.8	590.9
Selling, general and administrative	327.0	276.6
Depreciation and amortization	100.0	86.2
Operating profit	\$ 301.8	\$ 228.1
Vehicles sold	2,885,000	2,465,000

* Exclusive of depreciation and amortization

Note: Prior to 2016, the gross selling prices for certain vehicles owned and subsequently sold by ADESA were incorrectly netted against cost of services. At December 31, 2016, the gross selling prices of the owned vehicles were included in revenue and costs of services, resulting in an increase to ADESA's revenue and a corresponding increase in cost of services. For the year ended December 31, 2016, "ADESA revenue" and "Cost of services" have both been increased by \$60.6 million. For the year ended December 31, 2015, "ADESA revenue" and "Cost of services" have both been increased by \$51.0 million.

Revenue

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

The increase in volume sold was primarily attributable to a 22% increase in institutional volume (16% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 9% increase in dealer consignment units sold (2% decrease excluding acquisitions) for the year ended December 31, 2016 compared with the year ended December 31, 2015. Online sales volume for ADESA represented approximately 42% of the total vehicles sold in 2016, compared with approximately 40% in 2015. "Online sales" includes the following: (i) selling vehicles directly from a dealership or other interim storage location (upstream selling); (ii) online solutions that offer vehicles for sale while in transit to auction locations (midstream selling); (iii) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock®); and (iv) bulletin-board or real-time online auctions (DealerBlock®). Upstream and midstream selling represent online only sales, which accounted for approximately 63% of ADESA's online sales volume. ADESA sold approximately 743,000 and 592,000 vehicles through its online only offerings in 2016 and 2015, respectively, of which approximately 385,000 and 352,000 represented vehicle sales to grounding dealers in 2016 and 2015, respectively. For the year ended December 31, 2016, dealer consignment vehicles represented approximately 48% of used vehicles sold at ADESA physical auction locations, compared with approximately 50% for the year ended December 31, 2015. Vehicles sold at physical auction locations increased 14% (4% increase excluding acquisitions) in 2016, compared with 2015. The used vehicle conversion percentage at North American physical auction locations, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our ADESA auctions was 58.3% for the years ended December 31, 2016 and 2015.

Physical auction revenue per vehicle sold increased \$53, or 7%, to \$781 for the year ended December 31, 2016, compared with \$728 for the year ended December 31, 2015. Physical auction revenue per vehicle sold includes revenue from seller and

buyer auction fees and ancillary and other related services, which includes non-auction services and the sale of purchased vehicles. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin ancillary and other related services revenue, including revenue from certain businesses acquired, partially offset by a decrease in physical auction revenue per vehicle sold of \$4 due to fluctuations in the Canadian exchange rate. Excluding vehicles purchased, physical auction revenue per vehicle would have been \$753 and \$701 for the year ended December 31, 2016 and 2015, respectively.

Online only auction revenue per vehicle sold increased \$17 to \$124 for the year ended December 31, 2016, compared with \$107 for the year ended December 31, 2015. The increase in online only auction revenue per vehicle sold was attributable to an increase in purchased vehicles associated with the ADESA Assurance Program and an increase in the mix of cars sold in closed sales to non-grounding dealers, partially offset by a decrease in online only auction revenue per vehicle sold of \$1 due to fluctuations in the Canadian exchange rate. Excluding vehicles purchased as part of the ADESA Assurance Program, online only revenue per vehicle would have been \$110 and \$102 for the year ended December 31, 2016 and 2015, respectively.

Gross Profit

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

Selling, General and Administrative

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

IAA Results

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

* Exclusive of depreciation and amortization

Revenue

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

Gross Profit

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

Selling, General and Administrative

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

AFC Results

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

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2016, AFC revenue increased \$18.4 million, or 7%, to \$286.8 million, compared with \$268.4 million for the year ended December 31, 2015. The increase in revenue was the result of a 7% increase in loan transactions and an increase of 15% in "Other service revenue" generated by PWI, partially offset by an increase in the provision for credit losses to 1.8% of the average managed receivables for the year ended December 31, 2016. The increase in revenue and decrease in revenue per loan transaction included the impact of a decrease in revenue of \$0.6 million due to fluctuations in the Canadian exchange rate. In addition, managed receivables increased to \$1,792.2 million at December 31, 2016 from \$1,641.0 million at December 31, 2015.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased \$2, or 1%, primarily as a result of an increase in the provision for credit losses, a decrease in floorplan fee income per unit and a decrease in interest yield, partially offset by increases in average loan values, other revenue and average portfolio duration. Revenue per loan transaction excludes "Other service revenue."

The provision for credit losses has increased to 1.8% from 1.1% of the average managed receivables for the year ended December 31, 2016 compared with the year ended December 31, 2015. In the current credit environment, the provision for credit losses is expected to be approximately 1.75% to 2.25%, annually, of the average managed receivables balance. However, the actual losses in any particular quarter could deviate from this range.

Gross Profit

For the year ended December 31, 2016, gross profit for the AFC segment increased \$13.5 million, or 7%, to \$203.9 million, or 71.1% of revenue, compared with \$190.4 million, or 70.9% of revenue, for the year ended December 31, 2015, primarily as a result of a 7% increase in revenue, partially offset by a 6% increase in cost of services. The floorplan lending business gross profit margin percentage increased from 77.5% to 77.7%. The gross profit margin percentage in the warranty service contract business also improved.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased \$0.9 million, or 3%, to \$28.7 million for the year ended December 31, 2016, compared with \$27.8 million for the year ended December 31, 2015. The increase was primarily attributable to increases in stock-based compensation expense of \$0.7 million, information technology costs of \$0.7 million and other miscellaneous expenses aggregating \$0.5 million, partially offset by a decrease in incentive-based compensation of \$0.6 million and a decrease in selling, general and administrative costs at PWI of \$0.4 million.

Holding Company Results

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

Selling, General and Administrative

For the year ended December 31, 2016, selling, general and administrative expenses at the holding company increased \$23.7 million, or 24%, to \$123.2 million, compared with \$99.5 million for the year ended December 31, 2015, primarily as a result of increases in compensation expense of \$8.7 million, professional fees of \$7.5 million, stock-based compensation expense of \$3.4 million, incentive-based compensation expense of \$1.8 million, acquisition-related professional fees of \$1.7 million and other miscellaneous expenses aggregating \$2.2 million, partially offset by a decrease in medical expenses of \$1.6 million. The Company has increased Holding Company expenses to support the growing businesses of KAR. The increase in expenses relate to costs associated with talent management, technology and support of strategic initiatives.

Overview of Results of KAR Auction Services, Inc. for the Years Ended December 31, 2015 and 2014:

<i>(Dollars in millions except per share amounts)</i>	Year Ended December 31,	
	2015	2014
Revenues		
ADESA	\$ 1,427.8	\$ 1,271.0
IAA	994.4	895.9
AFC	268.4	250.1
Total revenues	2,690.6	2,417.0
Cost of services*	1,548.5	1,371.3
Gross profit*	1,142.1	1,045.7
Selling, general and administrative	502.0	471.4
Depreciation and amortization	212.8	196.6
Operating profit	427.3	377.7
Interest expense	91.4	86.2
Other income, net	(4.6)	(3.8)
Loss on extinguishment of debt	—	30.3
Income before income taxes	340.5	265.0
Income taxes	125.9	95.7
Net income	\$ 214.6	\$ 169.3
Net income per share		
Basic	\$ 1.53	\$ 1.21
Diluted	\$ 1.51	\$ 1.19

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2015, we had revenue of \$2,690.6 million compared with revenue of \$2,417.0 million for the year ended December 31, 2014, an increase of 11%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization increased \$16.2 million, or 8%, to \$212.8 million for the year ended December 31, 2015, compared with \$196.6 million for the year ended December 31, 2014. 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.

Interest Expense

Interest expense increased \$5.2 million, or 6%, to \$91.4 million for the year ended December 31, 2015, compared with \$86.2 million for the year ended December 31, 2014. The increase was primarily attributable to an increase in interest expense at AFC of \$5.5 million, which resulted from an increase in the average U.S. portfolio financed in 2015 as compared with 2014.

Loss on Extinguishment of Debt

In March 2014, we amended and restated our Credit Agreement and recorded a \$30.3 million pretax charge resulting from the write-off of unamortized debt discount and unamortized debt issue costs.

Income Taxes

We had an effective tax rate of 37.0% for the year ended December 31, 2015, compared with an effective tax rate of 36.1% for the year ended December 31, 2014. During the year ended December 31, 2014, our effective tax rate benefited from a favorable state law change as well as changes to our income tax reserves for uncertain tax positions which resulted in a net

benefit of \$3.3 million. Excluding the effect of the discrete items, our effective tax rate for the year ended December 31, 2015 and 2014 would have been 36.7% and 37.9%, respectively.

Impact of Foreign Currency

The strengthening of the U.S. dollar had a significant impact on the reporting of our Canadian operations in U.S. dollars. For the year ended December 31, 2015, fluctuations in the Canadian exchange rate decreased revenue by \$49.4 million, operating profit by \$16.0 million, net income by \$9.2 million and net income per diluted share by \$0.06.

ADESA Results

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2015	2014
ADESA revenue	\$ 1,427.8	\$ 1,271.0
Cost of services*	836.9	745.9
Gross profit*	590.9	525.1
Selling, general and administrative	276.6	259.9
Depreciation and amortization	86.2	80.2
Operating profit	\$ 228.1	\$ 185.0
Vehicles sold	2,465,000	2,198,000

* Exclusive of depreciation and amortization

Note: Prior to 2016, the gross selling prices for certain vehicles owned and subsequently sold by ADESA were incorrectly netted against cost of services. At December 31, 2016, the gross selling prices of the owned vehicles were included in revenue and costs of services, resulting in an increase to ADESA's revenue and a corresponding increase in cost of services. For the year ended December 31, 2015, "ADESA revenue" and "Cost of services" have both been increased by \$51.0 million. For the year ended December 31, 2014, "ADESA revenue" and "Cost of services" have both been increased by \$52.5 million.

Revenue

Revenue from ADESA increased \$156.8 million, or 12%, to \$1,427.8 million for the year ended December 31, 2015, compared with \$1,271.0 million for the year ended December 31, 2014. The increase in revenue was primarily a result of a 12% increase in the number of vehicles sold, as well as a 1% increase in revenue per vehicle sold, which included an increase in revenue of \$39.5 million for businesses acquired in 2015 and a decrease in revenue of \$35.9 million due to fluctuations in the Canadian exchange rate.

The increase in volume sold was primarily attributable to an increase in institutional volume, including vehicles sold on our online only platform, as well as a 7% increase in dealer consignment units sold for the year ended December 31, 2015 compared with the year ended December 31, 2014. Online sales volume for ADESA represented approximately 40% of the total vehicles sold in 2015, compared with approximately 38% in 2014. "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 592,000 and 495,000 vehicles through its online only offerings in 2015 and 2014, respectively, of which approximately 352,000 and 312,000 represented vehicle sales to grounding dealers in 2015 and 2014, respectively. For the year ended December 31, 2015 and 2014, dealer consignment vehicles represented approximately 50% and 51%, respectively, of used vehicles sold at ADESA physical auction locations. Vehicles sold at physical auction locations increased 10% in 2015, compared with 2014. The used vehicle conversion percentage at 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 58.3% for the year ended December 31, 2015, compared with 58.2% for the year ended December 31, 2014.

Physical auction revenue per vehicle sold increased \$12 or 2%, to \$728 for the year ended December 31, 2015, compared with \$716 for the year ended December 31, 2014. Physical auction revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services and the sale of purchased vehicles. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin

ancillary and other related services revenue, including revenue from certain businesses acquired, partially offset by a decrease in physical auction revenue per vehicle sold of \$18 due to fluctuations in the Canadian exchange rate. Excluding vehicles purchased, revenue per vehicle would have been \$701 and \$685 for the year ended December 31, 2015 and 2014, respectively.

Online only auction revenue per vehicle sold increased \$3 to \$107 for the year ended December 31, 2015, compared with \$104 for the year ended December 31, 2014. The increase in online only auction revenue per vehicle sold was attributable to an increase in fees per car sold, primarily due to an increase in the mix of cars sold in closed sales to non-grounding dealers, as well as an increase in the number of purchased vehicles associated with the ADESA Assurance Program, partially offset by a decrease in online only auction revenue per vehicle sold of \$3 due to fluctuations in the Canadian exchange rate.

Gross Profit

For the year ended December 31, 2015, gross profit for ADESA increased \$65.8 million, or 13%, to \$590.9 million, compared with \$525.1 million for the year ended December 31, 2014. Gross profit for ADESA was 41.4% of revenue for the year ended December 31, 2015, compared with 41.3% of revenue for the year ended December 31, 2014. The decrease in gross profit percentage for the year ended December 31, 2015, compared with the year ended December 31, 2014, was primarily the result of the 12% increase in cost of services. The increase in cost of services was primarily 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 \$16.7 million, or 6%, to \$276.6 million for the year ended December 31, 2015, compared with \$259.9 million for the year ended December 31, 2014, primarily due to increases in compensation expense of \$9.7 million, selling, general and administrative expenses associated with acquisitions of \$7.4 million, incentive-based compensation expense of \$4.9 million, acquisition-related professional fees of \$2.5 million, customer incentives and marketing related expenses of \$2.4 million, the loss on disposal of certain assets of \$2.0 million, supply expenses of \$1.6 million and travel expenses of \$1.5 million, partially offset by a decrease in stock-based compensation expense of \$9.1 million and fluctuations in the Canadian exchange rate of \$6.4 million.

IAA Results

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2015	2014
IAA revenue	\$ 994.4	\$ 895.9
Cost of services*	633.6	555.7
Gross profit*	360.8	340.2
Selling, general and administrative	98.1	98.8
Depreciation and amortization	80.8	76.2
Operating profit	\$ 181.9	\$ 165.2
Vehicles sold	1,970,000	1,732,000

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased \$98.5 million, or 11%, to \$994.4 million for the year ended December 31, 2015, compared with \$895.9 million for the year ended December 31, 2014. The increase in revenue was a result of an increase in vehicles sold of approximately 14% for the year ended December 31, 2015, partially offset by a 2% decrease in revenue per vehicle sold, which included an increase in revenue of \$25.8 million from HBC and a decrease in revenue of \$11.2 million due to fluctuations in the Canadian exchange rate. Revenue per vehicle sold was also negatively impacted by lower average auction prices due to a decrease in scrap prices and the impact of a strong U.S. dollar. IAA's total loss vehicle inventory increased approximately 14% at December 31, 2015, as compared to December 31, 2014. Vehicles sold under purchase agreements were approximately 7% of total salvage vehicles sold for the year ended December 31, 2015, compared with approximately 6% for the year ended December 31, 2014. The 1% increase in vehicles sold under purchase agreements is representative of vehicles sold by HBC. Online sales volumes for IAA for the years ended December 31, 2015 and 2014 represented over half of the total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2015, gross profit at IAA increased to \$360.8 million, or 36.3% of revenue, compared with \$340.2 million, or 38.0% of revenue, for the year ended December 31, 2014. The increase in gross profit was mainly attributable to an 11% increase in revenue, partially offset by a 14% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. For the year ended December 31, 2015, HBC had revenue of approximately \$25.8 million and cost of services of approximately \$23.5 million, as the majority of HBC's vehicles are sold under purchase contracts. HBC accounted for a 0.7% decrease in IAA's gross profit margin percentage for the year ended December 31, 2015. In addition, the reduction in gross profit on North American purchase contract vehicles accounted for a 0.6% decrease in IAA's gross profit margin percentage for the year ended December 31, 2015.

Selling, General and Administrative

Selling, general and administrative expenses at IAA decreased \$0.7 million, or 1%, to \$98.1 million for the year ended December 31, 2015, compared with \$98.8 million for the year ended December 31, 2014. The decrease in selling, general and administrative expenses was primarily attributable to decreases in stock-based compensation expense of \$5.1 million, non-income based taxes of \$1.6 million, bad debt expense of \$0.9 million, fluctuations in the Canadian exchange rate of \$0.8 million and professional fees of \$0.7 million, partially offset by increases in telecom costs and other information technology costs of \$3.6 million, the inclusion of expenses associated with HBC of \$2.2 million and compensation expense of \$2.0 million.

AFC Results

<i>(Dollars in millions except volumes and per loan amounts)</i>	Year Ended December 31,	
	2015	2014
AFC revenue		
Interest and fee income	\$ 246.8	\$ 225.0
Other revenue	9.7	11.9
Provision for credit losses	(16.0)	(12.3)
Other service revenue	27.9	25.5
Total AFC revenue	268.4	250.1
Cost of services*	78.0	69.7
Gross profit*	190.4	180.4
Selling, general and administrative	27.8	28.8
Depreciation and amortization	30.8	30.4
Operating profit	\$ 131.8	\$ 121.2
Loan transactions	1,607,000	1,445,000
Revenue per loan transaction, excluding "Other service revenue"	\$ 150	\$ 155

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2015, AFC revenue increased \$18.3 million, or 7%, to \$268.4 million, compared with \$250.1 million for the year ended December 31, 2014. The increase in revenue was the result of an 11% increase in loan transactions and an increase of 9% in "Other service revenue" generated by PWI, partially offset by a 3% decrease in revenue per loan transaction for the year ended December 31, 2015, which included the impact of a decrease in revenue of \$2.4 million, or \$1 per loan transaction, due to fluctuations in the Canadian exchange rate. In addition, managed receivables increased to \$1,641.0 million at December 31, 2015 from \$1,371.1 million at December 31, 2014.

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

Gross Profit

For the year ended December 31, 2015, gross profit for the AFC segment increased \$10.0 million, or 6%, to \$190.4 million, or 70.9% of revenue, compared with \$180.4 million, or 72.1% of revenue, for the year ended December 31, 2014, primarily as a result of a 7% increase in revenue, partially offset by a 12% increase in cost of services. The floorplan lending business gross profit margin percentage decreased from 78.5% to 77.5% as a result of lower revenue per loan transaction and increased compensation expense. The gross profit margin percentage in the warranty service contract business decreased from 15.5% to 14.8% partially as a result of costs associated with the expansion of the warranty service contract business into new markets.

Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased \$1.0 million, or 3%, to \$27.8 million for the year ended December 31, 2015, compared with \$28.8 million for the year ended December 31, 2014. The decrease was primarily attributable to a decrease in stock-based compensation expense of \$2.7 million, partially offset by increases in compensation expense, travel expense and licensing fees.

Holding Company Results

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2015	2014
Selling, general and administrative	\$ 99.5	\$ 83.9
Depreciation and amortization	15.0	9.8
Operating loss	<u>\$ (114.5)</u>	<u>\$ (93.7)</u>

Selling, General and Administrative

For the year ended December 31, 2015, selling, general and administrative expenses at the holding company increased \$15.6 million, or 19%, to \$99.5 million, compared with \$83.9 million for the year ended December 31, 2014, primarily as a result of increases in employee related benefits expense of \$5.0 million, compensation expense of \$5.1 million, acquisition-related professional fees of \$1.7 million, stock-based compensation and incentive-based compensation of \$1.3 million, other professional fees of \$1.0 million and other miscellaneous expenses aggregating \$1.5 million.

Overview of Results of KAR Auction Services, Inc. for the Three Months Ended December 31, 2016 and 2015:

<i>(Dollars in millions except per share amounts)</i>	Three Months Ended December 31,	
	2016	2015
Revenues		
ADESA	\$ 442.3	\$ 365.9
IAA	302.6	261.6
AFC	68.8	68.2
Total revenues	813.7	695.7
Cost of services*	488.3	414.3
Gross profit*	325.4	281.4
Selling, general and administrative	148.8	128.5
Depreciation and amortization	64.7	56.0
Operating profit	111.9	96.9
Interest expense	38.0	24.2
Other expense (income), net	0.3	(2.5)
Loss on extinguishment of debt	1.4	—
Income before income taxes	72.2	75.2
Income taxes	26.7	26.9
Net income	\$ 45.5	\$ 48.3
Net income per share		
Basic	\$ 0.33	\$ 0.35
Diluted	\$ 0.33	\$ 0.35

* Exclusive of depreciation and amortization

Overview

For the three months ended December 31, 2016, we had revenue of \$813.7 million compared with revenue of \$695.7 million for the three months ended December 31, 2015, an increase of 17%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Income Taxes

We had an effective tax rate of 37.0% for the three months ended December 31, 2016, compared with an effective tax rate of 35.8% for the three months ended December 31, 2015.

ADESA Results

<i>(Dollars in millions)</i>	Three Months Ended December 31,	
	2016	2015
ADESA revenue	\$ 442.3	\$ 365.9
Cost of services*	269.4	221.3
Gross profit*	172.9	144.6
Selling, general and administrative	89.2	69.3
Depreciation and amortization	27.4	22.4
Operating profit	\$ 56.3	\$ 52.9
Vehicles sold	700,000	605,000

* Exclusive of depreciation and amortization

Note: Prior to 2016, the gross selling prices for certain vehicles owned and subsequently sold by ADESA were incorrectly netted against cost of services. At December 31, 2016, the gross selling prices of the owned vehicles were included in revenue and costs of services, resulting in an increase to ADESA's revenue and a corresponding increase in cost of services. For the three months ended December 31, 2016, "ADESA revenue" and "Cost of services" have both been increased by \$14.8 million. For the three months ended December 31, 2015, "ADESA revenue" and "Cost of services" have both been increased by \$13.5 million.

Revenue

Revenue from ADESA increased \$76.4 million, or 21%, to \$442.3 million for the three months ended December 31, 2016, compared with \$365.9 million for the three months ended December 31, 2015. The increase in revenue was primarily a result of a 16% increase in the number of vehicles sold (4% increase excluding acquisitions), as well as a 5% increase in revenue per vehicle sold. Businesses acquired in the last 12 months accounted for an increase in revenue of \$37.4 million.

The increase in volume sold was primarily attributable to a 21% increase in institutional volume (11% increase excluding acquisitions), including vehicles sold on our online only platform, as well as a 7% increase in dealer consignment units sold (7% decrease excluding acquisitions) for the three months ended December 31, 2016 compared with the three months ended December 31, 2015. Online sales volume for ADESA represented approximately 41% of the total vehicles sold in the fourth quarter of 2016 and 2015. "Online sales" includes the following: (i) selling vehicles directly from a dealership or other interim storage location (upstream selling); (ii) online solutions that offer vehicles for sale while in transit to auction locations (midstream selling); (iii) simultaneously broadcasting video and audio of the physical auctions to online bidders (LiveBlock[®]); and (iv) bulletin-board or real-time online auctions (DealerBlock[®]). Both the upstream and midstream selling represent online only sales, which accounted for approximately 62% of ADESA's online sales volume. ADESA sold approximately 177,000 and 152,000 vehicles through its online only offerings in the fourth quarter of 2016 and 2015, respectively, of which approximately 88,000 and 80,000 represented vehicle sales to grounding dealers in the fourth quarter of 2016 and 2015, respectively. For the three months ended December 31, 2016, dealer consignment vehicles represented approximately 45% of used vehicles sold at ADESA physical auction locations, compared with approximately 49% for the three months ended December 31, 2015. Vehicles sold at physical auction locations increased 15% (no increase excluding acquisitions) in the fourth quarter of 2016, compared with the fourth 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, decreased to 54.7% for the three months ended December 31, 2016, compared with 56.1% for the three months ended December 31, 2015.

Physical auction revenue per vehicle sold increased \$31, or 4%, to \$801 for the three months ended December 31, 2016, compared with \$770 for the three months ended December 31, 2015. Physical auction revenue per vehicle sold includes revenue from seller and buyer auction fees and ancillary and other related services, which includes non-auction services and the sale of purchased vehicles. The increase in physical auction revenue per vehicle sold was primarily attributable to an increase in lower margin ancillary and other related services revenue. Excluding vehicles purchased, physical auction revenue per vehicle would have been \$773 and \$740 for the three months ended December 31, 2016 and 2015, respectively.

Online only auction revenue per vehicle sold increased \$18 to \$131 for the three months ended December 31, 2016, compared with \$113 for the three months ended December 31, 2015. The increase in online only auction revenue per vehicle sold was attributable to an increase in purchased vehicles associated with the ADESA Assurance Program and an increase in the mix of cars sold in closed sales to non-grounding dealers. Excluding vehicles purchased as part of the ADESA Assurance Program, online only revenue per vehicle would have been \$115 and \$105 for the three months ended December 31, 2016 and 2015, respectively.

Gross Profit

For the three months ended December 31, 2016, gross profit for ADESA increased \$28.3 million, or 20%, to \$172.9 million, compared with \$144.6 million for the three months ended December 31, 2015. Gross profit for ADESA was 39.1% of revenue for the three months ended December 31, 2016, compared with 39.5% of revenue for the three months ended December 31, 2015. The increase in gross profit for the three months ended December 31, 2016, compared with the three months ended December 31, 2015, was mainly attributable to the 16% increase in the number of vehicles sold. The decrease in gross profit percentage was primarily the result of the increase in cost of services, which was attributable to an increase in lower margin ancillary and other related services.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased \$19.9 million, or 29%, to \$89.2 million for the three months ended December 31, 2016, compared with \$69.3 million for the three months ended December 31, 2015,

primarily due to increases in selling, general and administrative expenses associated with acquisitions of \$8.4 million, bad debt expense of \$4.4 million, compensation expense of \$2.9 million, information technology costs of \$1.2 million, professional fees of \$0.7 million and other miscellaneous expenses aggregating \$3.7 million, partially offset by a decrease in incentive-based compensation expense of \$1.4 million.

IAA Results

<i>(Dollars in millions)</i>	Three Months Ended December 31,	
	2016	2015
IAA revenue	\$ 302.6	\$ 261.6
Cost of services*	198.7	173.0
Gross profit*	103.9	88.6
Selling, general and administrative	25.3	25.5
Depreciation and amortization	23.5	21.7
Operating profit	\$ 55.1	\$ 41.4
Vehicles sold	610,000	517,000

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased \$41.0 million, or 16%, to \$302.6 million for the three months ended December 31, 2016, compared with \$261.6 million for the three months ended December 31, 2015, and included an increase in revenue of \$0.2 million from HBC. The increase in revenue was a result of an increase in vehicles sold of approximately 18% (18% increase excluding HBC), partially offset by a decrease in revenue per vehicle sold of approximately 2% for the three months ended December 31, 2016, including a decrease in revenue of \$2.7 million due to fluctuations in the U.K. exchange rate. IAA's North American same-store total loss vehicle inventory increased approximately 25% at December 31, 2016, as compared to December 31, 2015, in part related to recent catastrophic events. Vehicles sold under purchase agreements were approximately 6% (5% excluding HBC) and 7% (6% excluding HBC) of total salvage vehicles sold for the three months ended December 31, 2016 and 2015, respectively. Online sales volumes for IAA for the three months ended December 31, 2016 and 2015 represented approximately 60% of the total vehicles sold by IAA.

Gross Profit

For the three months ended December 31, 2016, gross profit at IAA increased to \$103.9 million, or 34.3% of revenue, compared with \$88.6 million, or 33.9% of revenue, for the three months ended December 31, 2015. The increase in gross profit was mainly attributable to a 16% increase in revenue, partially offset by a 15% increase in cost of services, which included costs associated with purchase contract vehicles and volume growth. Excluding HBC, IAA's gross profit margin was 35.1% and 34.9% for the three months ended December 31, 2016 and 2015, respectively. For the three months ended December 31, 2016 and 2015, HBC had revenue of approximately \$12.0 million and \$11.8 million, respectively, and cost of services of approximately \$10.1 million and \$10.5 million, respectively, as the majority of HBC's vehicles are sold under purchase contracts.

Selling, General and Administrative

Selling, general and administrative expenses at IAA decreased \$0.2 million, or 1%, to \$25.3 million for the three months ended December 31, 2016, compared with \$25.5 million for the three months ended December 31, 2015.

AFC Results

<i>(Dollars in millions except volumes and per loan amounts)</i>	Three Months Ended December 31,	
	2016	2015
AFC revenue		
Interest and fee income	\$ 69.6	\$ 63.9
Other revenue	2.6	2.7
Provision for credit losses	(11.7)	(5.5)
Other service revenue	8.3	7.1
Total AFC revenue	68.8	68.2
Cost of services*	20.2	20.0
Gross profit*	48.6	48.2
Selling, general and administrative	6.8	6.8
Depreciation and amortization	7.7	7.6
Operating profit	\$ 34.1	\$ 33.8
Loan transactions	417,000	408,000
Revenue per loan transaction, excluding "Other service revenue"	\$ 145	\$ 150

* Exclusive of depreciation and amortization

Revenue

For the three months ended December 31, 2016, AFC revenue increased \$0.6 million, or 1%, to \$68.8 million, compared with \$68.2 million for the three months ended December 31, 2015. The increase in revenue was the result of a 2% increase in loan transactions and an increase of 17% in "Other service revenue" generated by PWI, partially offset by a 3% decrease in revenue per loan transaction for the three months ended December 31, 2016. In addition managed receivables increased to \$1,792.2 million at December 31, 2016 from \$1,641.0 million at December 31, 2015.

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

The provision for credit losses has increased to 2.6% from 1.4% of the average managed receivables for the three months ended December 31, 2016 compared with the three months ended December 31, 2015. The provision for credit losses was 1.8% of the average managed receivables for the year ended December 31, 2016. In the current credit environment, the provision for credit losses is expected to be approximately 1.75% to 2.25%, annually, of the average managed receivables balance. However, the actual losses in any particular quarter could deviate from this range.

Gross Profit

For the three months ended December 31, 2016, gross profit for the AFC segment increased \$0.4 million to \$48.6 million, or 70.6% of revenue, compared with \$48.2 million, or 70.7% of revenue, for the three months ended December 31, 2015. The floorplan lending business gross profit margin percentage decreased from 77.3% to 76.8% as a result of lower revenue per loan transaction. The gross profit margin percentage in the warranty service contract business improved.

Selling, General and Administrative

Selling, general and administrative expenses at AFC remained consistent year over year at \$6.8 million for the three months ended December 31, 2016 and 2015. Stock-based compensation expense and information technology costs both increased \$0.2 million, offset by a decrease in incentive-based compensation of \$0.4 million.

Holding Company Results

<i>(Dollars in millions)</i>	Three Months Ended December 31,	
	2016	2015
Selling, general and administrative	\$ 27.5	\$ 26.9
Depreciation and amortization	6.1	4.3
Operating loss	\$ (33.6)	\$ (31.2)

Selling, General and Administrative

For the three months ended December 31, 2016, selling, general and administrative expenses at the holding company increased \$0.6 million, or 2%, to \$27.5 million, compared with \$26.9 million for the three months ended December 31, 2015, primarily as a result of increases in compensation expense of \$3.0 million and professional fees of \$2.0 million partially offset by a decrease in medical expenses of \$4.4 million. The Company has increased Holding Company expenses to support the growing businesses of KAR. The increase in expenses relate to costs associated with talent management, technology and support of strategic initiatives.

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.

<i>(Dollars in millions)</i>	December 31,	
	2016	2015
Cash and cash equivalents	\$ 201.8	\$ 155.0
Restricted cash	17.9	16.2
Working capital	506.2	232.2
Amounts available under Credit Facility*	219.5	110.0
Cash flow from operations for the year ended	360.8	475.0

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

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

Working Capital

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

Approximately \$98.1 million of available cash was held by our foreign subsidiaries. If the portion of funds held by our foreign subsidiaries that are considered to be permanently reinvested were to be repatriated, tax expense would need to be accrued at the U.S. statutory rate, net of any applicable foreign tax credits. Such foreign tax credits would substantially offset any U.S. taxes that would be due in the event cash held by our foreign subsidiaries was repatriated.

AFC offers short-term inventory-secured financing, also known as floorplan financing, to independent used vehicle dealers. Financing is primarily provided for terms of 30 to 90 days. AFC principally generates its funding through the sale of its receivables. The receivables sold pursuant to the securitization agreements are accounted for as secured borrowings. For further discussion of AFC's securitization arrangements, see "Securitization Facilities."

Credit Facilities

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

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

Term Loan B-2 was issued at a discount of \$2.8 million and Term Loan B-3 was issued at a discount of \$13.5 million. The discounts are being amortized using the effective interest method to interest expense over the respective terms of the loans. Both Term Loan B-2 and Term Loan B-3 are payable in quarterly installments equal to 0.25% of the original aggregate principal amounts of the term loans, respectively. Such payments commenced on June 30, 2014 for Term Loan B-2 and on June 30, 2016 for Term Loan B-3, with the balances payable at each respective maturity date. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to the net proceeds of certain debt offerings, certain asset sales and certain insurance recovery events. In addition, in accordance with the terms of the Credit Agreement, 50% of the net cash proceeds from the sale-leaseback of certain technology and capital equipment were used to prepay \$6.5 million and \$7.8 million of Term Loan B-2 and Term Loan B-3, respectively, for the year ended December 31, 2016. Each such prepayment is credited to prepay, on a pro rata basis, in order of maturity the unpaid amounts due on the first eight scheduled quarterly installments of Term Loan B-2 and Term Loan B-3 and thereafter to the remaining scheduled quarterly installments of each term loan on a pro rata basis.

As set forth in the Credit Agreement, Term Loan B-2 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.1875% (with an Adjusted LIBOR floor of 0.75% per annum), Term Loan B-3 at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.50% (with an Adjusted LIBOR floor of 0.75% per annum) and revolving loan borrowings at Adjusted LIBOR plus 2.50%. However, for specified types of borrowings, the Company may elect to make Term Loan B-2 borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.1875%, Term Loan B-3 at a Base Rate plus 2.50% and revolving loan borrowings at a Base Rate plus 1.50%. The rates on Term Loan B-2 and Term Loan B-3 were 4.19% and 4.50% at December 31, 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 December 31, 2016, \$1,082.7 million was outstanding on Term Loan B-2, \$1,339.9 million was outstanding on Term Loan B-3 and \$80.5 million was drawn on the revolving credit facility. In addition, there were related outstanding letters of credit in the aggregate amount of \$29.7 million and \$28.0 million at December 31, 2016 and December 31, 2015, respectively, which reduce the amount available for borrowings under the Credit Facility. The Company intends to repay the \$80.5 million of outstanding borrowings under the revolving credit facility within the next twelve months. Our Canadian operations also have a C\$8 million line of credit which was undrawn as of December 31, 2016. However, there were related letters of credit outstanding totaling approximately C\$0.9 million at December 31, 2016, which reduce credit available under the Canadian line of credit.

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and first priority perfected security interests in 100% of the equity interests of certain of the Company's and the Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the

Company's and the Subsidiary Guarantors' first tier foreign subsidiaries and (b) perfected first priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions.

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

Certain covenants contained within the Credit Agreement are critical to an investor's understanding of our financial liquidity, as the failure to maintain compliance with these covenants could result in a default and allow our lenders to declare all amounts borrowed immediately due and payable. The maximum consolidated senior secured leverage ratio is required to be met when there are revolving loans outstanding under our Credit Agreement. For the quarter ended December 31, 2016 the ratio could not exceed 3.75 to 1.0 and it steps down to 3.5 to 1.0 at September 30, 2017. Our actual consolidated senior secured leverage ratio, including capital lease obligations of \$51.5 million, was 3.25 to 1.0 at December 31, 2016, excluding pro forma Adjusted EBITDA for businesses acquired in the last twelve months.

In addition, the Credit Agreement contains certain financial and operational restrictions that limit our ability to pay dividends and other distributions, make certain acquisitions or investments, incur indebtedness, grant liens and sell assets. The covenants in the Credit Agreement affect our operating flexibility by, among other things, restricting our ability to incur expenses and indebtedness that could be used to grow the business, as well as to fund general corporate purposes. We were in compliance with the covenants in the Credit Agreement at December 31, 2016.

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

Securitization Facilities

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to AFC Funding Corporation. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of \$1.50 billion for U.S. finance receivables at December 31, 2016.

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

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

Agreement. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

AFC managed total finance receivables of \$1,792.2 million and \$1,641.0 million at December 31, 2016 and December 31, 2015, respectively. AFC's allowance for losses was \$12.0 million and \$9.0 million at December 31, 2016 and December 31, 2015, respectively.

As of December 31, 2016 and December 31, 2015, \$1,774.8 million and \$1,626.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the \$1,280.3 million and \$1,189.0 million of obligations collateralized by finance receivables at December 31, 2016 and December 31, 2015, respectively. There were unamortized securitization issuance costs of approximately \$19.7 million and \$12.2 million at December 31, 2016 and December 31, 2015, respectively. After the occurrence of a termination event, as defined in the U.S. securitization agreement, the banks may, and could, cause the stock of AFC Funding Corporation to be transferred to the bank facility, though as a practical matter the bank facility would look to the liquidation of the receivables under the transaction documents as their primary remedy.

Proceeds from the revolving sale of receivables to the bank facilities are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At December 31, 2016, we were in compliance with the covenants in the securitization agreements.

EBITDA and Adjusted EBITDA

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

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

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

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

	Three Months Ended December 31, 2016				
<i>(Dollars in millions)</i>	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	\$ 27.9	\$ 29.0	\$ 19.8	\$ (31.2)	\$ 45.5
Add back:					
Income taxes	16.0	16.8	12.2	(18.3)	26.7
Interest expense, net of interest income	(0.2)	—	9.4	28.7	37.9
Depreciation and amortization	27.4	23.5	7.7	6.1	64.7
Intercompany interest	9.3	9.5	(8.7)	(10.1)	—
EBITDA	80.4	78.8	40.4	(24.8)	174.8
Intercompany charges	3.1	—	—	(3.1)	—
Non-cash stock-based compensation	1.2	0.7	0.4	1.7	4.0
Loss on extinguishment of debt	—	—	1.4	—	1.4
Acquisition related costs	1.3	—	—	0.1	1.4
Securitization interest	—	—	(7.7)	—	(7.7)
Minority interest	1.1	—	—	—	1.1
Other	0.9	0.7	0.2	(0.3)	1.5
Total addbacks	7.6	1.4	(5.7)	(1.6)	1.7
Adjusted EBITDA	\$ 88.0	\$ 80.2	\$ 34.7	\$ (26.4)	\$ 176.5

	Three Months Ended December 31, 2015				
<i>(Dollars in millions)</i>	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	\$ 25.1	\$ 23.3	\$ 21.4	\$ (21.5)	\$ 48.3
Add back:					
Income taxes	13.9	11.1	13.4	(11.5)	26.9
Interest expense, net of interest income	(0.3)	—	6.9	17.2	23.8
Depreciation and amortization	22.4	21.7	7.6	4.3	56.0
Intercompany interest	12.1	9.5	(7.9)	(13.7)	—
EBITDA	73.2	65.6	41.4	(25.2)	155.0
Intercompany charges	1.9	0.1	—	(2.0)	—
Non-cash stock-based compensation	0.9	0.3	0.3	1.4	2.9
Acquisition related costs	0.6	—	0.2	0.2	1.0
Securitization interest	—	—	(5.5)	—	(5.5)
Minority interest	0.2	(1.1)	—	—	(0.9)
Other	0.8	0.7	0.3	0.2	2.0
Total addbacks	4.4	—	(4.7)	(0.2)	(0.5)
Adjusted EBITDA	\$ 77.6	\$ 65.6	\$ 36.7	\$ (25.4)	\$ 154.5

Year Ended December 31, 2016

<i>(Dollars in millions)</i>	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	\$ 156.9	\$ 101.1	\$ 88.4	\$ (124.0)	\$ 222.4
Add back:					
Income taxes	92.7	59.3	54.0	(73.1)	132.9
Interest expense, net of interest income	(0.3)	—	34.1	104.6	138.4
Depreciation and amortization	100.0	87.9	31.1	21.6	240.6
Intercompany interest	41.7	37.8	(33.8)	(45.7)	—
EBITDA	391.0	286.1	173.8	(116.6)	734.3
Intercompany charges	10.9	0.3	—	(11.2)	—
Non-cash stock-based compensation	4.6	2.6	1.8	10.1	19.1
Loss on extinguishment of debt	—	—	1.4	4.0	5.4
Acquisition related costs	4.9	0.2	0.1	3.4	8.6
Securitization interest	—	—	(28.0)	—	(28.0)
Minority interest	3.8	—	—	—	3.8
(Gain)/Loss on asset sales	1.6	0.2	—	0.6	2.4
Other	2.7	(0.5)	0.2	(0.1)	2.3
Total addbacks	28.5	2.8	(24.5)	6.8	13.6
Adjusted EBITDA	\$ 419.5	\$ 288.9	\$ 149.3	\$ (109.8)	\$ 747.9

Year Ended December 31, 2015

<i>(Dollars in millions)</i>	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	\$ 109.2	\$ 92.8	\$ 83.2	\$ (70.6)	\$ 214.6
Add back:					
Income taxes	62.3	52.4	51.3	(40.1)	125.9
Interest expense, net of interest income	0.1	—	24.1	66.6	90.8
Depreciation and amortization	86.2	80.8	30.8	15.0	212.8
Intercompany interest	49.7	37.7	(25.3)	(62.1)	—
EBITDA	307.5	263.7	164.1	(91.2)	644.1
Intercompany charges	7.9	0.7	—	(8.6)	—
Non-cash stock-based compensation	3.8	1.1	1.3	6.5	12.7
Acquisition related costs	2.7	0.1	0.2	1.8	4.8
Securitization interest	—	—	(18.7)	—	(18.7)
Minority interest	0.8	(1.4)	—	—	(0.6)
(Gain)/Loss on asset sales	3.6	(0.1)	—	—	3.5
Other	2.3	1.0	0.4	0.3	4.0
Total addbacks	21.1	1.4	(16.8)	—	5.7
Adjusted EBITDA	\$ 328.6	\$ 265.1	\$ 147.3	\$ (91.2)	\$ 649.8

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

<i>(Dollars in millions)</i>	Three Months Ended				Twelve Months Ended
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	December 31, 2016
Net income (loss)	\$ 60.7	\$ 61.8	\$ 54.4	\$ 45.5	\$ 222.4
Add back:					
Income taxes	36.7	37.7	31.8	26.7	132.9
Interest expense, net of interest income	28.7	35.7	36.1	37.9	138.4
Depreciation and amortization	56.4	59.0	60.5	64.7	240.6
EBITDA	182.5	194.2	182.8	174.8	734.3
Non-cash stock-based compensation	5.5	4.9	4.7	4.0	19.1
Loss on extinguishment of debt	4.0	—	—	1.4	5.4
Acquisition related costs	2.6	3.3	1.3	1.4	8.6
Securitization interest	(6.4)	(6.7)	(7.2)	(7.7)	(28.0)
Minority interest	0.6	1.0	1.1	1.1	3.8
(Gain)/Loss on asset sales	0.4	0.4	1.3	0.3	2.4
Other	0.3	—	0.8	1.2	2.3
Total addbacks	7.0	2.9	2.0	1.7	13.6
Adjusted EBITDA	<u>\$ 189.5</u>	<u>\$ 197.1</u>	<u>\$ 184.8</u>	<u>\$ 176.5</u>	<u>\$ 747.9</u>

Summary of Cash Flows

<i>(Dollars in millions)</i>	Year Ended December 31,	
	2016	2015
Net cash provided by (used by):		
Operating activities	\$ 360.8	\$ 475.0
Investing activities	(765.3)	(547.6)
Financing activities	453.2	94.5
Effect of exchange rate on cash	(1.9)	(19.8)
Net increase in cash and cash equivalents	<u>\$ 46.8</u>	<u>\$ 2.1</u>

Cash flow from operating activities was \$360.8 million for the year ended December 31, 2016, compared with \$475.0 million for the year ended December 31, 2015. The decrease in operating cash flow was primarily attributable to changes in operating assets and liabilities as a result of the timing of collections and the disbursement of funds to consignors for auctions held near period-ends, partially offset by a net increase in non-cash adjustments to net income and increased profitability.

Net cash used by investing activities was \$765.3 million for the year ended December 31, 2016, compared with \$547.6 million for the year ended December 31, 2015. The increase in net cash used by investing activities was primarily attributable to:

- an increase in cash used for acquisitions of approximately \$314.0 million; and
- an increase in capital expenditures of approximately \$20.4 million. For a discussion of the Company's capital expenditures, see "Capital Expenditures" below;

partially offset by:

- a decrease in the additional finance receivables held for investment of approximately \$119.5 million.

Net cash provided by financing activities was \$453.2 million for the year ended December 31, 2016, compared with \$94.5 million for the year ended December 31, 2015. The increase in net cash from financing activities was primarily attributable to:

- the debt refinancing and payment activities in the first quarter of 2016, for which the Company received approximately \$558.9 million of cash after the repayment and rollover of debt; and
- a \$147.2 million decrease in cash used for the repurchase and retirement of common stock;

partially offset by:

- a decrease in the additional obligations collateralized by finance receivables of approximately \$253.0 million; and
- an increase in payments for debt issuance costs of \$21.9 million.

Capital Expenditures

Capital expenditures for the years ended December 31, 2016 and 2015 approximated \$155.1 million and \$134.7 million, respectively. Included in the capital expenditures for the year ended December 31, 2016 was approximately \$27.4 million for the greenfield development of ADESA Chicago. Capital expenditures were funded primarily from internally generated funds. We continue to invest in our core information technology capabilities and capacity expansion. Capital expenditures are expected to be approximately \$145 million for fiscal year 2017. Anticipated capital expenditures are primarily attributable to ongoing information system projects, upkeep, improvements and expansion at vehicle auction facilities and improvements in information technology systems and infrastructure. Future capital expenditures could vary substantially based on capital project timing, the opening of new auction facilities, capital expenditures related to acquired businesses and the initiation of new information systems projects to support our business strategies.

Dividends

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

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

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

Acquisitions

The aggregate purchase price for the businesses acquired in 2016, net of cash acquired, was approximately \$433.4 million, which included estimated contingent payments with a fair value of \$1.3 million. The maximum amount of undiscounted contingent payments related to these acquisitions was approximately \$1.5 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including \$136.8 million to intangible assets, representing the fair value of acquired customer relationships of \$129.8 million, software of \$4.9 million, tradenames of \$1.8 million and non-competes of \$0.3 million, which are being amortized over their expected useful lives. The purchase accounting associated with these acquisitions is preliminary, subject to determination of working capital adjustments

and a final valuation of intangibles related to the acquisition of Flint Auto Auction. The Company does not expect adjustments to the purchase accounting will be material. The acquisitions resulted in aggregate goodwill of \$269.6 million. The goodwill is recorded in the ADESA Auctions and AFC reportable segments. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's consolidated results for the year ended December 31, 2016.

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

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

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

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

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

Contractual Obligations

The table below sets forth a summary of our contractual debt and lease obligations as of December 31, 2016. Some of the figures included in this table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal and other factors. Because these estimates and assumptions are necessarily subjective, the obligations we may actually pay in future periods could vary from those reflected in the table. The following summarizes our contractual cash obligations as of December 31, 2016 (*in millions*):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 Years	4 - 5 Years	More than 5 Years
Long-term debt					
\$300 million revolving credit facility	\$ 80.5	\$ 80.5	\$ —	\$ —	\$ —
Term Loan B-2 (a)	1,082.7	11.2	22.4	1,049.1	—
Term Loan B-3 (a)	1,339.9	13.5	27.0	27.0	1,272.4
Capital lease obligations (b)	52.5	27.2	25.1	0.2	—
Interest payments relating to long-term debt (c)	561.3	108.1	209.9	172.1	71.2
Operating leases (d)	1,118.9	121.7	220.2	182.6	594.4
Total contractual cash obligations	\$ 4,235.8	\$ 362.2	\$ 504.6	\$ 1,431.0	\$ 1,938.0

- (a) The table assumes the long-term debt is held to maturity.
- (b) We have entered into capital leases for furniture, fixtures, equipment and software. The amounts include the interest portion of the capital leases. Future capital lease obligations would change if we entered into additional capital lease agreements.
- (c) Interest payments on long-term debt are projected based on the contractual rates of the debt securities. Interest rates for the variable rate term debt instruments were held constant at rates as of December 31, 2016.
- (d) Operating leases are entered into in the normal course of business. We lease most of our auction facilities, as well as other property and equipment under operating leases. Some lease agreements contain options to renew the lease or purchase the leased property. Future operating lease obligations would change if the renewal options were exercised and/or if we entered into additional operating lease agreements.

Critical Accounting Estimates

In preparing the financial statements in accordance with U.S. generally accepted accounting principles, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex. Consequently, actual results could differ from those estimates. Accounting measurements that management believes are most critical to the reported results of our operations and financial condition include: uncollectible receivables and allowance for credit losses and doubtful accounts, goodwill and long-lived assets, self-insurance programs, legal proceedings and other loss contingencies and income taxes.

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

We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. In cases where management estimates are used, they are based on historical experience, information from third-party professionals, and various other assumptions believed to be reasonable. In addition, our most significant accounting policies are discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements for the year ended December 31, 2016, which are included in this Annual Report on Form 10-K.

Uncollectible Receivables and Allowance for Credit Losses and Doubtful Accounts

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

Due to the nature of our business, substantially all trade receivables are due from vehicle dealers, salvage buyers, institutional customers and insurance companies. We generally have possession of vehicles or vehicle titles collateralizing a significant portion of these receivables. At the auction sites, risk is mitigated through a pre-auction registration process that includes verification of identification, bank accounts, dealer license status, acceptable credit history, buying history at other auctions and the written acceptance of all of the auction's policies and procedures.

AFC controls credit risk through credit approvals, credit limits, underwriting and collateral management monitoring procedures, including over 81,000 lot audits and holding vehicle titles where permitted. The estimates are based on management's evaluation of many factors, including AFC's historical credit loss experience, the value of the underlying collateral, delinquency trends and economic conditions. The estimates are based on information available as of each reporting date. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates.

As a measure of sensitivity, if we had experienced a 10% increase in net charge-offs of trade and finance receivables for the year ended December 31, 2016, our provision for credit losses would have increased by approximately \$3.1 million in 2016.

Goodwill and Long-Lived Assets

When we acquire businesses, we estimate and recognize the fair values of tangible assets and liabilities and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The purchase accounting process requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates are based on historical experience and information obtained from the management of the acquired companies. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates.

In accordance with ASC 350, *Intangibles—Goodwill and Other*, we assess goodwill for impairment at least annually and whenever events or circumstances indicate that the carrying amount of the goodwill may be impaired. Important factors that could trigger an impairment review include significant under-performance relative to historical or projected future operating results; significant negative industry or economic trends; and our market valuation relative to our book value. In assessing goodwill, we must make assumptions regarding estimated future cash flows and earnings, changes in our business strategy and economic conditions affecting market valuations related to the fair values of our reporting units. In response to changes in

industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of or otherwise exiting businesses, which could result in an impairment of goodwill.

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

Based on our goodwill assessments, the Company has not identified a reporting unit for which the goodwill was impaired in 2016, 2015 or 2014. As a measure of sensitivity, a 10% decrease in the estimated fair value of the Company's reporting units would have had no impact on the carrying value of goodwill at the annual measurement date in 2016.

As with goodwill, we assess indefinite-lived tradenames for impairment, in accordance with ASC 350, at least annually and whenever events or circumstances indicate that the carrying amount of the indefinite-lived tradenames may be impaired. At the end of each assessment, we make a determination as to whether the tradenames still have an indefinite life.

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

Self-Insurance Programs

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers' compensation claims. We have insurance coverage that limits the exposure on individual claims. We also have insurance coverage that limits the total exposure to overall automobile, general liability and workers' compensation claims.

We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims, utilizing historical claims experience. Our calculation of self-insurance program reserves requires management to apply judgment to estimate the ultimate cost of reported claims and claims incurred but not yet reported as of the balance sheet date and the application of alternative assumptions could result in a different estimate of these liabilities. Trends in healthcare and legal costs could have a significant impact on anticipated claims. If actual claims are higher than anticipated, our reserves might be insufficient to cover the claims costs, which would have an adverse impact on the operating results in that period. As we obtain additional information that affects the assumptions and estimates we used to recognize liabilities for claims incurred in prior accounting periods, we adjust our self-insurance program reserves to reflect the revised estimates based on this additional information.

As a measure of sensitivity, a 10% change in our estimated self-insurance program reserves at December 31, 2016, would have impacted operating expenses approximately \$4.3 million.

Legal Proceedings and Other Loss Contingencies

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

estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period.

Income Taxes

All income tax amounts reflect the use of the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes, including the future tax benefits of tax net operating losses, tax credits and capital loss carryforwards. Quarterly, we evaluate the recoverability of our deferred tax assets by assessing the likelihood of sufficient future taxable income to realize our deferred tax assets. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. At December 31, 2016, we recorded a valuation allowance of \$26.4 million against tax net operating losses, tax credits and capital loss carryforwards of \$32.5 million. In the event our operating performance declines, future assessments could conclude that a larger valuation allowance will be needed to further reduce these deferred tax assets.

We operate in multiple tax jurisdictions with different tax rates and must determine the appropriate allocation of income to each of these jurisdictions. In the normal course of business, we will undergo scheduled reviews by taxing authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. Tax reviews often require an extended period of time to resolve and may result in income tax adjustments if changes to the allocation are required between jurisdictions with different tax rates.

We record our tax provision based on existing laws, experience with previous settlement agreements, the status of current IRS (or other taxing authority) examinations and management's understanding of how the tax authorities view certain relevant industry and commercial matters. In accordance with ASC 740, *Income Taxes*, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We establish reserves when we believe that certain positions may not prevail if challenged by a taxing authority. We adjust these reserves in light of changing facts and circumstances. At December 31, 2016, the balance of unrecognized tax benefits was \$14.0 million. This balance includes tax positions for which it is reasonably possible that the currently remaining unrecognized tax benefits will decrease within the next 12 months. This decrease is estimated to be in the range of \$2.0 million to \$4.0 million based on the potential outcome of the Company's tax examinations and the expiration of the statute of limitations for specific jurisdictions.

A more complete description of our income taxes is disclosed in "Note 14 – Income Taxes" of our consolidated financial statements.

Off-Balance Sheet Arrangements

As of December 31, 2016, we had no off-balance sheet arrangements pursuant to Item 303(a)(4) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

New Accounting Standards

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which addresses diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-18 will have on the consolidated financial statements.

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The update changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The new guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted beginning in annual periods beginning after December 15, 2018, including interim periods within those fiscal years. 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 will adopt ASU 2016-09 in the first quarter of 2017 and, unless offset by other factors, expects that its income tax expense will initially be lower as a result of excess tax benefits from stock-based compensation, including the expected exercise of approximately 0.4 million options that expire in 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which replaces existing lease guidance. The ASU is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with an exception for leases that meet the definition of a short-term lease. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and the ASU is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the consolidated financial statements and anticipates that the new guidance will significantly impact its consolidated financial statements, as the Company has a significant number of leases. Our current minimum commitments under non-cancelable operating leases are disclosed in Note 13. In addition, the recognition of these leases on our consolidated balance sheet would increase our net debt calculation which is included in the determination of our Consolidated Senior Secured Leverage Ratio. In this event, our Credit Agreement specifies that the covenant shall continue to be calculated as if the accounting standard had not occurred and that we could enter into negotiations to amend such provisions in the Credit Agreement so as to equitably reflect such changes with the desired result that the criteria for evaluating our financial condition would be the same after the change as if such change had not been made. We plan to amend the applicable provision in our Credit Agreement upon the adoption of ASU 2016-02.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded the revenue recognition requirements in Accounting Standards Codification 605, *Revenue Recognition*. The new guidance provides clarification on the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosures to help financial statement users better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. In accordance with the agreed upon delay, the new guidance is effective for the first annual reporting period and interim periods beginning after December 15, 2017, and will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The Company expects to use retrospective application with the cumulative effect as its transition method. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the consolidated financial statements and related disclosures. However, we have identified services such as towing, vehicle inspection reports and other pre-sale services which could result in the acceleration of revenue recognition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, United Kingdom and Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. We have not entered into any foreign exchange contracts to hedge changes in the Canadian dollar, British pound or Mexican peso. Canadian currency translation negatively affected net income by approximately \$2.3 million and \$9.2 million for the years ended December 31, 2016 and 2015, respectively. A 1% change in the average Canadian exchange rate for the year ended December 31, 2016 would have impacted net income by approximately \$0.9 million. Currency exposure of our U.K. and Mexican operations is not material to the results of operations.

Interest Rates

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

In August 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 if/when three-month LIBOR (i) exceeded 2.0% between August 19, 2015 (the effective date) and September 29, 2016 and (ii) exceeds 1.75% between September 30, 2016 and August 19, 2017 (the maturity date).

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

Taking our interest rate caps into account, a sensitivity analysis of the impact on our variable rate corporate debt instruments to a hypothetical 100 basis point increase in short-term rates (LIBOR) for the year ended December 31, 2016 would have resulted in an increase in interest expense of approximately \$21.8 million.

Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control Over Financial Reporting

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

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2016, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on our assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2016. During our assessment, we did not identify any material weaknesses in our internal control over financial reporting.

We have excluded the 2016 acquisitions from our assessment of internal control over financial reporting as of December 31, 2016 because we are continuing to integrate the acquisitions into our corporate processes. The total assets of the 2016 acquisitions represent 6.5% (of which 5.2% represents goodwill and intangibles included within the scope of the assessment) and the total revenues of the 2016 acquisitions represent 3.5% of the related consolidated financial statement amounts as of and for the year ended December 31, 2016. No potential internal control changes due to new acquisitions would be considered material to, or are reasonably likely to materially affect, our internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements for the year ended December 31, 2016, also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2016 as stated in their report included in Item 8, *Financial Statements and Supplementary Data*, of this Annual Report on Form 10-K.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer
(Principal Executive Officer)

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Chief Financial Officer
(Principal Financial and Accounting Officer)

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of KAR Auction Services, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. We also have audited the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KAR Auction Services, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, KAR Auction Services, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Management has excluded from its assessment of internal control over financial reporting as of December 31, 2016, the 2016 acquisitions' internal control over financial reporting associated with total assets of 6.5% (of which 5.2% represents goodwill and intangibles included within the scope of the assessment) and total revenues of 3.5% included in the consolidated financial statements of KAR Auction Services, Inc. and subsidiaries as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of KAR Auction Services, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of the 2016 acquisitions.

/s/ KPMG LLP

Indianapolis, Indiana
February 23, 2017

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

	Year Ended December 31,		
	2016	2015	2014
Operating revenues			
ADESA Auction Services	\$ 1,765.3	\$ 1,427.8	\$ 1,271.0
IAA Salvage Services	1,098.0	994.4	895.9
AFC	286.8	268.4	250.1
Total operating revenues	3,150.1	2,690.6	2,417.0
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	1,827.4	1,548.5	1,371.3
Selling, general and administrative	583.1	502.0	471.4
Depreciation and amortization	240.6	212.8	196.6
Total operating expenses	2,651.1	2,263.3	2,039.3
Operating profit	499.0	427.3	377.7
Interest expense	138.8	91.4	86.2
Other income, net	(0.5)	(4.6)	(3.8)
Loss on extinguishment of debt	5.4	—	30.3
Income before income taxes	355.3	340.5	265.0
Income taxes	132.9	125.9	95.7
Net income	\$ 222.4	\$ 214.6	\$ 169.3
Net income per share			
Basic	\$ 1.62	\$ 1.53	\$ 1.21
Diluted	\$ 1.60	\$ 1.51	\$ 1.19
Dividends declared per common share	\$ 1.19	\$ 1.08	\$ 1.02

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2016	2015	2014
Net income	\$ 222.4	\$ 214.6	\$ 169.3
Other comprehensive loss, net of tax			
Foreign currency translation loss	(9.1)	(38.5)	(20.3)
Unrealized loss on postretirement benefit obligation	—	(0.1)	—
Total other comprehensive loss, net of tax	(9.1)	(38.6)	(20.3)
Comprehensive income	\$ 213.3	\$ 176.0	\$ 149.0

See accompanying notes to consolidated financial statements

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

	December 31,	
	2016	2015
Assets		
<i>Current assets</i>		
Cash and cash equivalents	\$ 201.8	\$ 155.0
Restricted cash	17.9	16.2
Trade receivables, net of allowances of \$13.0 and \$6.6	682.9	511.9
Finance receivables, net of allowances \$12.0 and \$9.0	1,780.2	1,632.0
Other current assets	158.4	131.0
Total current assets	<u>2,841.2</u>	<u>2,446.1</u>
<i>Other assets</i>		
Goodwill	2,057.0	1,795.9
Customer relationships, net of accumulated amortization of \$707.8 and \$619.3	461.0	417.7
Other intangible assets, net of accumulated amortization of \$301.6 and \$258.1	320.1	310.8
Other assets	35.8	34.1
Total other assets	<u>2,873.9</u>	<u>2,558.5</u>
Property and equipment, net of accumulated depreciation of \$655.6 and \$569.6	<u>842.5</u>	<u>766.9</u>
Total assets	<u><u>\$ 6,557.6</u></u>	<u><u>\$ 5,771.5</u></u>

See accompanying notes to consolidated financial statements

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

	December 31,	
	2016	2015
Liabilities and Stockholders' Equity		
<i>Current liabilities</i>		
Accounts payable	\$ 648.5	\$ 608.4
Accrued employee benefits and compensation expenses	100.7	90.9
Accrued interest	2.2	0.8
Other accrued expenses	149.4	128.4
Income taxes payable	5.0	5.3
Dividends payable	43.7	37.2
Obligations collateralized by finance receivables	1,280.3	1,189.0
Current maturities of long-term debt	105.2	153.9
Total current liabilities	<u>2,335.0</u>	<u>2,213.9</u>
<i>Non-current liabilities</i>		
Long-term debt	2,365.1	1,711.2
Deferred income tax liabilities	291.7	300.8
Other liabilities	168.5	159.5
Total non-current liabilities	<u>2,825.3</u>	<u>2,171.5</u>
Commitments and contingencies (Note 16)		
<i>Stockholders' equity</i>		
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:		
136,639,217 (2016)		
137,795,296 (2015)	1.4	1.4
Additional paid-in capital	1,371.1	1,407.6
Retained earnings	74.1	17.3
Accumulated other comprehensive loss	(49.3)	(40.2)
Total stockholders' equity	<u>1,397.3</u>	<u>1,386.1</u>
Total liabilities and stockholders' equity	<u>\$ 6,557.6</u>	<u>\$ 5,771.5</u>

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	(Accumulated Deficit)/ Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2013	<u>139.0</u>	<u>\$ 1.4</u>	<u>\$ 1,534.0</u>	<u>\$ (72.3)</u>	<u>\$ 18.7</u>	<u>\$1,481.8</u>
Net income				169.3		169.3
Other comprehensive loss					(20.3)	(20.3)
Issuance of common stock under stock plans	2.3		27.6			27.6
Stock-based compensation expense			28.0			28.0
Excess tax benefit from stock-based compensation			4.1			4.1
Cash dividends declared to stockholders (\$1.02 per share)				(143.4)		(143.4)
Balance at December 31, 2014	<u>141.3</u>	<u>1.4</u>	<u>1,593.7</u>	<u>(46.4)</u>	<u>(1.6)</u>	<u>1,547.1</u>
Net income				214.6		214.6
Other comprehensive loss					(38.6)	(38.6)
Issuance of common stock under stock plans	1.8		22.7			22.7
Stock-based compensation expense			11.7			11.7
Excess tax benefit from stock-based compensation			7.1			7.1
Repurchase and retirement of common stock	(5.3)		(227.6)			(227.6)
Cash dividends declared to stockholders (\$1.08 per share)				(150.9)		(150.9)
Balance at December 31, 2015	<u>137.8</u>	<u>1.4</u>	<u>1,407.6</u>	<u>17.3</u>	<u>(40.2)</u>	<u>1,386.1</u>
Net income				222.4		222.4
Other comprehensive loss					(9.1)	(9.1)
Issuance of common stock under stock plans	1.5		6.6			6.6
Stock-based compensation expense			18.1			18.1
Excess tax benefit from stock-based compensation			17.2			17.2
Repurchase and retirement of common stock	(2.7)		(80.4)			(80.4)
Dividends earned under stock plans			2.0	(2.0)		—
Cash dividends declared to stockholders (\$1.19 per share)				(163.6)		(163.6)
Balance at December 31, 2016	<u>136.6</u>	<u>\$ 1.4</u>	<u>\$ 1,371.1</u>	<u>\$ 74.1</u>	<u>\$ (49.3)</u>	<u>\$1,397.3</u>

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2016	2015	2014
Operating activities			
Net income	\$ 222.4	\$ 214.6	\$ 169.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	240.6	212.8	196.6
Provision for credit losses	40.5	18.8	16.6
Deferred income taxes	(4.2)	5.0	(24.5)
Amortization of debt issuance costs	8.8	7.2	7.5
Stock-based compensation	18.1	11.7	28.0
Excess tax benefit from stock-based compensation	(17.2)	(7.1)	(4.1)
Loss (gain) on disposal of fixed assets	0.1	0.9	(0.2)
Loss on extinguishment of debt	5.4	—	30.3
Other non-cash, net	9.5	2.0	3.6
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables and other assets	(194.7)	(127.0)	(52.3)
Accounts payable and accrued expenses	31.5	136.1	60.5
Net cash provided by operating activities	360.8	475.0	431.3
Investing activities			
Net increase in finance receivables held for investment	(176.4)	(295.9)	(282.8)
Acquisition of businesses (net of cash acquired) and equity method investments	(432.1)	(118.1)	(31.9)
Purchases of property, equipment and computer software	(155.1)	(134.7)	(101.0)
Proceeds from the sale of property and equipment	—	0.3	1.1
(Increase) decrease in restricted cash	(1.7)	0.8	1.8
Net cash used by investing activities	(765.3)	(547.6)	(412.8)
Financing activities			
Net increase in book overdrafts	17.7	10.7	9.9
Net (decrease) increase in borrowings from lines of credit	(59.5)	140.0	—
Net increase in obligations collateralized by finance receivables	96.8	349.8	99.6
Proceeds from long-term debt	1,336.5	—	1,767.2
Payments for debt issuance costs/amendments	(32.8)	(10.9)	(12.3)
Payments on long-term debt	(662.6)	(21.5)	(1,785.1)
Payments on capital leases	(25.6)	(20.5)	(19.4)
Payments of contingent consideration and deferred acquisition costs	(3.6)	(1.2)	(0.2)
Initial net investment for interest rate caps	—	(2.2)	—
Issuance of common stock under stock plans	6.6	22.7	27.6
Excess tax benefit from stock-based compensation	17.2	7.1	4.1
Repurchase and retirement of common stock	(80.4)	(227.6)	—
Dividends paid to stockholders	(157.1)	(151.9)	(139.9)
Net cash provided by (used by) financing activities	453.2	94.5	(48.5)
Effect of exchange rate changes on cash	(1.9)	(19.8)	(8.7)
Net increase (decrease) in cash and cash equivalents	46.8	2.1	(38.7)
Cash and cash equivalents at beginning of period	155.0	152.9	191.6
Cash and cash equivalents at end of period	<u>\$ 201.8</u>	<u>\$ 155.0</u>	<u>\$ 152.9</u>
Cash paid for interest	\$ 124.5	\$ 79.7	\$ 75.9
Cash paid for taxes, net of refunds	\$ 121.6	\$ 129.9	\$ 102.2

See accompanying notes to consolidated financial statements

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2016, 2015 and 2014

Note 1—Organization and Other Matters

KAR Auction Services, Inc. was organized in the State of Delaware on November 9, 2006. The KAR group of companies is comprised of ADESA, Inc., Insurance Auto Auctions, Inc., Automotive Finance Corporation and additional business units.

Defined Terms

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

- "we," "us," "our" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries;
- "ADESA" or "ADESA Auctions" refer, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including Openlane, Inc. (together with Openlane, Inc.'s subsidiaries, "Openlane") and ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited"));
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries and other related entities, including PWI Holdings, Inc.;
- "Credit Agreement" refers to the Amended and Restated Credit Agreement, dated March 11, 2014, as amended on March 9, 2016, 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, as amended on November 29, 2012 and March 12, 2013, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent;
- "Credit Facility" refers to the three-year senior secured term loan B-1 facility ("Term Loan B-1"), the seven-year senior secured term loan B-2 facility ("Term Loan B-2"), the seven-year senior secured term loan B-3 facility ("Term Loan B-3"), the \$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;
- "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 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 Limited ("HBC"); and
- "KAR Auction Services" refers to KAR Auction Services, Inc. and not to its subsidiaries.

Business and Nature of Operations

As of December 31, 2016, we have a North American network of 77 ADESA whole car auction sites and 172 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom. IAA also includes HBC Vehicle Services Limited, which operates from 11 locations in the United Kingdom. Our 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

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2016, 2015 and 2014

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 126 locations throughout the United States and Canada as of December 31, 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.

Note 2—Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Business Segments

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

Derivative Instruments and Hedging Activity

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

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2016, 2015 and 2014

Foreign Currency Translation

The local currency is the functional currency for each of our foreign entities. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at average exchange rates in effect during the year. Assets and liabilities of foreign operations are translated using the exchange rates in effect at year end. Foreign currency transaction gains and losses are included in the consolidated statements of income within "Other income, net" and resulted in a loss of \$0.7 million for the year ended December 31, 2016, a loss of \$1.0 million for the year ended December 31, 2015 and a loss of \$0.3 million for the year ended December 31, 2014. Adjustments arising from the translation of net assets located outside the U.S. (gains and losses) are shown as a component of "Accumulated other comprehensive income."

Cash Equivalents

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

Restricted Cash

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

Receivables

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

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

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

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

Other Current Assets

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

Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets of businesses acquired. Goodwill is tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. ASC 350, *Intangibles—Goodwill and Other*, permits an entity to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the two-step goodwill impairment model. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2016, 2015 and 2014

value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The quantitative assessment for goodwill impairment is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with ASC 805, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Customer Relationships and Other Intangible Assets

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

Property and Equipment

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

Unamortized Debt Issuance Costs

Debt issuance costs reflect the expenditures incurred in conjunction with term loan debt, the revolving credit facility 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

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2016, 2015 and 2014

Other Assets

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

Equity Method Investments

We use the equity method to account for investments in companies when we have the ability to exercise significant influence over operating and financial policies of the investee but do not have a controlling financial interest. Our judgment regarding the level of influence over an equity method investment includes considering key factors such as our ownership interest, representation on the board of directors, participation in policy making decisions and material intercompany transactions. Under this method of accounting, the Company records its proportionate share of the net earnings or losses of the equity method investee and a corresponding increase or decrease to the investment balance, which is included in "Other assets" on the consolidated balance sheet. Based on the timing of when financial information is received from the investee, the Company records its share of net earnings or losses of such investments on a lag basis. The Company evaluates its equity method investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may not be recoverable.

Long-Lived Assets

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

Accounts Payable

Accounts payable include amounts due sellers from the proceeds of the sale of their consigned vehicles less any fees, as well as outstanding checks to sellers and vendors. Book overdrafts, representing outstanding checks in excess of funds on deposit, are recorded in "Accounts payable" and amounted to \$154.4 million and \$136.7 million at December 31, 2016 and 2015, respectively.

Self Insurance Reserves

We self-insure our employee medical benefits, as well as a portion of our automobile, general liability and workers' compensation claims. We have insurance coverage that limits the exposure on individual claims. We also have insurance coverage that limits the total exposure to overall automobile, general liability and workers' compensation claims. The cost of the insurance is expensed over the contract periods. We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims. Accrued medical benefits and workers' compensation expenses are included in "Accrued employee benefits and compensation expenses" while accrued automobile and general liability expenses are included in "Other accrued expenses."

Environmental Liabilities

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties.

Revenue Recognition

ADESA Auction Services

Revenues and the related costs are recognized when the services are performed. Auction fees from sellers and buyers are recognized upon the sale of the vehicle through the auction process. Most of the vehicles that are sold through auctions are

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
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consigned to ADESA by the seller and held at ADESA's facilities or third party locations. ADESA does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. ADESA does not record the gross selling price of the consigned vehicles sold at auction as revenue. Instead, ADESA records only its auction fees as revenue because it does not take title to the consigned vehicles, has no influence on the vehicle auction selling price agreed to by the seller and buyer at the auction and the fees that ADESA receives for its services are generally a fixed amount. Revenues from reconditioning, logistics, vehicle inspection and certification, titling, evaluation and salvage recovery services are generally recognized when the services are performed.

Subsequent to the issuance of our consolidated financial statements for the year ended December 31, 2015, we identified that the gross selling price for certain vehicles owned and subsequently sold by ADESA had been incorrectly netted against cost of services. As a result of the correction of this immaterial item, ADESA Auction Services revenue and cost of services have increased by \$51.0 million and \$52.5 million for the years ended December 31, 2015 and 2014, respectively. In addition, we have adjusted ADESA Auction Services revenue and cost of services in the applicable notes to the consolidated financial statements, including the unaudited quarterly financial data in Note 19.

IAA Salvage Services

Revenues (including vehicle sales and fee income) are generally recognized at the date the vehicles are sold at auction. Most of the vehicles that are sold through auctions are consigned to IAA by the seller and held at IAA's facilities. IAA does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. IAA does not record the gross selling price of the consigned vehicles sold at auction as revenue. Revenue not recognized at the date the vehicles are sold at auction includes annual buyer registration fees, which are recognized on a straight-line basis, and certain buyer-related fees, which are recognized when payment is received.

AFC

AFC's revenue is comprised of interest and fee income, provision for credit losses and other revenues associated with our finance receivables, as well as other service revenue. The following table summarizes the primary components of AFC's revenue:

<u>AFC Revenue (In millions)</u>	Year Ended December 31,		
	2016	2015	2014
Interest and fee income	\$ 275.1	\$ 246.8	\$ 225.0
Other revenue	10.3	9.7	11.9
Provision for credit losses	(30.7)	(16.0)	(12.3)
Other service revenue	32.1	27.9	25.5
	<u>\$ 286.8</u>	<u>\$ 268.4</u>	<u>\$ 250.1</u>

Interest and fee income

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

Other revenue

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

Other service revenue

Other service revenue represents the revenue generated by Preferred Warranties, Inc. ("PWI"). PWI, a service contract business, was acquired in June 2013. PWI receives advance payments for vehicle service contracts and unearned revenue is deferred and recognized over the terms of the contracts.

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Income Taxes

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

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

Net Income per Share

Basic net income per share is computed by dividing net income by the weighted average common shares outstanding during the year. Diluted net income per share represents net income divided by the sum of the weighted average common shares outstanding plus potential dilutive instruments related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income per share-diluted is determined through the application of the treasury stock method, whereby net proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per diluted share and performance-based restricted stock units ("PRSU") subject to performance conditions which have not yet been satisfied are excluded from the calculations.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under ASC 718, *Compensation—Stock Compensation*. We recognize all stock-based compensation as expense in the financial statements and that cost is measured as the fair value of the award at the grant date for equity-classified awards, while liability-classified awards are remeasured each reporting period at fair value. We also consider forfeitures in determining compensation expense. Additionally, in accordance with ASC 718, cash flows resulting from tax deductions from the exercise of stock options in excess of recognized compensation cost (excess tax benefits) are classified as financing cash flows.

New Accounting Standards

In November 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which addresses diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-18 will have on the consolidated financial statements.

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

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

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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 will adopt ASU 2016-09 in the first quarter of 2017 and, unless offset by other factors, expects that its income tax expense will initially be lower as a result of excess tax benefits from stock-based compensation, including the expected exercise of approximately 0.4 million options that expire in 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which replaces existing lease guidance. The ASU is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with an exception for leases that meet the definition of a short-term lease. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and the ASU is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on the consolidated financial statements and anticipates that the new guidance will significantly impact its consolidated financial statements, as the Company has a significant number of leases. Our current minimum commitments under non-cancelable operating leases are disclosed in Note 13. In addition, the recognition of these leases on our consolidated balance sheet would increase our net debt calculation which is included in the determination of our Consolidated Senior Secured Leverage Ratio. In this event, our Credit Agreement specifies that the covenant shall continue to be calculated as if the accounting standard had not occurred and that we could enter into negotiations to amend such provisions in the Credit Agreement so as to equitably reflect such changes with the desired result that the criteria for evaluating our financial condition would be the same after the change as if such change had not been made. We plan to amend the applicable provision in our Credit Agreement upon the adoption of ASU 2016-02.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded the revenue recognition requirements in ASC 605, *Revenue Recognition*. The new guidance provides clarification on the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosures to help financial statement users better understand the nature, amount, timing and uncertainty of revenue that is recognized. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year. In accordance with the agreed upon delay, the new guidance is effective for the first annual reporting period and interim periods beginning after December 15, 2017, and will require either retrospective application to each prior reporting period presented or retrospective application with the cumulative effect of initially applying the standard recognized at the date of adoption. The Company expects to use retrospective application with the cumulative effect as its transition method. The Company is currently evaluating the impact the adoption of ASU 2014-09 will have on the consolidated financial statements and related disclosures. However, we have identified services such as towing, vehicle inspection reports and other pre-sale services which could result in the acceleration of revenue recognition.

Note 3—Acquisitions and Equity Method Investment

2016 Acquisitions

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

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

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

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

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

The aggregate purchase price for the businesses acquired in 2016, net of cash acquired, was approximately \$433.4 million, which included estimated contingent payments with a fair value of \$1.3 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate \$1.5 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including \$136.8 million to intangible assets, representing the fair value of acquired customer relationships of \$129.8 million, software of \$4.9 million, tradenames of \$1.8 million and non-competes of \$0.3 million, which are being amortized over their expected useful lives. The purchase accounting associated with these acquisitions is preliminary, subject to determination of working capital adjustments and a final valuation of intangibles related to the acquisition of Flint Auto Auction. The Company does not expect adjustments to the purchase accounting will be material. The acquisitions resulted in aggregate goodwill of \$269.6 million. The goodwill is recorded in the ADESA Auctions and AFC reportable segments. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's consolidated results for the year ended December 31, 2016.

2015 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 the Company'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. AutoVIN 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 the Company's portfolio of service offerings to its customers.

In June 2015, ADESA (UK) Limited completed the acquisition of 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 U.K.'s top insurance, fleet and accident management companies. HBC conducts business using a variety of sales channels, including online auctions.

In December 2015, Impact Auto Auctions, a subsidiary of IAA, purchased the assets of Sudbury Auto Auction Ltd. ("SAA"). The purchase of SAA provides the opportunity to expand into northern Ontario.

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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 2015, net of cash acquired, was approximately \$128.0 million, which included estimated contingent payments with a fair value of \$9.9 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate \$18.6 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including \$33.3 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 acquisitions resulted in aggregate goodwill of \$92.3 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 for the year ended December 31, 2015.

Equity Method Investment

In August 2014, ADESA acquired a 50% interest in Nth Gen Software Inc. ("TradeRev") and its online vehicle remarketing system for approximately \$30 million in cash. TradeRev is an online automotive remarketing system where dealers can launch and participate in real-time vehicle auctions at any time from their mobile devices or desktop. In addition, ADESA also entered into a joint marketing agreement with TradeRev to assist in expanding its footprint in the dealer-to-dealer online space in the U.S. and Canadian markets.

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

TradeRev's results of operations are recorded on a one-month lag basis. The Company's share in the net losses of TradeRev for fiscal year 2016, 2015 and 2014 was \$3.8 million, \$0.8 million and \$0.2 million, respectively. This amount was recorded to "Other income, net" in the consolidated statements of income.

Note 4—Stock and Stock-Based Compensation Plans

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

The compensation cost that was charged against income for all stock-based compensation plans was \$18.1 million, \$11.7 million and \$28.0 million for the years ended December 31, 2016, 2015 and 2014, respectively, and the total income tax benefit recognized in the consolidated statement of income for options, PRSUs and RSUs was approximately \$6.9 million, \$4.4 million and \$10.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. We did not capitalize any stock-based compensation cost in the years ended December 31, 2016, 2015 or 2014.

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

	Year Ended December 31,		
	2016	2015	2014
PRSUs	\$ 10.3	\$ 6.1	\$ 3.5
RSUs	5.9	2.5	—
Service options	1.9	3.1	3.6
Exit options	—	—	20.9
Total stock-based compensation expense	\$ 18.1	\$ 11.7	\$ 28.0

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

We adopted the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan ("Omnibus Plan") in December 2009. The Omnibus Plan is intended to provide equity or cash-based awards to our employees. At KAR Auction Services' Annual Meeting of Stockholders in June 2014, the stockholders approved the amendment and restatement of the Omnibus Plan. As a result, the maximum number of shares that may be issued pursuant to awards under the Omnibus Plan was increased from 6.5 million to 12.5 million. The Omnibus Plan provides for the grant of options, restricted stock, stock appreciation rights, other stock-based awards and cash-based awards. The PRSU and RSU grants described below were made pursuant to the Company's Policy on Granting Equity Awards.

PRSUs

In 2016, we granted a target amount of approximately 0.3 million PRSUs to certain executive officers and management of the Company. The PRSUs vest if and to the extent that the Company's three-year operating adjusted earnings per share attains certain specified goals. The weighted average grant date fair value of the PRSUs was \$34.94 per share, which was determined using the closing price of the Company's common stock on the dates of grant.

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

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

In December 2013, we granted a target amount of approximately 0.2 million PRSUs to certain executive officers of the Company. The PRSUs vest three years from the grant date if and to the extent that the Company's total shareholder return relative to that of companies within the S&P 500 Index exceeds certain levels over the same period. The grant date fair value of the PRSUs granted in 2013 was \$32.79 per share and was developed in consultation with independent valuation specialists who used a Monte-Carlo simulation using a geometric Brownian motion based upon a risk neutral framework. Key assumptions in the valuation included the fair market value of our common stock on the date of grant, the expected volatility of our common stock over the expected term of the award and the risk-free interest rate for the expected term of the award.

As of December 31, 2016, an estimated \$8.8 million of unrecognized compensation expense related to nonvested PRSUs is expected to be recognized over a weighted average term of approximately 1.6 years. Dividend equivalents accrue on the PRSUs and are subject to the same vesting and forfeiture terms as the PRSUs.

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RSUs

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

The following table summarizes RSU activity, excluding dividend equivalents, under the Omnibus Plan for the year ended December 31, 2016:

<u>Restricted Stock Units</u>	Number	Weighted Average Grant Date Fair Value
RSUs at January 1, 2016	240,387	\$ 37.04
Granted	285,386	34.91
Vested	(82,860)	36.96
Forfeited	(25,201)	35.78
RSUs at December 31, 2016	417,712	\$ 35.67

As of December 31, 2016, there was approximately \$9.5 million of unrecognized compensation expense related to nonvested RSUs which is expected to be recognized over a weighted average term of 1.8 years.

Service Options

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

Exit Options

The outstanding exit options granted in 2010 under the Omnibus Plan contain the same vesting criteria as the exit options noted below under the KAR Auction Services, Inc. Stock Incentive Plan.

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

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

The Plan provided two types of stock options: service-related options, which were to vest ratably in four annual installments from the date of grant based upon the passage of time, and performance-related exit options, which were generally to become exercisable upon a change in equity control of our former parent company. Under the exit options, in addition to the change in equity control requirement, the number of options that vest were to be determined based on the strike price and certain performance hurdles based on our former owners and other investors' achievement of certain multiples on their original indirect equity investment in KAR Auction Services subject to a minimum internal rate of return at the time of change in equity control. All vesting criteria was subject to continued employment with our former parent company or affiliates thereof. Options were to be granted under the Plan at an exercise price of not less than the fair market value of a share of KAR Auction Services common stock on the date of grant and have a contractual life of ten years.

On December 10, 2009, in conjunction with the initial public offering, all outstanding service options became fully vested and exercisable. In addition, the vesting criteria and exercisability of the exit options were modified to become based on the price per share of our common stock, rather than vest upon the achievement of certain specified performance goals at the time of an exit event. On March 1, 2013, the board of directors approved additional amendments to the outstanding exit options that previously vested based on a 90-day average closing price of the Company's common stock being above a stated dollar amount.

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Generally, such vesting terms were amended to require that the average closing price over a period of 90 trading days be greater than a specified dollar amount to instead requiring that the closing price be greater than the specified dollar amount over a period of 20 consecutive trading days. As a result of this change, effective on March 1, 2013, approximately 1.4 million of such exit options became vested. The incremental expense related to the modification was approximately \$0.8 million.

On November 6, 2013, another modification occurred stating that upon an exit event, exercisable stock option awards would not be canceled in exchange for cash and unexercisable options would not be canceled and forfeited, as specified in the Plan. As a result of the modification, there was no incremental compensation expense for the vested service and exit options under the Plan. The fair value of the vested service and exit options immediately before and immediately after the modification both approximated the intrinsic value of the respective options. However, the modification resulted in incremental compensation expense for the unvested exit options of approximately \$32.6 million, which was recognized through December 31, 2014.

The exit options granted under the Plan and the Omnibus Plan vested as follows:

Amount Vested	Vesting Conditions	Vested & Exercisable Date
25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeded \$20.00	March 2013
An additional 25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeded \$25.00	August 2013
An additional 25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeded \$30.00	March 2014
An additional 25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeds \$35.00	March 2015

Service Options Summary

The following table summarizes service option activity under the Omnibus Plan and the Plan for the year ended December 31, 2016:

Service Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2016	2,163,329	\$ 21.66		
Granted	—	N/A		
Exercised	(429,274)	17.57		
Forfeited	(28,760)	25.66		
Canceled	(17,370)	25.87		
Outstanding at December 31, 2016	1,687,925	\$ 22.59	5.8 years	\$ 33.8
Exercisable at December 31, 2016	1,149,057	\$ 19.45	5.1 years	\$ 26.6

The intrinsic value presented in the table above represents the amount by which the market value of the underlying stock exceeds the exercise price of the option at December 31, 2016. The intrinsic value changes continuously based on the fair value of our stock. The market value is based on KAR Auction Services' closing stock price of \$42.62 on December 31, 2016. The total intrinsic value of service options exercised during the years ended December 31, 2016, 2015 and 2014 was \$9.6 million, \$11.0 million and \$12.4 million, respectively. The fair value of all vested and exercisable service options at December 31, 2016 and 2015 was \$49.0 million and \$45.1 million, respectively.

As of December 31, 2016, there was approximately \$1.8 million of unrecognized compensation expense related to nonvested service options which is expected to be recognized over a weighted average term of 1.1 years.

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Service options have been accounted for as equity awards and, as such, compensation expense was measured based on the fair value of the award at the date of grant and recognized over the four year service periods, using the straight-line attribution method. The weighted average fair value of the service options granted was \$6.37 per share for the year ended December 31, 2014. The fair value of service options granted was estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions:

Assumptions	2014
Risk-free interest rate	1.80% - 1.915%
Expected life	6.25 years
Expected volatility	30.0%
Dividend yield	3.24% - 3.45%

Risk-free interest rate—This is the yield on U.S. Treasury Securities posted at the date of grant (or date of modification) having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected life—years—This is the period of time over which the options granted are expected to remain outstanding. Options granted by KAR Auction Services have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Expected volatility—Actual changes in the market value of stock are used to calculate the volatility assumption. Based on the Company's limited time as a publicly traded company, the expected volatility used was determined based on a combination of historical volatility, the volatility of selected comparable companies and other relevant factors. An increase in the expected volatility will increase compensation expense.

Dividend yield—This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense.

Exit Options Summary

The following table summarizes exit option activity under the Omnibus Plan and the Plan for the year ended December 31, 2016:

Exit Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2016	1,808,428	\$ 11.27		
Granted	—	N/A		
Exercised	(817,152)	10.54		
Forfeited	—	N/A		
Canceled	—	N/A		
Outstanding at December 31, 2016	991,276	\$ 11.90	2.0 years	\$ 30.4
Exercisable at December 31, 2016	991,276	\$ 11.90	2.0 years	\$ 30.4

The intrinsic value presented in the table above represents the amount by which the market value of the underlying stock exceeds the exercise price of the option at December 31, 2016. The intrinsic value changes continuously based on the fair value of our stock. The market value is based on KAR Auction Services' closing stock price of \$42.62 on December 31, 2016. The total intrinsic value of exit options exercised during the years ended December 31, 2016, 2015 and 2014 was \$23.8 million, \$35.9 million and \$30.8 million, respectively. The fair value of all vested and exercisable exit options at December 31, 2016 and 2015 was \$42.2 million and \$67.0 million, respectively.

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The requisite service period and the fair value of the exit options were developed in consultation with independent valuation specialists. The original time horizons over which our stock price was projected to achieve the market conditions noted in the above tables ranged from 1.2 years to 3.9 years. As a result, compensation expense was originally recognized over the derived service periods ranging from 1.2 years to 3.9 years. In connection with the modifications in 2013, incremental compensation expense was recognized over a new derived service period which ended December 31, 2014. As of December 31, 2014, all of the compensation expense related to the exit options was recognized.

KAR Auction Services, Inc. Employee Stock Purchase Plan

A maximum of 1,000,000 shares of our common stock have been reserved for issuance under the KAR Auction Services, Inc. Employee Stock Purchase Plan ("ESPP"). At December 31, 2016, 554,576 shares remain available for purchase under the ESPP. The ESPP provides for one month offering periods with a 15% discount from the fair market value of a share on the date of purchase. In accordance with ASC 718, *Compensation—Stock Compensation*, the entire 15% purchase discount is recorded as compensation expense. A participant's combined payroll deductions and cash payments in the ESPP may not exceed \$25,000 per year.

Share Repurchase Programs

In October 2016, the board of directors authorized a repurchase of up to \$500 million of the Company's outstanding common stock, par value \$0.01 per share, through October 26, 2019. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions. As of December 31, 2016, we had repurchased and retired a total of 1,931,200 shares of common stock in the open market at a weighted average price of \$41.61 per share under the October 2016 authorization.

In October 2014, the board of directors authorized a repurchase of up to \$300 million of the Company's outstanding common stock, par value \$0.01 per share, through October 28, 2016. Repurchases were made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases was subject to market and other conditions. In 2015 we repurchased and retired a total of 744,900 shares of common stock in the open market at a weighted average price of \$37.04 per share. In 2016 we made no repurchases of common stock in the open market under the October 2014 authorization.

In August 2015, as part of the authorized program to repurchase common stock noted above, the Company entered into an accelerated share repurchase agreement under which it paid \$200 million for an initial delivery of approximately 4.6 million shares of its common stock. The initial delivery of shares represented 90% of the shares anticipated to be repurchased based on 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.

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Note 5—Net Income Per Share

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

	Year Ended December 31,		
	2016	2015	2014
Net income	\$ 222.4	\$ 214.6	\$ 169.3
Weighted average common shares outstanding	137.6	140.1	140.2
Effect of dilutive stock options and restricted stock awards	1.5	2.2	1.6
Weighted average common shares outstanding and potential common shares	139.1	142.3	141.8
Net income per share			
Basic	\$ 1.62	\$ 1.53	\$ 1.21
Diluted	\$ 1.60	\$ 1.51	\$ 1.19

Basic net income per share was calculated by dividing net income by the weighted average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income per share-diluted is determined through the application of the treasury stock method, whereby net proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per diluted share and PRSUs subject to performance conditions which have not yet been satisfied are excluded from the calculations. No options were excluded from the calculation of diluted net income per share for the years ended December 31, 2016 and 2015, respectively, and approximately 0.4 million were excluded from the calculation of diluted net income per share for the year ended December 31, 2014. In addition, approximately 0.5 million, 0.3 million, and 0.1 million PRSUs were excluded from the calculation of diluted net income per share for the years ended December 31, 2016, 2015, and 2014, respectively. Total options outstanding at December 31, 2016, 2015 and 2014 were 2.7 million, 4.0 million and 5.9 million, respectively.

Note 6—Allowance for Credit Losses and Doubtful Accounts

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

	Year Ended December 31,		
	2016	2015	2014
Allowance for Credit Losses			
Balance at beginning of period	\$ 9.0	\$ 8.0	\$ 8.0
Provision for credit losses	30.7	16.0	12.3
Recoveries	4.2	4.1	3.5
Less charge-offs	(31.9)	(19.1)	(15.8)
Balance at end of period	\$ 12.0	\$ 9.0	\$ 8.0

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

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

	Year Ended December 31,		
	2016	2015	2014
Allowance for Doubtful Accounts			
Balance at beginning of period	\$ 6.6	\$ 6.3	\$ 4.8
Provision for credit losses	9.8	2.8	4.3
Less net charge-offs	(3.4)	(2.5)	(2.8)
Balance at end of period	<u>\$ 13.0</u>	<u>\$ 6.6</u>	<u>\$ 6.3</u>

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

Note 7—Finance Receivables and Obligations Collateralized by Finance Receivables

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of \$1.50 billion for U.S. finance receivables at December 31, 2016.

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

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

In June 2015, AFC and AFC Funding Corporation entered into the Sixth Amended and Restated Receivables Purchase Agreement. The Sixth Amended and Restated 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. In addition, the definition of eligible receivables was expanded and the overcollateralization requirement was reduced. We capitalized approximately \$10.0 million of costs in connection with the Sixth Amended and Restated Receivables Purchase Agreement.

We also have an agreement for the securitization of AFCI's receivables. AFCI's committed facility is provided through a third party conduit (separate from the U.S. facility) and was C\$125 million at December 31, 2016. In December 2016, AFCI entered into the Fourth Amended and Restated Receivables Purchase Agreement (the "Canadian Receivables Purchase Agreement"). The Canadian Receivables Purchase Agreement extended the facility's maturity date from June 29, 2018 to January 31, 2020. We capitalized approximately \$0.7 million of costs in connection with the Canadian Receivables Purchase Agreement. In June 2015, AFCI entered into the Third Amended and Restated Receivables Purchase Agreement. The Third Amended and Restated Receivables Purchase Agreement increased AFCI's committed liquidity from C\$100 million to C\$125 million and extended the facility's maturity date. In addition, the definition of eligible receivables was expanded. We capitalized approximately \$0.9 million of costs in connection with the Third Amended and Restated Receivables Purchase Agreement. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

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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.

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

	December 31, 2015		
	Principal Amount of:		Net Credit
<i>(in millions)</i>	Receivables	Receivables Delinquent	Losses During 2015
Floorplan receivables	\$ 1,635.5	\$ 7.0	\$ 15.0
Other loans	5.5	—	—
Total receivables managed	\$ 1,641.0	\$ 7.0	\$ 15.0

AFC's allowance for losses was \$12.0 million and \$9.0 million at December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, \$1,774.8 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:

	December 31, 2016	December 31, 2015
Obligations collateralized by finance receivables, gross	\$ 1,300.0	\$ 1,201.2
Unamortized securitization issuance costs	(19.7)	(12.2)
Obligations collateralized by finance receivables	<u>\$ 1,280.3</u>	<u>\$ 1,189.0</u>

Proceeds from the revolving sale of receivables to the bank facilities are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At December 31, 2016, we were in compliance with the covenants in the securitization agreements.

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Note 8—Goodwill and Other Intangible Assets

Goodwill consisted of the following (*in millions*):

	ADESA Auctions	IAA	AFC	Total
Balance at December 31, 2014	\$ 962.7	\$ 523.5	\$ 219.0	\$ 1,705.2
Increase for acquisition activity	77.6	14.7	—	92.3
Other	(0.9)	(0.7)	—	(1.6)
Balance at December 31, 2015	\$ 1,039.4	\$ 537.5	\$ 219.0	\$ 1,795.9
Increase for acquisition activity	224.1	0.8	44.7	269.6
Other	(6.6)	(1.9)	—	(8.5)
Balance at December 31, 2016	\$ 1,256.9	\$ 536.4	\$ 263.7	\$ 2,057.0

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. Goodwill increased in 2016 and 2015 primarily as a result of acquisitions. A majority of the goodwill resulting from the businesses acquired in 2016 and 2015 is expected to be deductible for tax purposes. The "other" category primarily represents the impact of fluctuations in exchange rates.

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

		December 31, 2016			December 31, 2015		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships	5 - 19	\$ 1,168.8	\$ (707.8)	\$ 461.0	\$ 1,037.0	\$ (619.3)	\$ 417.7

The increase in customer relationships in 2016 was primarily related to customer relationships acquired, partially offset by the amortization of existing customer relationships, as well as changes in the Canadian exchange rate.

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

		December 31, 2016			December 31, 2015		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Tradenames	2 - Indefinite	\$ 201.1	\$ (6.9)	\$ 194.2	\$ 199.2	\$ (5.3)	\$ 193.9
Computer software & technology	3 - 13	404.8	(279.7)	125.1	354.2	(238.3)	115.9
Covenants not to compete	1 - 5	15.8	(15.0)	0.8	15.5	(14.5)	1.0
Total		<u>\$ 621.7</u>	<u>\$ (301.6)</u>	<u>\$ 320.1</u>	<u>\$ 568.9</u>	<u>\$ (258.1)</u>	<u>\$ 310.8</u>

Other intangibles increased in 2016 primarily as a result of computer software additions and acquisitions, partially offset by the amortization of existing intangibles.

Amortization expense for customer relationships and other intangibles was \$151.0 million, \$138.0 million and \$128.8 million for the years ended December 31, 2016, 2015 and 2014, respectively. Estimated amortization expense on existing intangible assets for the next five years is \$146.1 million for 2017, \$109.3 million for 2018, \$81.7 million for 2019, \$57.6 million for 2020 and \$40.7 million for 2021.

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Note 9—Property and Equipment

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

	Useful Lives (in years)	December 31,	
		2016	2015
Land		\$ 266.4	\$ 236.8
Buildings	5 - 40	244.7	217.0
Land improvements	5 - 20	167.7	149.1
Building and leasehold improvements	3 - 33	384.5	348.4
Furniture, fixtures and equipment	1 - 10	388.6	325.5
Vehicles	3 - 10	19.1	15.0
Construction in progress		27.1	44.7
		1,498.1	1,336.5
Accumulated depreciation		(655.6)	(569.6)
Property and equipment, net		\$ 842.5	\$ 766.9

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was \$89.6 million, \$74.8 million and \$67.8 million, respectively.

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

<u>Classes of Property</u>	December 31,	
	2016	2015
Furniture, fixtures and equipment	\$ 149.2	\$ 120.4
Accumulated depreciation	(94.2)	(71.3)
Capital lease assets	\$ 55.0	\$ 49.1

Note 10—Self Insurance and Retained Loss Reserves

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

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

	Year Ended December 31,		
	2016	2015	2014
Balance at beginning of period	\$ 36.1	\$ 33.3	\$ 27.8
Net payments	(76.5)	(66.3)	(55.8)
Expense	83.5	69.1	61.3
Balance at end of period	\$ 43.1	\$ 36.1	\$ 33.3

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Individual stop-loss coverage for medical benefits was \$0.5 million in 2016 and 2015. There was no aggregate policy limit for medical benefits for the Company in either year. The retention for automobile and general liability claims was \$1.0 million per occurrence and the retention for workers' compensation claims was \$0.5 million per occurrence with a \$1.0 million corridor deductible in the 2016 policy year. The retention for automobile, general liability and workers' compensation claims was \$0.5 million per occurrence with a \$1.0 million corridor deductible in the 2015 policy year. Once the \$1.0 million corridor deductible is met for workers' compensation claims, the deductible reverts back to \$0.5 million per occurrence. The aggregate policy limits for the combined automobile, general liability and workers' compensation program was \$30.4 million and \$25.0 million for the 2016 and 2015 policy years, respectively.

Note 11—Long-Term Debt

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

	Interest Rate*		Maturity	December 31,	
				2016	2015
Term Loan B-1	LIBOR	+ 2.50%	March 11, 2017	\$ —	\$ 637.2
Term Loan B-2	Adjusted LIBOR	+ 3.1875%	March 11, 2021	1,082.7	1,098.0
Term Loan B-3	Adjusted LIBOR	+ 3.50%	March 9, 2023	1,339.9	—
Revolving credit facility	Adjusted LIBOR	+ 2.50%	March 9, 2021	80.5	—
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				2,503.1	1,875.2
Unamortized debt issuance costs/discounts				(32.8)	(10.1)
Current portion of long-term debt				(105.2)	(153.9)
Long-term debt				\$ 2,365.1	\$ 1,711.2

*The interest rates presented in the table above represent the rates in place at December 31, 2016. The weighted average interest rate on our variable rate debt was 4.39% and 3.31% at December 31, 2016 and 2015, respectively.

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 the 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

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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 \$6.5 million and \$7.8 million of Term Loan B-2 and Term Loan B-3, respectively, for the year ended December 31, 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 December 31, 2016.

As set forth in the Credit Agreement, Term Loan B-2 bears interest at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.1875% (with an Adjusted LIBOR floor of 0.75% per annum), Term Loan B-3 at Adjusted LIBOR (as defined in the Credit Agreement) plus 3.50% (with an Adjusted LIBOR floor of 0.75% per annum) and revolving loan borrowings at Adjusted LIBOR plus 2.50%. However, for specified types of borrowings, the Company may elect to make Term Loan B-2 borrowings at a Base Rate (as defined in the Credit Agreement) plus 2.1875%, Term Loan B-3 at a Base Rate plus 2.50% and revolving loan borrowings at a Base Rate plus 1.50%. The rates on Term Loan B-2 and Term Loan B-3 were 4.19% and 4.50% at December 31, 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 December 31, 2016, \$80.5 million was drawn 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 December 31, 2016 and 2015, respectively, which reduce the amount available for borrowings under the respective revolving credit facility. The \$80.5 million of outstanding borrowings under the revolving credit facility have been classified as current debt as the Company intends to repay the outstanding borrowings within the next twelve months.

Original Credit Facility

On March 11, 2014, we repaid all principal outstanding and interest due under 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. The loss was a result of the write-off of certain unamortized debt issuance costs and the unamortized debt discount on Term Loan B.

Canadian Line of Credit

ADESA Canada has a C\$8 million line of credit. The line of credit bears interest at a rate equal to the Canadian prime rate plus 50 basis points. There were no borrowings under the Canadian line of credit at December 31, 2016 or 2015. There were related letters of credit outstanding totaling approximately C\$0.9 million at December 31, 2016 and 2015, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility. The line of credit is guaranteed by certain ADESA Canada companies.

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Future Principal Payments

At December 31, 2016, aggregate future principal payments on long-term debt are as follows (*in millions*):

2017	\$ 105.2
2018	24.7
2019	24.7
2020	24.7
2021	1,051.4
Thereafter	1,272.4
	\$ 2,503.1

Note 12—Financial Instruments

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

Interest Rate Risk Management

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

- In August 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 if/when three-month LIBOR (i) exceeded 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.
- 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 if/when three-month LIBOR exceeded 1.0%. The interest rate cap agreements each matured on August 16, 2015.

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

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

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

Derivatives Not Designated as Hedging Instruments	Location of Gain / (Loss) Recognized in Income on Derivatives	Amount of Gain / (Loss) Recognized in Income on Derivatives		
		Year Ended December 31,		
		2016	2015	2014
2015 Interest rate caps	Interest expense	\$ (0.7)	\$ (1.5)	N/A
2013 Interest rate caps	Interest expense	N/A	—	(0.8)

Concentrations of Credit Risk

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

Financial Instruments

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

As of December 31, 2016 and 2015, the estimated fair value of our long-term debt amounted to \$2,528.0 million and \$1,867.4 million, respectively. The estimates of fair value were based on broker-dealer quotes for our debt as of December 31, 2016 and 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 13—Leasing Agreements

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

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

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Total future minimum lease payments for non-cancelable operating and capital leases with terms in excess of one year (excluding renewal periods) as of December 31, 2016 are as follows (*in millions*):

	Operating Leases	Capital Leases
2017	\$ 121.7	\$ 27.2
2018	115.0	17.9
2019	105.2	7.2
2020	94.5	0.1
2021	88.1	0.1
Thereafter	594.4	—
	<u>\$ 1,118.9</u>	<u>\$ 52.5</u>
Less: interest portion of capital leases		0.8
Total		<u>\$ 51.7</u>

Total lease expense for the years ended December 31, 2016, 2015 and 2014 was \$134.8 million, \$115.0 million and \$108.9 million, respectively.

Note 14—Income Taxes

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

	Year Ended December 31,		
	2016	2015	2014
Income before income taxes:			
Domestic	\$ 265.8	\$ 259.5	\$ 199.3
Foreign	89.5	81.0	65.7
Total	<u>\$ 355.3</u>	<u>\$ 340.5</u>	<u>\$ 265.0</u>
Income tax expense (benefit):			
Current:			
Federal	\$ 100.1	\$ 88.6	\$ 87.0
Foreign	22.9	22.6	21.1
State	14.1	9.7	12.1
Total current provision	<u>137.1</u>	<u>120.9</u>	<u>120.2</u>
Deferred:			
Federal	(1.6)	6.5	(18.6)
Foreign	(2.4)	(1.8)	(2.2)
State	(0.2)	0.3	(3.7)
Total deferred provision	<u>(4.2)</u>	<u>5.0</u>	<u>(24.5)</u>
Income tax expense	<u>\$ 132.9</u>	<u>\$ 125.9</u>	<u>\$ 95.7</u>

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

	Year Ended December 31,		
	2016	2015	2014
Statutory rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net	2.4 %	2.1 %	3.0 %
Reserves for tax exposures	(0.2)%	0.3 %	(0.1)%
Change in valuation allowance	0.6 %	0.3 %	(0.2)%
International operations	(0.8)%	(1.2)%	(0.6)%
Other, net	0.4 %	0.5 %	(1.0)%
Effective rate	37.4 %	37.0 %	36.1 %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets. The valuation allowance as of December 31, 2016 primarily relates to net operating losses, tax credits and capital loss carryforwards that are not more likely than not to be utilized prior to their expiration.

We offset all deferred tax assets and liabilities by jurisdiction, as well as any related valuation allowance, and present them as a single non-current deferred income tax liability. Deferred tax assets (liabilities) are comprised of the following at December 31 (*in millions*):

	2016	2015
Gross deferred tax assets:		
Allowances for trade and finance receivables	\$ 9.1	\$ 5.5
Accruals and liabilities	62.6	54.1
Employee benefits and compensation	30.6	27.2
Net operating loss carryforwards	25.1	26.7
Investment basis difference	4.1	2.6
Other	11.6	9.9
Total deferred tax assets	143.1	126.0
Deferred tax asset valuation allowance	(26.4)	(21.2)
Total	116.7	104.8
Gross deferred tax liabilities:		
Property and equipment	(120.0)	(104.4)
Goodwill and intangible assets	(274.6)	(293.4)
Other	(13.8)	(7.8)
Total	(408.4)	(405.6)
Net deferred tax liabilities	\$ (291.7)	\$ (300.8)

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

2017	\$	0.3
2018		0.2
2019		0.2
2020		0.8
2021		0.8
2022 to 2036		22.8
	<u>\$</u>	<u>25.1</u>

Permanently reinvested undistributed earnings of our foreign subsidiaries were approximately \$120.3 million at December 31, 2016. Because these amounts have been or will be permanently reinvested in properties and working capital, we have not recorded the deferred taxes associated with these earnings. If the undistributed earnings of foreign subsidiaries were to be remitted, tax expense would need to be recognized at the U.S. statutory rate, net of any applicable foreign tax credits. It is not practical for us to determine the additional tax that would be incurred upon remittance of these earnings.

We made federal income tax payments, net of federal income tax refunds, of \$79.2 million, \$95.2 million and \$69.2 million in 2016, 2015 and 2014, respectively. State and foreign income taxes paid by us, net of refunds, totaled \$42.4 million, \$34.7 million and \$33.0 million in 2016, 2015 and 2014, respectively.

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

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

	December 31,	
	2016	2015
Balance at beginning of period	\$ 14.9	\$ 18.6
Increase in prior year tax positions	1.2	—
Decrease in prior year tax positions	—	(1.9)
Increase in current year tax positions	1.4	1.2
Settlements	—	—
Lapse in statute of limitations	(3.5)	(3.0)
Balance at end of period	<u>\$ 14.0</u>	<u>\$ 14.9</u>

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was \$7.8 million and \$8.2 million at December 31, 2016 and 2015, respectively.

We record interest and penalties associated with the uncertain tax positions within our provision for income taxes on the income statement. We had reserves totaling \$3.2 million and \$4.6 million in 2016 and 2015, respectively, associated with interest and penalties, net of tax.

The provision for income taxes involves management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by us. In addition, U.S. and non-U.S. tax authorities periodically review income tax returns filed by us and can raise issues regarding our filing positions, timing and amount of income or deductions and the allocation of income among the jurisdictions in which we operate. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. In the normal course of business we are subject to examination by taxing authorities in the U.S., Canada, United Kingdom and Mexico. In general, the examination of our material tax returns is completed for the years prior to 2011.

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Based on the potential outcome of the Company's tax examinations and the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the currently remaining unrecognized tax benefits will change within the next 12 months. The associated net tax impact on the reserve balance is estimated to be in the range of a \$2.0 million to \$4.0 million decrease.

Note 15—Employee Benefit Plans

401(k) Plan

We maintain a defined contribution 401(k) plan that covers substantially all U.S. employees. Participants are generally allowed to make non-forfeitable contributions up to the annual IRS limits. The Company matches 100 percent of the amounts contributed by each individual participant up to 4 percent of the participant's compensation. Participants are 100 percent vested in the Company's contributions. For the years ended December 31, 2016, 2015 and 2014 we contributed \$13.0 million, \$10.8 million and \$9.0 million, respectively.

Note 16—Commitments and Contingencies

We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including litigation and environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Legal fees are expensed as incurred.

We have accrued, as appropriate, for environmental remediation costs anticipated to be incurred at certain of our auction facilities. Liabilities for environmental matters included in "Other accrued expenses" were \$0.1 million at December 31, 2016 and 2015. No amounts have been accrued as receivables for potential reimbursement or recoveries to offset this liability.

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

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

As noted above, we are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Such litigation is generally not, in the opinion of management, likely to have a material adverse effect on our financial condition, results of operations or cash flows. Legal and regulatory proceedings which could be material are discussed below.

IAA—Lower Duwamish Waterway

Since June 2004, IAA has operated a branch on property it leases in Tukwila, Washington just south of Seattle. The property is located adjacent to a Superfund site known as the Lower Duwamish Waterway Superfund Site ("LDW Site"). The LDW Site had been designated a Superfund site in 2001, three years prior to IAA's tenancy. On March 25, 2008, the United States Environmental Protection Agency, or the "EPA," issued IAA a General Notice of Potential Liability, or "General Notice," pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental

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Response, Compensation, and Liability Act, or "CERCLA," related to the LDW Site. On November 7, 2012, the EPA issued IAA a Second General Notice of Potential Liability, or "Second General Notice," for the LDW Site. The EPA's website indicates that the EPA has issued general notice letters to approximately 116 entities, and has issued Section 104(e) Requests to more than 300 entities related to the LDW Site. In the General Notice and Second General Notice, the EPA informed IAA that the EPA believes IAA may be a Potentially Responsible Party, or "PRP," but the EPA did not specify the factual basis for this assertion. At this time, the EPA still has not specified the factual basis for this assertion and has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. Four PRPs, The Boeing Company, the City of Seattle, the Port of Seattle and King County - the Lower Duwamish Waterway Group ("LDWG"), have funded a remedial investigation and feasibility study related to the cleanup of the LDW Site. In December 2014, the EPA issued a Record of Decision (ROD), detailing the final cleanup plan for the LDW Site. The ROD estimates the cost of cleanup to be \$342 million, with the plan involving dredging of 105 acres, capping 24 acres, and enhanced natural recovery of 48 acres. The estimated length of the cleanup is 17 years, including 7 years of active remediation, and 10 years of monitored natural recovery. IAA is aware that certain authorities may bring natural resource damage claims against PRPs. On February 11, 2016, IAA received a Notice of Intent letter from the United States National Oceanic and Atmospheric Administration informing IAA that the Elliott Bay Trustee Council are beginning to conduct an injury assessment for natural resource damages in the LDW. The Notice of Intent indicates that the decision of the trustees to proceed with this natural resources injury assessment followed a pre-assessment screen performed by the trustees. More recently, in a letter dated August 16, 2016, EPA issued a status update to the PRPs at the LDW Site. The letter stated that EPA expects the bulk of the pre-remedial design work currently being performed by the LDWG to be completed by the beginning of 2018, with the Remedial Design/Remedial Action ("RD/RA") phase to follow. EPA expects to initiate RD/RA negotiations with all PRPs beginning in early 2018. At this time, however, the Company does not have adequate information to determine IAA's responsibility, if any, for contamination at this site, or to estimate IAA's loss as a result of this potential liability.

In addition, the Washington State Department of Ecology ("Ecology") is working with the EPA in relation to the LDW Site, primarily to investigate and address sources of potential contamination contributing to the LDW Site. In 2007, IAA installed a stormwater capture and filtration system designed to treat sources of potential contamination before discharge to the LDW site. The immediate-past property owner, the former property owner and IAA have had discussions with Ecology concerning possible source control measures, including an investigation of the water and soils entering the stormwater system, an analysis of the source of contamination identified within the system, if any, and possible repairs and upgrades to the stormwater system if required. Additional source control measures, if any, are not expected to have a material adverse effect on future recurring operating costs.

Note 17—Accumulated Other Comprehensive Loss

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

	December 31,	
	2016	2015
Foreign currency translation loss	\$ (49.4)	\$ (40.3)
Unrealized gain on postretirement benefit obligation, net of tax	0.1	0.1
Accumulated other comprehensive loss	\$ (49.3)	\$ (40.2)

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Notes to Consolidated Financial Statements (Continued)
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Note 18—Segment Information

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

ADESA Auctions encompasses all physical and online wholesale auctions throughout North America (U.S., Canada and Mexico). Beginning in June 2016, the ADESA Auctions segment also includes ADESA Remarketing Limited (formerly known as GRS), an online whole car vehicle remarketing business in the United Kingdom. ADESA Auctions relates to used vehicle remarketing, including auction services, remarketing, or make ready services and all are interrelated, synergistic elements along the auto remarketing chain.

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

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

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

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2016 (*in millions*):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	\$ 1,765.3	\$ 1,098.0	\$ 286.8	\$ —	\$ 3,150.1
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	1,036.5	708.0	82.9	—	1,827.4
Selling, general and administrative	327.0	104.2	28.7	123.2	583.1
Depreciation and amortization	100.0	87.9	31.1	21.6	240.6
Total operating expenses	1,463.5	900.1	142.7	144.8	2,651.1
Operating profit (loss)	301.8	197.9	144.1	(144.8)	499.0
Interest expense	0.1	—	34.1	104.6	138.8
Other (income) expense, net	(0.5)	(0.6)	—	0.6	(0.5)
Loss on extinguishment of debt	—	—	1.4	4.0	5.4
Intercompany expense (income)	52.6	38.1	(33.8)	(56.9)	—
Income (loss) before income taxes	249.6	160.4	142.4	(197.1)	355.3
Income taxes	92.7	59.3	54.0	(73.1)	132.9
Net income (loss)	\$ 156.9	\$ 101.1	\$ 88.4	\$ (124.0)	\$ 222.4
Total assets	\$ 2,898.0	\$ 1,358.9	\$ 2,213.8	\$ 86.9	\$ 6,557.6
Capital expenditures	\$ 74.8	\$ 41.1	\$ 7.3	\$ 31.9	\$ 155.1

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Notes to Consolidated Financial Statements (Continued)
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Financial information regarding our reportable segments is set forth below for the year ended December 31, 2015 (*in millions*):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	\$ 1,427.8	\$ 994.4	\$ 268.4	\$ —	\$ 2,690.6
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	836.9	633.6	78.0	—	1,548.5
Selling, general and administrative	276.6	98.1	27.8	99.5	502.0
Depreciation and amortization	86.2	80.8	30.8	15.0	212.8
Total operating expenses	1,199.7	812.5	136.6	114.5	2,263.3
Operating profit (loss)	228.1	181.9	131.8	(114.5)	427.3
Interest expense	0.7	—	24.1	66.6	91.4
Other (income) expense, net	(1.7)	(1.7)	(1.5)	0.3	(4.6)
Intercompany expense (income)	57.6	38.4	(25.3)	(70.7)	—
Income (loss) before income taxes	171.5	145.2	134.5	(110.7)	340.5
Income taxes	62.3	52.4	51.3	(40.1)	125.9
Net income (loss)	\$ 109.2	\$ 92.8	\$ 83.2	\$ (70.6)	\$ 214.6
Total assets	\$ 2,390.9	\$ 1,292.1	\$ 2,025.0	\$ 63.5	\$ 5,771.5
Capital expenditures	\$ 70.0	\$ 40.4	\$ 7.0	\$ 17.3	\$ 134.7

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2014 (*in millions*):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	\$ 1,271.0	\$ 895.9	\$ 250.1	\$ —	\$ 2,417.0
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	745.9	555.7	69.7	—	1,371.3
Selling, general and administrative	259.9	98.8	28.8	83.9	471.4
Depreciation and amortization	80.2	76.2	30.4	9.8	196.6
Total operating expenses	1,086.0	730.7	128.9	93.7	2,039.3
Operating profit (loss)	185.0	165.2	121.2	(93.7)	377.7
Interest expense	0.9	0.2	18.7	66.4	86.2
Other (income) expense, net	(2.4)	(1.6)	—	0.2	(3.8)
Loss on extinguishment of debt	—	—	—	30.3	30.3
Intercompany expense (income)	56.9	38.5	(22.7)	(72.7)	—
Income (loss) before income taxes	129.6	128.1	125.2	(117.9)	265.0
Income taxes	43.2	48.4	48.6	(44.5)	95.7
Net income (loss)	\$ 86.4	\$ 79.7	\$ 76.6	\$ (73.4)	\$ 169.3
Total assets	\$ 2,272.0	\$ 1,233.8	\$ 1,771.3	\$ 57.7	\$ 5,334.8
Capital expenditures	\$ 42.3	\$ 39.3	\$ 6.4	\$ 13.0	\$ 101.0

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Geographic Information

Our foreign operations include Canada, Mexico and the U.K. Most of our operations outside the U.S. are in Canada. Information regarding the geographic areas of our operations is set forth below (*in millions*):

	Year Ended December 31,		
	2016	2015	2014
Operating revenues			
U.S.	\$ 2,737.6	\$ 2,337.9	\$ 2,094.3
Foreign	412.5	352.7	322.7
	<u>\$ 3,150.1</u>	<u>\$ 2,690.6</u>	<u>\$ 2,417.0</u>

	December 31,	
	2016	2015
Long-lived assets		
U.S.	\$ 3,447.5	\$ 3,138.8
Foreign	268.9	186.6
	<u>\$ 3,716.4</u>	<u>\$ 3,325.4</u>

No single customer accounted for more than ten percent of our total revenues in any fiscal year presented.

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Note 19—Quarterly Financial Data (Unaudited)

Information for any one quarterly period is not necessarily indicative of the results that may be expected for the year. Revenues and cost of services shown in the tables below have been increased by the amounts for owned vehicles noted at the bottom of each of the tables. For a description of the changes, reference the “Revenue Recognition - ADESA Auction Services” section in Note 2.

2016 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	\$ 758.3	\$ 788.5	\$ 789.6	\$ 813.7
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	432.0	447.6	459.5	488.3
Selling, general, and administrative	141.1	146.9	146.3	148.8
Depreciation and amortization	56.4	59.0	60.5	64.7
Total operating expenses	629.5	653.5	666.3	701.8
Operating profit	128.8	135.0	123.3	111.9
Interest expense	28.7	35.8	36.3	38.0
Other (income) expense, net	(1.3)	(0.3)	0.8	0.3
Loss on extinguishment of debt	4.0	—	—	1.4
Income before income taxes	97.4	99.5	86.2	72.2
Income taxes	36.7	37.7	31.8	26.7
Net income	\$ 60.7	\$ 61.8	\$ 54.4	\$ 45.5
Basic net income per share of common stock	\$ 0.44	\$ 0.45	\$ 0.39	\$ 0.33
Diluted net income per share of common stock	\$ 0.44	\$ 0.44	\$ 0.39	\$ 0.33
Recorded increase in ADESA operating revenues and cost of services for owned vehicles	\$ 13.3	\$ 16.7	\$ 15.8	\$ 14.8

2015 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	\$ 645.0	\$ 671.5	\$ 678.4	\$ 695.7
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	364.7	379.7	389.8	414.3
Selling, general, and administrative	121.5	123.5	128.5	128.5
Depreciation and amortization	50.9	51.8	54.1	56.0
Total operating expenses	537.1	555.0	572.4	598.8
Operating profit	107.9	116.5	106.0	96.9
Interest expense	21.0	21.8	24.4	24.2
Other (income) expense, net	(2.2)	0.4	(0.3)	(2.5)
Income before income taxes	89.1	94.3	81.9	75.2
Income taxes	34.6	34.8	29.6	26.9
Net income	\$ 54.5	\$ 59.5	\$ 52.3	\$ 48.3
Basic net income per share of common stock	\$ 0.39	\$ 0.42	\$ 0.37	\$ 0.35
Diluted net income per share of common stock	\$ 0.38	\$ 0.41	\$ 0.37	\$ 0.35
Recorded increase in ADESA operating revenues and cost of services for owned vehicles	\$ 12.6	\$ 13.2	\$ 11.7	\$ 13.5

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

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

Internal Control over Financial Reporting

Management's report on our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the related report of KPMG LLP, our independent registered public accounting firm, are included in Item 8, Financial Statements and Supplementary Data under the headings Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm, respectively, and are incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to our directors and nominees will be included in our Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders and such information will be incorporated by reference herein. Our executive officers as of February 15, 2017, are as follows:

James P. Hallett, 63, Chief Executive Officer and Chairman of the Board of Directors. Mr. Hallett has served as the Chief Executive Officer since September 2009 and the Chairman of the Board of Directors since December 2014. Mr. Hallett served as President and Chief Executive Officer of ADESA from April 2007 to September 2009. Mr. Hallett served as: Executive Vice President of ADESA, Inc. from May 2004 to May 2005; President of ADESA Corporation, LLC from March 2004 to May 2005; President of ADESA Corporation between August 1996 and October 2001 and again between January 2003 and March 2004; Chief Executive Officer of ADESA Corporation from August 1996 to July 2003; ADESA Corporation's Chairman from October 2001 to July 2003; Chairman, President and Chief Executive Officer of ALLETE Automotive Services, Inc. from January 2001 to January 2003 and Executive Vice President from August 1996 to May 2004. Mr. Hallett left ADESA in May 2005 and thereafter served as President of the Columbus Fair Auto Auction until April 2007.

Warren W. Byrd, 54, Executive Vice President of Corporate Development and Real Estate. Mr. Byrd has been the Executive Vice President of Corporate Development and Real Estate since June 2010. Mr. Byrd previously served as the Executive Vice President of Corporate Development of ADESA from April 2007 to June 2010. From April 2004 to April 2007, Mr. Byrd was the Chief Operating Officer of ServNet Auction Group, a trade co-operative of over 20 independent auto auctions in the U.S. Mr. Byrd previously served in the following positions between September 1994 and November 2003: President of ADESA Impact, a salvage auction subsidiary of ADESA, between February 2002 and November 2003; Senior Vice President and Chief Information Officer of ADESA between May 2001 and February 2002; Vice President of Corporate Development of ADESA between January 1999 and May 2001; General Counsel of ADESA between August 1996 and January 1999; and Legal Counsel of ADESA between September 1994 and August 1996. Prior to joining ADESA, Mr. Byrd practiced law with McHale, Cook and Welch in Indianapolis from May 1989 to September 1994.

Thomas J. Caruso, 57, Chief Client Officer. Mr. Caruso has been the Chief Client Officer since January 2014. Mr. Caruso was the President and Chief Executive Officer of ADESA from September 2009 to January 2014. Mr. Caruso previously was the Chief Operating Officer of ADESA from May 2008 to September 2009. Mr. Caruso also served as Executive Vice President of ADESA from April 2007 to May 2008 and Regional Vice President of ADESA from January 2000 to April 2007. From November 1992 to January 2000 Mr. Caruso served as General Manager of ADESA Boston.

Donald S. Gottwald, 50, Chief Operating Officer. Mr. Gottwald has been the Chief Operating Officer since March 2014. Mr. Gottwald previously served as the Chief Executive Officer of AFC from January 2009 to March 2014. Mr. Gottwald also served as the President of AFC from January 2009 to May 2013. Previously, Mr. Gottwald served in the role of Executive Vice President of Dealer Business for HSBC Auto Finance from December 2005 to October 2008. Prior to working at HSBC Auto Finance, Mr. Gottwald served in several roles of increased responsibility with GMAC Financial Services from June 1993 to December 2005, including Managing Director of Saab Financial Services Corp. and Managing Director of American Suzuki Financial Services. Mr. Gottwald has been active in the American Financial Services Association and previously served on the association's board of directors. In addition, Mr. Gottwald serves on the Northwood University Automotive Marketing Curriculum Advisory Board.

Peter J. Kelly, 48, President of Digital Services and Chief Technology Officer. Mr. Kelly has been the President of Digital Services since December 2014 and the Chief Technology Officer since June 2013. Mr. Kelly was the President and Chief Executive Officer of Openlane from February 2011 to June 2013. Previously, Mr. Kelly was President and Chief Financial Officer of Openlane from February 2010 to February 2011. Prior to that, Mr. Kelly was Chief Financial Officer of Openlane from May 2008 to February 2010. Mr. Kelly was a co-founder of Openlane in 1999 and served in a number of executive roles at Openlane from 1999 to 2008.

John W. Kett, 53, Chief Executive Officer and President of IAA. Mr. Kett has been Chief Executive Officer and President of IAA since May 2014. Mr. Kett joined IAA in 2001 as Senior Vice President of Planning and Business Development and was later promoted to Chief Financial Officer and then President. Prior to joining IAA, Mr. Kett served in a variety of senior financial and operational roles for Central Steel and Wire Co., Safelite Glass Corporation (formerly Vistar, Inc.), Newark Electronics and Deloitte LLP.

Eric M. Loughmiller, 57, Executive Vice President and Chief Financial Officer. Mr. Loughmiller has been Executive Vice President and Chief Financial Officer since April 2007. Previously, from 2001 to 2006, Mr. Loughmiller was the Vice President and Chief Financial Officer of ThoughtWorks, Inc., an information technology consulting firm. Prior to that, Mr. Loughmiller served as Executive Vice President and Chief Financial Officer of May & Speh, Inc. from 1996 to 1998 until May & Speh was acquired by Acxiom Corporation. Mr. Loughmiller was the finance leader of the Outsourcing Division of Acxiom Corporation from 1998 to 2000. Prior to joining May & Speh, Mr. Loughmiller was an audit partner with PricewaterhouseCoopers LLP, an independent registered public accounting firm. Mr. Loughmiller is a certified public accountant.

James E. Money, 54, President of AFC. Mr. Money has been President of AFC since June 2016. Mr. Money joined AFC in 1999 as Controller and was later promoted to Vice President of Finance in 2006 and to Chief Financial Officer in 2009. Prior to joining AFC, Mr. Money served as Chief Financial Officer of Fundex Games, LTD from 1998 to 1999. Mr. Money is a certified public accountant.

Rebecca C. Polak, 46, Executive Vice President, General Counsel and Secretary. Ms. Polak has been Executive Vice President, General Counsel and Secretary since April 2007. Ms. Polak previously served as the Assistant General Counsel and Assistant Secretary of ADESA from February 2005 to April 2007 and as Vice President of ADESA from December 2006 to April 2007. Prior to joining ADESA, Ms. Polak practiced corporate and securities law with Krieg DeVault in Indianapolis from 2000 to 2005 and with Haynes and Boone in Dallas from 1995 to 1999.

Lisa A. Price, 42, Executive Vice President of Human Resources. Ms. Price has been the Executive Vice President of Human Resources since June 2013. Ms. Price previously served as the Vice President of Employment and Litigation Counsel of the Company from January 2008 to June 2013 and Senior Corporate Counsel from November 2005 to January 2008. Prior to joining ADESA, Ms. Price practiced employment law with Stewart & Irwin in Indianapolis from November 2000 to November 2005.

Benjamin Skuy, 54, Executive Vice President of International Markets and Strategic Initiatives. Mr. Skuy has been Executive Vice President of International Markets and Strategic Initiatives since September 2009. Mr. Skuy previously served in the following positions between July 1999 and September 2009: Executive Vice President of International Markets and Managing Director of ADESA Canada from January 2008 to September 2009; Managing Director and Chief Operating Officer of ADESA Canada from July 2006 to January 2008; Chief Operating Officer of ADESA Canada from January 2002 to July 2006; and Chief Financial Officer of ADESA Canada from July 1999 to January 2002. Prior to joining ADESA, Mr. Skuy served as Assistant Vice President at Manulife Financial from June 1998 to July 1999. From August 1990 to May 1998 he served as Senior Manager at The Bank of Nova Scotia.

Stephane St-Hilaire, 48, Chief Executive Officer and President of ADESA. Mr. St-Hilaire has been the Chief Executive Officer and President of ADESA since January 2014. Mr. St-Hilaire previously served in the following positions between March 1998 and January 2014: President and Chief Operating Officer of ADESA Auctions Canada Corporation from September 2009 to January 2014; Regional Vice President Eastern Canada and General Manager of ADESA Montreal from September 1999 to September 2009; and Chief Financial Officer of ADESA Canada from March 1998 to September 1999. Prior to joining ADESA, Mr. St-Hilaire served as controller at AIT Corporation.

David Vignes, 54, Executive Vice President of Enterprise Optimization. Mr. Vignes has been Executive Vice President of Enterprise Optimization since September 2009. Previously, Mr. Vignes served as Senior Vice President of Operations and Strategic Improvement of ADESA from July 2007 to August 2009. Prior to joining ADESA, Mr. Vignes served as Senior Vice President at Steiner + Associates, a real estate development company, from April 2004 to June 2007. From 1991 to 2004, Mr. Vignes held several executive positions in finance and operations with Disney Corporation companies, such as Disneyland Paris, Walt Disney World Orlando and the Disney cruise line. Mr. Vignes also is a director of Drayer Physical Therapy Institute and an advisor to the board of directors of Wellfount Corporation.

Section 16(a) Beneficial Ownership Reporting Compliance

The information required by this item is incorporated by reference herein from our Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Code of Business Conduct and Ethics

We have adopted the Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. In addition, we have adopted the Code of Ethics for Principal Executive and Senior Financial Officers that applies to the Company's principal executive officer, principal financial and accounting officer and such other persons who are designated by our board of directors. Both codes are available on our website at www.karauctionservices.com and available in print to any stockholder who requests it. Information on, or accessible through, our website is not part of this Form 10-K. We expect that any amendments to these codes, or any waivers of their requirements, will be disclosed on our website.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference herein from our Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 403 of Regulation S-K will be included in our Definitive Proxy Statement for our 2017 Annual Meeting and such information will be incorporated by reference herein.

Equity Compensation Plan Information

The following table sets forth the aggregate information of our equity compensation plans in effect as of December 31, 2016.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights(2)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)(3)</u>
Equity compensation plans approved by security holder(s)	3,661,231	\$ 18.64	6,768,518
Equity compensation plans not approved by security holders	—	—	—
Total	3,661,231	\$ 18.64	6,768,518

- (1) Includes (a) service options, exit options, performance-based restricted stock units ("PRSUs") and restricted stock units ("RSUs") issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan; and (b) service and exit options issued under the KAR Auction Services, Inc. Stock Incentive Plan. The amount of PRSUs outstanding at target of 564,318 have been included in the table above.
- (2) Awards issued by KAR Auction Services, Inc. have exercise prices ranging from \$10.00 to \$30.89. The weighted-average price in the table above only reflects the weighted-average exercise price of outstanding options. The weighted-average exercise price does not include the PRSUs or RSUs.
- (3) The number of securities available for future issuance includes (a) 6,213,942 shares of common stock that may be issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan; and (b) 554,576 shares of common stock that may be issued under the KAR Auction Services, Inc. Employee Stock Purchase Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item 13 is incorporated by reference herein from our Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Item 14. Principal Accounting Fees and Services

The information required by this Item 14 is incorporated by reference herein from our Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

PART IV

Item 15. Exhibits, Financial Statement Schedules

- a) The following documents have been filed as part of this report or, where noted, incorporated by reference:
- 1) Financial Statements—the consolidated financial statements of KAR Auction Services, Inc. and its consolidated subsidiaries are filed as part of this report under Item 8.
 - 2) Financial Statement Schedules—all schedules have been omitted because the matter or conditions are not present or the information required to be set forth therein is included in the consolidated financial statements and related notes thereto.
 - 3) Exhibits—the exhibit list in the Exhibit Index is incorporated herein by reference as the list of exhibits required as part of this report.

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

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

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Annual Report not misleading. Additional information about KAR Auction Services may be found elsewhere in this Annual Report on Form 10-K and KAR Auction Services, Inc.'s other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>. See Item 1, "Business—Available Information."

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KAR Auction Services, Inc.

By: /s/ JAMES P. HALLETT
James P. Hallett
Chief Executive Officer
February 23, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u> /s/ JAMES P. HALLETT </u> James P. Hallett	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	February 23, 2017
<u> /s/ ERIC M. LOUGHMILLER </u> Eric M. Loughmiller	Chief Financial Officer (Principal Financial and Accounting Officer)	February 23, 2017
<u> /s/ TODD F. BOURELL </u> Todd F. Bourell	Director	February 23, 2017
<u> /s/ DONNA R. ECTON </u> Donna R. Ecton	Director	February 23, 2017
<u> /s/ MARK E. HILL </u> Mark E. Hill	Director	February 23, 2017
<u> /s/ J. MARK HOWELL </u> J. Mark Howell	Director	February 23, 2017
<u> /s/ LYNN JOLLIFFE </u> Lynn Jolliffe	Director	February 23, 2017
<u> /s/ MICHAEL T. KESTNER </u> Michael T. Kestner	Director	February 23, 2017
<u> /s/ JOHN P. LARSON </u> John P. Larson	Lead Independent Director	February 23, 2017
<u> /s/ STEPHEN E. SMITH </u> Stephen E. Smith	Director	February 23, 2017

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1a	Asset Purchase Agreement, dated as of February 17, 2016, by and among ADESA, Inc., Brasher's Reno Auto Auction, L.L.C., BIAA, L.L.C., Brasher's Auto Auctions, West Coast Auto Auctions, Inc. and the other parties thereto	8-K	001-34568	2.1	2/18/2016	
2.1b	First Amendment to Asset Purchase Agreement, dated as of April 1, 2016, to that certain Asset Purchase Agreement dated as of February 17, 2016, by and among ADESA, Inc., Brasher's Reno Auto Auction, L.L.C., BIAA, L.L.C., Brasher's Auto Auctions, West Coast Auto Auctions, Inc. and the other parties thereto	10-Q	001-34568	2.1b	5/4/2016	
2.2	Asset Purchase Agreement, dated as of February 17, 2016, by and among ADESA, Inc., Brasher's Auto Auctions and the other parties thereto	8-K	001-34568	2.2	2/18/2016	
2.3	Asset Purchase Agreement, dated as of February 17, 2016, by and among ADESA, Inc., West Coast Auto Auctions, Inc., Brasher's Cascade Auto Auction, Inc., Brasher's Northwest Auto Auction, Inc., Brasher's Sacramento Auto Auction, Inc., Brasher's Fresno Auto Auction, Inc. and the other parties thereto	8-K	001-34568	2.3	2/18/2016	
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	10-Q	001-34568	3.1	8/3/2016	
3.2	Second Amended and Restated By-Laws of KAR Auction Services, Inc.	8-K	001-34568	3.1	11/4/2014	
4.1	Form of common stock certificate	S-1/A	333-161907	4.15	12/10/2009	
10.1a	Amendment and Restatement Agreement, dated March 11, 2014, among KAR Auction Services, Inc. and certain of its subsidiaries and JPMorgan Chase Bank, N.A., as administrative agent, swingline lender and issuing lender (the Amended and Restated Credit Agreement and the Amended and Restated Guarantee and Collateral Agreement are included as Exhibits A and B thereto, respectively)	8-K	001-34568	10.1	3/12/2014	
10.1b	Incremental Commitment Agreement and First Amendment, dated as of March 9, 2016, among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, certain subsidiaries of the Company party thereto and the several lenders party thereto	8-K	001-34568	10.1	3/9/2016	
10.2 *	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Stock Incentive Plan	S-8	333-164032	10.1	12/24/2009	
10.3 *	Form of Nonqualified Stock Option Agreement of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) pursuant to the Stock Incentive Plan	S-4	333-148847	10.15	1/25/2008	
10.4 *	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett	10-K	001-34568	10.15	2/28/2012	
10.5 *	Employment Agreement, dated April 13, 2015, between KAR Auction Services, Inc. and Stephane St-Hilaire	10-Q	001-34568	10.7	5/6/2015	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.6	* Amended and Restated Employment Agreement, dated March 24, 2014, between KAR Auction Services, Inc. and Don Gottwald	8-K	001-34568	10.1	3/20/2014	
10.7	* Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Eric Loughmiller	8-K	001-34568	10.5	12/17/2013	
10.8	* Employment Agreement, dated May 1, 2014, between KAR Auction Services, Inc. and John Kett	10-K	001-34568	10.10	2/18/2016	
10.9a	* Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Peter Kelly					X
10.9b	* Amendment to Employment Agreement, dated December 31, 2014, between KAR Auction Services, Inc. and Peter Kelly					X
10.10	* KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Annual Incentive Program (2014)	10-K	333-148847	10.29	3/11/2009	
10.11	* KAR Auction Services, Inc. Annual Incentive Plan Summary of Terms for Plan Year 2015	10-Q	001-34568	10.11	5/6/2015	
10.12	* KAR Auction Services, Inc. Annual Incentive Plan Summary of Terms for Plan Year 2016	10-Q	001-34568	10.13	5/4/2016	
10.13	* KAR Auction Services, Inc. Annual Incentive Program Summary of Terms 2017					X
10.14a	^ Amended and Restated Purchase and Sale Agreement, dated May 31, 2002, between AFC Funding Corporation and Automotive Finance Corporation	S-4	333-148847	10.32	1/25/2008	
10.14b	Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847	10.33	1/25/2008	
10.14c	Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847	10.34	1/25/2008	
10.14d	^ Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847	10.35	1/25/2008	
10.14e	Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009	10-K	001-34568	10.19e	2/28/2012	
10.14f	Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011	10-K	001-34568	10.19f	2/28/2012	
10.15	^ Seventh Amended and Restated Receivables Purchase Agreement, dated December 20, 2016, among AFC Funding Corporation, Automotive Finance Corporation, the entities from time to time parties hereto as Purchasers or Purchaser Agents and Bank of Montreal					X
10.16	^ Fourth Amended and Restated Receivables Purchase Agreement, dated December 20, 2016, between Automotive Finance Canada Inc., KAR Auction Services, Inc. and BNY Trust Company of Canada					X
10.17a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.3	9/9/2008	
10.17b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.11	9/9/2008	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.18a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.4	9/9/2008	
10.18b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.12	9/9/2008	
10.19a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and ADESA San Diego, LLC and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.5	9/9/2008	
10.19b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Sacramento, California)	8-K	333-148847	10.13	9/9/2008	
10.20a	Ground Lease, dated September 4, 2008, between ADESA California, LLC and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.6	9/9/2008	
10.20b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Pennsylvania, L.P. (Tracy, California)	8-K	333-148847	10.14	9/9/2008	
10.21a	Ground Lease, dated September 4, 2008, between ADESA Washington, LLC and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.7	9/9/2008	
10.21b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Auburn, Washington)	8-K	333-148847	10.15	9/9/2008	
10.22a	Ground Lease, dated September 4, 2008, between ADESA Texas, Inc. and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.8	9/9/2008	
10.22b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Houston, Texas)	8-K	333-148847	10.16	9/9/2008	
10.23a	Ground Lease, dated September 4, 2008, between ADESA Florida, LLC and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.10	9/9/2008	
10.23b	Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial Financing Partnership, L.P. (Bradenton, Florida)	8-K	333-148847	10.18	9/9/2008	
10.24a	Ground Sublease, dated October 3, 2008, between ADESA Atlanta, LLC and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.21	11/13/2008	
10.24b	Guaranty of Lease, dated October 3, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial, L.P. (Fairburn, Georgia)	10-Q	333-148847	10.22	11/13/2008	
10.25	Form of Indemnification Agreement	8-K	001-34568	10.1	12/17/2013	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.26a	* KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, as Amended June 10, 2014	DEF 14A	001-34568	Appendix A	4/29/2014	
10.26b	* First Amendment to the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan	10-K	001-34568	10.24b	2/18/2016	
10.27a	* KAR Auction Services, Inc. Employee Stock Purchase Plan	S-8	333-164032	10.3	12/24/2009	
10.27b	* Amendment No. 1 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated March 31, 2010	10-Q	001-34568	10.60	8/4/2010	
10.27c	* Amendment No. 2 to KAR Auction Services, Inc. Employee Stock Purchase Plan dated April 1, 2010	10-Q	001-34568	10.61	8/4/2010	
10.28	* KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568	10.62	8/4/2010	
10.29	* Form of Director Restricted Share Agreement	10-Q	001-34568	10.63	8/4/2010	
10.30	* Form of Nonqualified Stock Option Agreement	S-1/A	333-161907	10.65	12/4/2009	
10.31	* Form of 2015 Restricted Stock Unit Award Agreement for Section 16 Officers	10-Q	001-34568	10.29a	5/6/2015	
10.32	* Form of 2016 Restricted Stock Unit Award Agreement for Section 16 Officers	10-K	001-34568	10.30	2/18/2016	
10.33	* Form of 2017 Restricted Stock Unit Award Agreement for Section 16 Officers					X
10.34	* Form of Performance-Based Restricted Stock Unit Agreement (Total Shareholder Return Percentile Rank vs. S&P 500)	8-K	001-34568	10.2	12/17/2013	
10.35	* Form of Performance-Based Restricted Stock Unit Agreement (Cumulative Adjusted Net Income Per Share)	8-K	001-34568	10.1	3/3/2014	
10.36	* Form of 2015 Performance-Based Restricted Stock Unit Agreement (Cumulative Adjusted Net Income Per Share)	10-Q	001-34568	10.32	5/6/2015	
10.37	* Form of 2016 Performance-Based Restricted Stock Unit Agreement (Cumulative Operating Adjusted Net Income Per Share)	10-K	001-34568	10.34	2/18/2016	
10.38	* Form of 2017 Performance-Based Restricted Stock Unit Agreement (Cumulative Operating Adjusted Net Income Per Share)					X
21.1	Subsidiaries of KAR Auction Services, Inc.					X
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm					X

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

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

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

Subsidiaries of KAR Auction Services, Inc.

The following is a list of subsidiaries of KAR Auction Services, Inc. (a Delaware corporation) as of December 31, 2016:

Name	State or Jurisdiction of Incorporation or Organization
ADESA, Inc.	Delaware
ADESA Corporation, LLC	Indiana
A.D.E. of Ark-La-Tex, Inc.	Louisiana
A.D.E. of Knoxville, LLC	Tennessee
ADESA Ark-La-Tex, LLC	Louisiana
ADESA Arkansas, LLC	Delaware
ADESA Atlanta, LLC	New Jersey
ADESA Birmingham, LLC	Alabama
ADESA California, LLC	California
ADESA Charlotte, LLC	North Carolina
ADESA Colorado, LLC	Colorado
ADESA Dealer Services, LLC	Indiana
ADESA Des Moines, LLC	Iowa
ADESA Florida, LLC	Florida
ADESA Illinois, LLC	Illinois
ADESA Impact Texas, LLC	Texas
ADESA Indianapolis, LLC	Indiana
ADESA Lansing, LLC	Michigan
ADESA Lexington, LLC	Kentucky
ADESA Mexico, LLC	Indiana
ADESA Minnesota, LLC	Minnesota
ADESA Missouri, LLC	Missouri
ADESA Nevada, LLC	Nevada
ADESA New Jersey, LLC	New Jersey
ADESA New York, LLC	New York
ADESA Ohio, LLC	Ohio
ADESA Oklahoma, LLC	Oklahoma
ADESA Pennsylvania, LLC	Pennsylvania
ADESA Phoenix, LLC	New Jersey
ADESA San Diego, LLC	California
ADESA- South Florida, LLC	Indiana
ADESA Texas, Inc.	Texas
ADESA Virginia, LLC	Virginia
ADESA Wisconsin, LLC	Wisconsin
AFC CAL, LLC	California
Asset Holdings III, L.P.	Ohio
Auto Dealers Exchange of Concord, LLC	Massachusetts
Auto Dealers Exchange of Memphis, LLC	Tennessee
Automotive Finance Consumer Division, LLC	Indiana
Automotive Finance Corporation	Indiana
Automotive Recovery Services, Inc.	Indiana
AUTONIQ, LLC	Virginia
AutoVIN, Inc.	Indiana

Name	State or Jurisdiction of Incorporation or Organization
MobileTrac LLC	Delaware
PAR, Inc.	Indiana
Axle Holdings, Inc.	Delaware
Axle Holdings Acquisition Company, LLC	Delaware
Insurance Auto Auctions, Inc.	Illinois
Insurance Auto Auctions Corp.	Delaware
Insurance Auto Auctions Tennessee LLC	Tennessee
Insurance Auto Auctions of Georgia LLC	Georgia
IAA Acquisition Corp.	Delaware
IAA Services, Inc.	Illinois
Auto Disposal Systems, Inc.	Ohio
High Tech National, LLC	Indiana
HT Locksmiths, Inc.	Indiana
Sioux Falls Auto Auction, Inc.	South Dakota
Tri-State Auction Co., Inc.	North Dakota
Zabel & Associates, Inc.	North Dakota
LiveBlock Auctions International, Inc.	Nevada
LiveBlock Auctions Canada Ltd.	Saskatchewan
WFEA Holdings, Inc.	Alberta
CarBuyCo, LLC	North Carolina
AFC Funding Corporation	Indiana
AuctionTrac, LLC	Indiana
OPENLANE, Inc.	Delaware
CarsArrive Network, Inc.	Georgia
Recovery Database Network, Inc.	Delaware
OPENLANE Canada Co.	Nova Scotia
OPENLANE Canada Inc.	Ontario
NEPO Auto Centre, Inc.	Ontario
Auction Vehicles of Mexico, S. de R.L. de C.V.	Federal District of Mexico
Adesur S. de R.L. de C.V.	Federal District of Mexico
2540-0714 Quebec Inc.	Quebec
504811 NB Ltd.	New Brunswick
51937 Newfoundland & Labrador Limited	Newfoundland
79378 Manitoba Inc.	Manitoba
ADESA Auctions Canada Corporation	Nova Scotia
ADESA Montreal Corporation	Nova Scotia
ADESA Quebec Corporation	Quebec
ADESA Remarketing Services Inc.	Ontario
AutoVIN Canada Inc.	Nova Scotia
Automotive Finance Canada Inc.	Ontario
Impact Auto Auctions Ltd.	Ontario
Impact Auto Auctions Sudbury Ltd.	Ontario
Suburban Auto Parts Inc.	Ontario
1st Interactive Design Limited	United Kingdom
Holding & Barnes PLC	United Kingdom
HBC Vehicle Services Limited	United Kingdom
Preferred Warranties, Inc.	Pennsylvania

Name	State or Jurisdiction of Incorporation or Organization
Preferred Nationwide Reinsurance Company, Ltd.	Turks and Caicos
Preferred Warranties of Florida, Inc.	Florida
PWI Holdings, Inc.	Pennsylvania
Superior Warranties, Inc.	Pennsylvania
Automotive Key Controls, LLC	Indiana
High Tech Locksmiths Canada ULC	Alberta
ADESA Idaho, LLC	Idaho
ADESA Oregon, LLC	Oregon
ADESA Utah, LLC	Utah
KAR Auction Services International Limited	United Kingdom
KAR International Holdings Limited	United Kingdom
ADESA Remarketing Limited	United Kingdom
Gilbert Mitchell Holdings Limited	United Kingdom
Gilbert Mitchell Limited	United Kingdom
2544972 Ontario Inc.	Ontario
1099983 B.C. Unlimited Liability Company	British Columbia
Impact Newco US, LLC	Delaware

Consent of Independent Registered Public Accounting Firm

The Board of Directors
KAR Auction Services, Inc.:

We consent to the incorporation by reference in registration statements (No. 333-164032, No. 333-168523 and No. 333-196668) on Form S-8 of KAR Auction Services, Inc., of our report dated February 23, 2017, with respect to the consolidated balance sheets of KAR Auction Services, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016, and the effectiveness of internal control over financial reporting as of December 31, 2016, which report appears in the December 31, 2016 annual report on Form 10-K of KAR Auction Services, Inc.

Our audit report on internal control over financial reporting as of December 31, 2016, contains an explanatory paragraph that states that management has excluded from its assessment of internal control over financial reporting as of December 31, 2016, the 2016 acquisitions' internal control over financial reporting associated with total assets of 6.5% (of which 5.2% represents goodwill and intangibles included within the scope of the assessment) and total revenues of 3.5% included in the consolidated financial statements of KAR Auction Services, Inc. and subsidiaries as of and for the year ended December 31, 2016. Our audit of internal control over financial reporting of KAR Auction Services, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of the 2016 acquisitions.

/s/ KPMG LLP

Indianapolis, Indiana
February 23, 2017

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, James P. Hallett, certify that:

- 1) I have reviewed this Annual Report on Form 10-K of KAR Auction Services, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer

Date: February 23, 2017

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric M. Loughmiller, certify that:

- 1) I have reviewed this Annual Report on Form 10-K of KAR Auction Services, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer

Date: February 23, 2017

**Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of KAR Auction Services, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Hallett, as Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- 2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer

Date: February 23, 2017

**Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of KAR Auction Services, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric M. Loughmiller, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- 2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer

Date: February 23, 2017

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KAR Auction Services, Inc.

13085 Hamilton Crossing Boulevard
Carmel, IN 46032