KAR Auction Services, Inc.
Form 10-K
February 19, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2013
OR

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

Commission File Number: 001-34568
KAR Auction Services, Inc.
(Exact name of Registrant as specified in its charter)

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

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (800) 923-3725
Securities registered pursuant to Section 12(b) of the Act:

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

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý
The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was $1,780,435,195 at June 30, 2013.
As of February 7, 2014, 139,170,099 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 2014 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, 2013.

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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. (formerly known as KAR Holdings, Inc.) and all of its subsidiaries;
- "2007 Transactions" refers to the following events: On December 22, 2006, KAR LLC entered into a definitive merger agreement to acquire ADESA. The merger occurred on April 20, 2007. Concurrently with the merger, IAA was contributed by affiliates of Kelso & Company and Parthenon Capital and IAA's management to KAR Auction Services. Both ADESA and IAA became wholly-owned subsidiaries of KAR Auction Services, which was wholly-owned by KAR LLC prior to the initial public offering. KAR Auction Services is the accounting acquirer, and the assets and liabilities of both ADESA and IAA were recorded at fair value as of April 20, 2007;
- "ADESA" refers, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including OPENLANE, Inc. (together with OPENLANE, Inc.'s subsidiaries, "OPENLANE");
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries and other related entities, including PWI Holdings, Inc.;
- "ALLETE" refers to ALLETE, Inc. the former parent company of ADESA;
- "AutoVIN" refers to AutoVIN, Inc., our wholly-owned subsidiary;
- "Axle LLC" refers to Axle Holdings, II, LLC, the former ultimate parent company of IAA and a holder of common equity interests in KAR LLC;
- "Credit Agreement" refers to the Credit Agreement, dated May 19, 2011, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent, as amended on November 29, 2012 and March 12, 2013;
- "2007 Credit Agreement" refers to the Credit Agreement, dated April 20, 2007, among KAR Auction Services, as the borrower, KAR LLC, as guarantor, the several lenders from time to time parties thereto and the administrative agent, the joint bookrunners, the co-documentation agents, the syndication agent and the joint lead arrangers named therein, as amended on June 10, 2009, October 23, 2009 and November 11, 2010. The 2007 Credit Agreement was terminated concurrently with our entry into the Credit Agreement described above;
- "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 Credit Agreement;
- "Equity Sponsors" refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P.;
- "fixed senior notes" refers to KAR Auction Services' 8 3/4% Senior Notes due May 1, 2014. In June 2011, we prepaid the $450.0 million aggregate principal amount outstanding on the fixed senior notes;
- "floating senior notes" refers to KAR Auction Services' Floating Rate Senior Notes due May 1, 2014. In April 2013, we prepaid the $150.0 million aggregate principal amount outstanding on the floating rate senior notes;
- "IAA" refers, collectively, to Insurance Auto Auctions, Inc., a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries;
- "KAR Auction Services" refers to KAR Auction Services, Inc., and not to its subsidiaries;
- "KAR LLC" refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors, other equity co-investors and management of the Company;
- "notes" refers, collectively, to our senior notes and senior subordinated notes;
- "senior notes" refers, collectively, to the fixed senior notes and floating senior notes; and
- "senior subordinated notes" refers to KAR Auction Services' 10% Senior Subordinated Notes due May 1, 2015. In June 2011, we prepaid the $131.1 million aggregate principal amount outstanding on the senior subordinated notes.

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PART I

Item 1. Business

Overview

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles and salvage vehicles through our 229 physical auction locations at December 31, 2013, and multiple proprietary Internet venues. In 2013, we facilitated the sale of approximately 3.7 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 at 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 commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. In 2011, we acquired OPENLANE, the premier upstream platform focused on private label auction sales for automobile original equipment manufacturers, or OEMs, and their captive finance companies. 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, 2013, we had a network of 65 whole car auction locations and 164 salvage auction locations. 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 North American 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 upon the consummation of the 2007 Transactions. 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 purchased a majority of its outstanding equity interests. In June 2004, ALLETE 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 affiliates of Kelso & Company and Parthenon Capital in 2005. Affiliates of Kelso & Company and Parthenon Capital and certain members of IAA management contributed IAA to KAR Auction Services in connection with the 2007 Transactions. In a series of transactions between December 2012 and November 2013, the Equity Sponsors 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:

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Whole Car Auction Industry Volumes

During the period from 1999 to 2009, approximately 9 to 10 million used vehicles per year were sold in North America through whole car auctions. Whole car auction volumes, including online only volumes, were 8.0 million, 8.2 million and an estimated 8.7 million in 2011, 2012 and 2013, 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 2013 have not yet been released; however, we estimate that used vehicle auction volumes in North America in 2013 will be approximately 8.7 million vehicles (including approximately 0.4 million vehicles sold online by ADESA prior to reaching a physical auction). The reduction in auction volumes since 2009 is attributable to supply shortages in the North American whole car auction industry caused principally by declines in new vehicle sales and lease originations from 2007 to 2009 and declines in repossessions from 2009 to 2012. We expect the industry to experience an increase in whole car auction volumes in 2014 as a result of increasing new vehicle sales and lease originations since 2009, as well as improving credit availability.

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 and the complexity of vehicles in operation. 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 over time as the salvage auction industry expands.

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 24% 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.

High Barriers to Entry

High barriers to entry make it difficult for new entrants to capture significant market share. The required investment in technology and related infrastructure in addition to ongoing maintenance costs required to meet customers' demands present challenges for new entrants. Large tracts of land and a significant investment in facilities and land improvements are required to build new physical auctions. In addition, the need to comply with regulatory requirements would pose a challenge for new entrants to build a large-scale operation. Larger participants are also able to better develop relationships with many of the major whole car and salvage sellers and buyers, which increases the sellers' flexibility to redistribute vehicles to markets where demand best matches supply in order to maximize proceeds, while also reducing the cost of disposition.

Our Business Strategy

We continue to focus on growing our revenues and profitability through the execution of the following key operating strategies:

Expand Opportunities for Customers to Buy and Sell Online

We are focused on enhancing our Internet solutions in all of the key channels we operate in, and we will continue to invest in our technology platforms 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. We acquired OPENLANE in order to better capitalize on the increasing use of the Internet as a means to purchase wholesale vehicles. Through its 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) and broadcasting video and audio of the physical auctions to online bidders (simulcast).

Grow Our Dealer Consignment Business

The dealer consignment business is a highly local market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team assists the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share. Our sales representatives also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our whole car auctions. On a same store basis, our dealer consignment sales volumes were up approximately 8% and 11% for the twelve months ended December 31, 2013 and 2012, respectively, compared with the same periods in prior years.

Continue to Grow Revenue per Vehicle

From 2009 through 2013, our whole car and salvage revenue per vehicle sold at our physical auction sites grew at compound annual growth rates of 3.0% and 4.7%, respectively. Revenue per vehicle generally consists of auction fees and fees from ancillary services. Increased utilization of ancillary services, selective fee increases, higher used vehicle prices and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. We plan to grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services.

Leverage AFC's Products and Services at ADESA and IAA

We intend to selectively grow AFC while using enhanced credit analysis and risk management techniques to mitigate risk. We will continue to focus on expanding dealer coverage and improving coordination with ADESA and IAA to capitalize on cross-selling opportunities with AFC. By encouraging a collaborative marketing effort between AFC, ADESA and IAA, we believe we can market an enterprise solution more effectively to used vehicle dealers and tailor AFC's financing products to individual dealer needs. We will maintain our focus on generating additional revenues by expanding our suite of floorplan financing and related products and services and leveraging our market position, broad infrastructure and diversified business relationships to capitalize on current market opportunities.

Grow Our Non-Insurance Salvage Auction Customer Base

More than 12 million vehicles are de-registered annually, but only approximately 4 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of the total unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers, which includes charitable organizations, rental car, captive finance and fleet companies, as well as the general public. ADESA's strong customer relationships with used vehicle dealers as well as rental car, captive finance and fleet companies provide an advantage in accessing such segments, as these customers already use ADESA's whole car auction services.

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. Since 2007, 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. Additional efficiencies have been gained through two of our wholly-owned subsidiaries, AuctionTrac, a vehicle tracking system at ADESA, and CarsArrive, an Internet-based system that allows customers to review instantly price quotes, delivery times, available transportation loads and also to receive instant notification of available shipments. In 2013, ADESA acquired High Tech Locksmiths ("HTL") and will integrate ADESA's key-cutting services, one of the many ancillary services provided by ADESA, with HTL.

Use Excess Cash Flow to Invest in Strategic Growth Initiatives, Return Capital to Shareholders and Reduce Debt

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, 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, return capital to shareholders and for debt reduction for the foreseeable future. We generated $434.0 million and $290.2 million of cash flow from operations for the twelve months ended December 31, 2013 and 2012, 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.

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On April 4, 2013, July 3, 2013 and October 3, 2013, we paid a cash dividend of $0.19 per share to stockholders of record at the close of business on March 25, 2013, June 24, 2013 and September 24, 2013, respectively. On January 3, 2014, we paid a cash dividend of $0.25 per share to stockholders of record at the close of business on December 20, 2013. On February 18, 2014, we announced that our board of directors declared a cash dividend of $0.25 per share payable on April 3, 2014 to stockholders of record at the close of business on March 26, 2014.

In April 2013, we made an excess cash flow payment of $39.4 million on our senior secured term loan facility, or Term Loan B, and prepaid the entire $150.0 million principal amount of the floating rate senior notes due 2014 with the additional proceeds received as part of the Second Amendment to the Credit Agreement.

Selective Acquisitions and Greenfield Expansion

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 geographic presence for both ADESA and IAA. In addition, we may pursue opportunities to acquire additional product offerings in each of our business segments.

Increase Our International Presence

In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 100 countries. We believe we are well positioned to grow internationally through both technology-based and physical auction expansion. We continue to identify opportunities to expand certain of our service offerings globally and specifically plan to extend our technology. We expect that our ability to efficiently layer in our product and technology licensing will allow us to enter other mature auction markets.

Our Business Segments

We operate as three reportable business segments: ADESA Auctions, IAA and AFC. Our revenues for the year ended December 31, 2013 were distributed as follows: ADESA 52%, IAA 38% and AFC 10%. Geographic information as well as comparative segment revenues and related financial information pertaining to ADESA, IAA and AFC for the years ended December 31, 2013, 2012 and 2011 are presented in the tables in Note 20, 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 international 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 or in person. Our online service offerings include ADESA.com, LiveBlock and DealerBlock and allow us to offer vehicles for sale from any location.

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 capabilities. 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. 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

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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"). For the year ended December 31, 2013, no single supplier accounted for more than 5% of ADESA's revenues.

Buyers of vehicles at our whole car auctions primarily include franchised and independent used vehicle dealers. For the year ended December 31, 2013, no single buyer accounted for more than 2% of ADESA's revenues.

Services

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

Services	Description
Auction Related Services	ADESA provides marketing and advertising for the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, post-sale inspections, security for consigned inventory, title processing, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers.
Transportation Services	We provide both inbound (pickup) and outbound (delivery) transportation services utilizing our own equipment and personnel as well as licensed and insured third party carriers. Through our subsidiary, CarsArrive and its Internet-based system which provides automated vehicle shipping services, customers can instantly review price quotes and delivery times, and vehicle transporters can check available loads and also receive instant notification of available shipments. The same system is utilized at our whole car auction locations.
Reconditioning Services	Our auctions provide detailing, body work, paintless dent repair ("PDR"), light mechanical work, glass repair, tire and key replacement and upholstery repair.
Inspection Services Provided By AutoVIN	AutoVIN provides vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. The same technology is utilized at our whole car auction locations and we believe that the expanded utilization of comprehensive vehicle condition reports with pictures facilitates dealers sourcing vehicles via the Internet.
Title and Repossession Administration and Remarketing Services Provided By PAR	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.
ADESA Analytical Services	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.

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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 categories of institutional customers, including vehicle manufacturers, rental car companies, finance companies and others. These relationship managers focus on current trends and customer needs for their respective seller group 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. 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
ADESA.com and ADESA DealerBlock®	This platform provides for either real-time or "bulletin-board" online auctions of consigned inventory at physical auction locations and is powered by the technology we acquired from OPENLANE in 2011. 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.
ADESA LiveBlock®	Our live auction Internet bidding solution, ADESA LiveBlock®, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. ADESA LiveBlock™ provides real-time streaming audio and video from the live auction and still images of vehicles and other data. Buyers inspect and evaluate the vehicle and listen to the live call of the auctioneer while viewing the physical auction that is underway.
ADESA Run List®	Provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory and vehicle condition reports prior to an auction event.
ADESA Market Guide®	Provides wholesale auction prices, auction sales results, market data and vehicle condition information.
ADESA Virtual Inventory	

Subscription-based service to allow dealers to embed ADESA's search technology into a dealer's Web site 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"), SmartAuction, as well as several smaller chains of auctions and independent auctions, some of which are affiliated through their membership in industry associations. 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.

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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.

IAA

Overview

As one of the leading providers of salvage vehicle auctions and related services in North America, we operate as Insurance Auto Auctions ("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.

We process 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, title processing, marketing and other administrative services. Under all methods of sale, we also charge the buyer of each vehicle fees 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 via an online auction list, 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 the live salvage auction. The Auction Center includes such services as comprehensive auction lists featuring links to digital images of vehicles available for sale, an "Auto Locator" function that promotes the search for specific vehicles within the auction system and special "Flood" or other catastrophe auction notifications. Higher prices at auction are generally driven by broader market exposure and increased competitive bidding. Our mobile device applications provide great flexibility for buyers to interact with our auctions. In 2013, we further enhanced these mobile applications with payment features allowing buyers to pay for their vehicles virtually anywhere. Our mobile applications are designed for the latest handheld devices, including Apple and Android, and are optimized for the most recent operating systems.

Online tools have also been developed to assist consignors in remarketing their vehicles and establishing salvage vehicle values. In 2013, we launched the IAA Market Value tool app via our CSAToday salvage management platform. The Market Value tool app allows customers to estimate the value of their vehicle anytime, anywhere.

Through IAA's auction model, vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVE℠. 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, thus 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.

Services

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

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Services	Description
Live and Live Online Auction Model	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.
IAA Title Management	After a vehicle is received at one of our facilities, it remains in storage inventory and cannot be auctioned until IAA receives and processes its transferable title. We process title documents in order to comply with the Department of Motor Vehicles ("DMV") requirements for all vehicles. Wherever possible, we maintain working relationships with each state's respective DMV to supplement an established electronic interface.
	IAA Title Management services range from aging inventory reports to complete oversight of the title process. Our titling expertise results in faster cycle time, which decreases expenses for the vehicle suppliers like insurance companies.
Vehicle Inspection Centers	We maintain vehicle inspection centers ("VIC") at many of our facilities. A VIC is a temporary storage and inspection facility located at one of our sites that is operated by the insurance company. Some of these sites are formalized through temporary license agreements with the insurance companies that supply the vehicles. Having a VIC minimizes vehicle storage charges incurred by insurance company suppliers at the temporary storage facility or repair shop and also improves service time for the policyholder.
Transportation and Towing	Inbound logistics administration with actual services typically provided by third-party carriers.
Remarketing Division	Focuses on vehicles, rental sellers, fleet and leasing companies, banks and dealer trade-in inventory.
Donation Division	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, as well as 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. For the year ended December 31, 2013, no single seller accounted for more than 4% of IAA's revenues.

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. For the year ended December 31, 2013, no single buyer accounted for more than 4% of IAA's revenues.

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 a variety of sellers with a means of processing and selling vehicles, IAA offers a comprehensive suite of services to help maximize returns and shorten the vehicle selling and processing time. We

work to 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 historical industry and customer 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 seek to expand our seller relationships through recommendations from individual customers at the local level to other local offices of the same company. Our broad and industry leading geographic coverage allows us to service sellers on a national basis.

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Online Solutions

Our current IAA online solutions include:

Proprietary IAA Technology	Description
i-Bid LIVE[SM]	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-Buy Fast[SM]	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.
CSAToday®	The process of salvage disposition through our system begins when a vehicle seller first consigns the vehicle to be sold through IAA via a variety of factors including a total loss, a recovered theft, a vehicle donation, a fleet vehicle retired, a vehicle repossessed, etc. A seller representative consigns the vehicle to us, either by phone, facsimile or electronically through CSAToday, our online proprietary salvage inventory management system. With CSAToday, vehicle sellers enter vehicle data electronically and then track and manage the progress of vehicles in terms of both time and sales price. With this tool, they have 24-hour access to their vehicles. The information provided through this system ranges from the details associated with a specific vehicle, to comprehensive management reports for an entire area or geographic region. Additional features of this system include inventory management tools and a powerful new IAA Market Value[TM] tool that helps customers determine the approximate value of a potential vehicle. This tool is helpful to adjusters when evaluating the "repair vs. total" decision. The management tools provided by CSAToday enable seller personnel to monitor and manage their vehicles more effectively. For example, insurance company sellers can also use CSAToday to view original garage receipts, verify ignition key availability, view settlement documents and images of the vehicles and receive updates of other current meaningful data.
Automated Salvage Auction Processing (ASAP)	We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. The system provides sellers with 24-hour online access to powerful tools to manage the salvage disposition process, including inventory management, sales price analysis and electronic data interchange of titling information.

Our other information systems, including i-Bid LIVE and CSAToday systems, are integrated with our ASAP product, facilitating seamless auction processes and information flow with internal operational systems. Our technology platform is a significant competitive advantage that allows us to efficiently manage our business, improve customer selling prices, shorten customers' selling cycle and lower our customers' administration costs.

Competition

In the salvage sector, we compete with: Copart; Total Resource Auctions (a Manheim company); 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 Greenleaf and LKQ Corporation and Internet-based companies have entered the market, thus providing alternate avenues for sellers to remarket vehicles. While most insurance companies have abandoned or reduced efforts to sell salvage vehicles without the use of service providers such as us, they may in the future decide to dispose of their vehicles directly to end users.

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

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AFC

Overview

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2013, AFC serviced over 1.3 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, AFC acquired Preferred Warranties, Inc., a vehicle service contract business, as part of its strategy to provide new services to independent used vehicle dealers. We receive advance payments for the warranty 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 2013 was approximately 1.5 years. We currently purchase program insurance which provides for satisfaction of certain of the Company's warranty and extended service contract related liabilities in the event the Company is unable to perform under the terms of specific warranty 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 2013, 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, 2013, we serviced auctions through 105 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, 2013, AFC had approximately 9,300 active dealers with an average line of credit of approximately $185,000 and no one dealer representing greater than 1.4% of our portfolio. An average of approximately 14 vehicles per active dealer was floorplanned with an approximate average value outstanding of $8,360 per vehicle as of December 31, 2013.

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 area 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 60 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 60 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 $300,000 are extended using a proprietary scoring model developed internally by AFC. Credit lines in excess of $300,000 may be extended using underwriting guidelines which require dealership and personal financial statements 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 $300,000, final review by a credit committee.

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Collateral Management

Collateral management is an integral part of daily operations at each AFC branch and our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables branch and corporate personnel to assess and manage potential collection issues. Restrictions are automatically placed on customer accounts in the event of a delinquency, payments by dealers from bank accounts with insufficient funds or poor audit results. Branch personnel are proactive in managing collateral by monitoring loans and notifying dealers that payments are coming due. In addition, almost 70,000 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 two divisions which are organized into twelve 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 eligible finance receivables subject to committed liquidity. AFC's securitization facility has been in place since 1996. AFC Funding Corporation had committed liquidity of $800 million from a third party facility for U.S. finance receivables at December 31, 2013. The agreement expires on June 30, 2016.

Also, we have an agreement in place for the securitization of Automotive Finance Canada, Inc.'s ("AFCI") receivables. This securitization facility provides up to C$100 million in financing for eligible finance receivables through a third party conduit (separate from the U.S. facility). The agreement expires on June 30, 2016. 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 Manheim, 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 at 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 U.S., Canadian and Mexican 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 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, 2013, we had a total of 12,300 employees, of which 9,700 were located in the U.S. and 2,600 were located in Canada and Mexico. Approximately 70% 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 Web site 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 and the compensation committee of our board of directors are available on our Web site and available in print to any shareholder who requests it. The information posted on our Web site 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 an Internet Web site 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.

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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

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 program vehicles and rental fleet sales, 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 the supply and demand of salvage vehicles. If the number of miles driven decreases, the number of salvage vehicles received at auction may also decrease. In addition, decreases in commodity prices, such as steel and platinum, may negatively affect vehicle values and demand at salvage auctions. In addition, if consumers eliminate their automotive collision coverage, this could result in fewer vehicles being declared a total loss. Additionally, government regulations on the standards for producing vehicles could affect the supply of vehicles at salvage auctions.

- 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. To the extent retail 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.

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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.

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Our business is dependent on information and technology systems. Failure to effectively maintain or update these systems could result in us losing customers and materially adversely affect our operating results and financial condition.

Robust information systems are critical to our operating environment and competitive position, including with respect to our online auctions. We may not be successful in structuring our information system infrastructure or developing, acquiring or implementing information systems which are competitive and responsive to the needs of our customers and we might lack sufficient resources to continue to make the significant necessary investments in information systems to compete with our competitors. Certain information systems 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.

Our information and technology systems are vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunications failures, infiltration by unauthorized persons and security breaches, usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. If these systems were compromised, not operable for extended periods of time or ceased to function properly, we may have to make a significant investment to fix or replace them and our ability to provide many of our electronic and online solutions to our customers may be impaired. If that were to occur, it could have a material adverse effect on our operating results and financial condition.

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 trade names or the loss of significant customers.

Used vehicle prices have a significant effect on fee revenue per unit at IAA and loan losses at AFC and may impact the supply of used vehicles at ADESA.

The volume of new vehicle production, accuracy of lease residual estimates, interest rates, 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 used vehicle auctions and the demand for those used vehicles, the fee revenue per unit at our salvage auctions, loan losses for our dealer financing business and our ability to retain customers. Throughout 2011 and 2012, used vehicle prices remained high, which led many used vehicle dealers to retail more of their trade-in vehicles on their own rather than selling them at auction. The high used vehicle prices in 2011 and 2012 also contributed to strong proceeds in the salvage auction industry. Throughout 2013, used vehicle prices decreased moderately. 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.

Decreases in the supply of used vehicles coming to auction have impacted and may continue to impact auction sales volumes, which may adversely affect our revenues and profitability.

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. Based on our estimates, off-lease vehicles available at auction for the industry declined slightly in 2010 and declined by over 40% in 2011, reflecting declines in lease origination volume and new vehicle sales approximately three years earlier during the global economic downturn and credit crisis. If the supply of off-lease vehicles coming to auction declines, our revenues and profitability may be adversely affected. Our expectation is that the decline in off-lease vehicles will continue to impact Canada, where we have a significant auction market presence.

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.

In 2009, the auction industry sales volume was over 9 million units. However, auction sales volumes, including online only sales, declined to approximately 8.0 million units in 2011, 8.2 million units in 2012 and an estimated 8.7 million units in 2013. We believe that auction sales volumes will continue to recover over the next several years, and we estimate volumes, including online only volumes, will be approximately 9.1 million, 9.5 million and 9.7 million units in 2014, 2015 and 2016, respectively. We believe that an increase in the volume of off-lease and repossessed vehicles, among others, that are remarketed through whole car auctions are a significant contributor to this growth, and our performance could be adversely impacted if volumes do not increase and we are not able to reduce our costs permanently to compensate for the lower industry auction volumes.

An increase in the number of used and salvage vehicles purchased on virtual auction platforms could adversely affect our revenue per vehicle, operating results and financial condition.

We acquired OPENLANE in recognition of the increasing use of the Internet as a means to purchase wholesale vehicles. If sellers and buyers increase the number of vehicles transacted on virtual auction platforms, our revenue per vehicle will likely decline. In connection with online auctions, ADESA and IAA offer 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 and salvage vehicles sold online as compared with used and salvage 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.

We face significant competition and may not successfully adapt to industry changes, which may adversely affect 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 of vehicles on multiple online sales platforms. Were such 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. We are discussing with one or more other auction houses and industry participants the development of a multiple platform listing system. Any such collaboration may be unsuccessful.

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 (affiliated with Manheim), 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 at our auctions decreases due to these competitors or other industry changes such as the use of a multiple platform listing system, our revenue and profitability may be negatively impacted.

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.

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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 on similar terms, or at all, and our ability to grow and sustain profitability could be impaired.

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, a decrease in the percentage of claims resulting in a total loss, delays or changes in state title processing, 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 of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected. Furthermore, in periods when the supply of vehicles from the insurance sector 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.

We may not successfully implement our business strategies or maintain gross profit margins.

We are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to growing market share and volume, increasing revenue per vehicle and improving customer experiences through Internet initiatives, leveraging AFC’s products and services at ADESA and IAA and continuing to improve operating efficiency. 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 $434.0 million and $290.2 million of cash flow from operations for the years ended December 31, 2013 and 2012, respectively), we may be unable to 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.

If we are unable to successfully acquire and integrate other businesses, our growth prospects could be adversely affected.

Acquisitions have been a part of our historical growth 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;

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- 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.

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.

In addition, AFC typically assesses its U.S. dealer customers with an interest rate comprised of a minimum prime rate of 5% plus an interest spread. The U.S. prime rate was 3.25% at December 31, 2013. Any increase above 3.25% up to 5% will likely compress AFC's margins as the variable borrowing cost of securitizing receivables will rise without a corresponding increase in the financing rate AFC charges to its U.S. dealer customers.

Increases in the value of the U.S. dollar relative to certain foreign currencies may negatively impact foreign buyer participation at our auctions.

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.

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.

High 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.

High fuel prices could lead to a reduction in the miles driven per vehicle, which may reduce accident rates. High 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, high 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.

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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.

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 15% of our revenues were attributable to our Canadian operations for the year ended December 31, 2013. 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.

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.

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, 2013, our total debt was approximately $1.8 billion, exclusive of liabilities related to our securitization facilities, and we had $250.0 million of borrowing capacity under our senior secured credit facilities. In addition, we had related outstanding letters of credit in the aggregate amount of $26.3 million at December 31, 2013, which reduce the amount available for borrowings under the credit facilities.

Our substantial 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

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- 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.

Restrictive covenants in agreements governing our debt may adversely affect our ability to operate our business.

The agreement governing our Credit Facility contains, and future debt instruments may contain, various provisions that limit our ability and the ability of our subsidiaries, including ADESA and IAA, to, among other things:

- incur additional debt;
- provide guarantees in respect of obligations of other persons;
- issue redeemable stock and preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase certain debt;
- make loans, investments and capital expenditures;
- incur liens;
- pay dividends or make other payments by our restricted subsidiaries;
- enter into certain transactions with affiliates;
- sell assets and capital stock of our subsidiaries; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

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 importers 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, in March 2008, a decree issued by the president of Mexico became effective that 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 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.

If we fail to attract and retain key personnel, we may not be able to execute our business strategy 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 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 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 U.S., Canadian and Mexican 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.

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Some of the transport vehicles used at our auctions are regulated by the U.S. Department of Transportation or similar regulatory agencies in Canada and Mexico.

- 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.

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- 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, including ADESA, 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.

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 insurance 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.

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.

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. While the current Congressional political deadlock is unlikely to produce any new legislation expanding the rights of labor unions to organize, the National Labor Relations Board ("NLRB" or "the Board") is moving unilaterally via its rulemaking authority to push several amendments to its rules and regulations that could adversely affect our operations. On February 4, 2014 the Board issued for public comment a series of new rules that, if adopted, will make union organizing drives much easier to start and much more difficult for the company to defeat. Some of the changes include shortening the time for an election from 30 days to 10 (reducing the opportunity for the company to campaign against organization), strictly limit the time and scope of employer objections to union efforts and reduce the possibility for

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Board review of election results. Additionally, the NLRB is granting organization rights to smaller and smaller groups of employees, meaning that it may allow an election to take place involving only detailers, or only mechanics, thereby introducing a union foothold of 5-10 employees into the midst of an otherwise non-union facility. This could start a chain reaction leading to organization of entire auctions.

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 primarily associated with the 2007 Transactions. 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;
- investors' general perception of us and our industry;
- changes in general economic and market conditions in North America;

- 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 139,027,581 shares of common stock were outstanding as of December 31, 2013. 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:

- limiting the right of stockholders to call special meetings of stockholders to holders of at least 35% of our outstanding common stock;
- 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 for cause and 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.

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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.

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, 2013, properties utilized by the ADESA business segment include 65 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 auction facilities vary in size based on the market demographics and offer anywhere from 1 to 16 auction lanes, with an average of approximately 7 lanes per location.

IAA is headquartered in Westchester, Illinois, with office space being leased through 2016. At December 31, 2013, properties utilized by the IAA business segment include 164 salvage vehicle auction facilities in the United States and Canada, most of which are leased. 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 properties are used primarily for auction and storage purposes consisting on average of approximately 28 acres of land per site.

Of AFC's 105 locations in North America at December 31, 2013, 73 are physically located at auction facilities (including 53 at ADESA and 4 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 believe our existing properties are adequate to meet current needs and that suitable additional space will be available as needed to accommodate any expansion of operations and additional offices on commercially acceptable terms.

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

On March 25, 2008, the United States Environmental Protection Agency, or the "EPA," issued 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" to IAA for a Superfund site known as the Lower Duwamish Waterway Superfund Site ("LDW Site") in Seattle, Washington. On November 7, 2012, the EPA issued a Second General Notice of Potential Liability, or "Second General Notice," to IAA for the LDW Site. Since 2004, IAA has operated a branch on property it leases in Tukwila, Washington, which is located adjacent to the LDW Site. The LDW Site was identified as a Superfund site in 2001, three years before IAA began leasing the branch in Tukwila. At this time, the EPA has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. The EPA's website indicates that the EPA has issued notice letters to approximately 116 entities, and has issued Section 104(e) Requests to more than 300 entities. Four Potentially Responsible Parties, or "PRPs," The Boeing Company, the City of Seattle,

the Port of Seattle and King County, have funded a remedial investigation and feasibility study of the LDW Site, but the EPA has not yet issued a final plan for remediating the site. IAA is aware that certain authorities may bring natural resource damage claims against PRPs. In the General Notice and Second General Notice, the EPA informed IAA that the EPA believes IAA may be a PRP, but the EPA has not specified the factual basis for this assertion. At this time, the Company does

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not have adequate information to determine IAA's responsibility for contamination at this site, if any, or to estimate IAA's loss as a result of this potential liability.

In addition, the Washington State Department of 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. The current Tukwila property owner, the former Tukwila property owner and IAA have had discussions with the Washington State Department of Ecology concerning possible source control obligations, including an investigation of the water and soils entering the stormwater system, an analysis of the source of any contamination identified within the system and possible repairs and upgrades to the stormwater capture and filtration system. In 2011, IAA submitted results of its stormwater system investigation to comply with the Washington State Department of Ecology source control requirements. Additional source control obligations, if any, are not expected to have a material adverse effect on future recurring operating costs.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information and Holders of Record

KAR Auction Services' common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KAR" and has been traded on the NYSE since December 11, 2009. As of February 7, 2014, there were 10 stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

The following table sets forth the range of high and low intraday sales prices per share of common stock for each quarter during fiscal years 2013 and 2012:

	2013	
	High	Low
4th Quarter (October 1 - December 31)	$30.32	$26.97
3rd Quarter (July 1 - September 30)	$28.67	$22.96
2nd Quarter (April 1 - June 30)	$24.37	$19.27
1st Quarter (January 1 - March 31)	$22.32	$19.06

	2012	
	High	Low
4th Quarter (October 1 - December 31)	$20.49	$17.00
3rd Quarter (July 1 - September 30)	$20.85	$14.10
2nd Quarter (April 1 - June 30)	$18.57	$14.39
1st Quarter (January 1 - March 31)	$16.85	$13.46

Dividend Policy

On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock. On April 4, 2013, July 3, 2013 and October 3, 2013, we paid a cash dividend of $0.19 per share to stockholders of record at the close of business on March 25, 2013, June 24, 2013 and September 24, 2013, respectively. On January 3, 2014, we paid a cash dividend of $0.25 per share to stockholders of record at the close of business on December 20, 2013. On February 18, 2014, the board of directors announced a cash dividend of $0.25 per share payable on April 3, 2014, to stockholders of record at the close of business on March 26, 2014, representing an annualized dividend of $1.00 per share. 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.

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Stock Price Performance Graph

The graph below shows the cumulative total stockholder return, assuming the investment of $100, for the period beginning on December 11, 2009, the first trading day of KAR Auction Services' common stock, and ending on December 31, 2013, on each of KAR Auction Services' common stock, the Standard & Poor's 400 Midcap Index and the Standard and Poor's Smallcap 600 Index. For the year ended December 31, 2013, we have also added the S&P 500 Index to the comparison of cumulative total return. For the years following 2013, we will no longer use the Standard and Poor's Smallcap 600 Index as a comparable index because our market capitalization is no longer comparable to the average market capitalizations included in the index. We believe the S&P 500 provides a better comparison in terms of comparable market capitalization. In addition, the vesting of certain of our stock-based compensation awards are tied to the Company's total shareholder return relative to that of companies within the S&P 500 Index. Our stock price performance shown in the following graph is not indicative of future stock price performance.

Company/Index	Base Period 12/11/2009	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
KAR Auction Services, Inc.	$100	$114.63	$114.71	$112.22	$168.25	$245.64
S&P 400 Midcap Index	$100	$102.94	$128.52	$124.54	$144.55	$190.18
S&P Smallcap 600 Index	$100	$104.86	$131.05	$130.85	$150.23	$209.80
S&P 500 Index	$100	$100.79	$113.67	$113.66	$128.90	$167.06

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Item 6. Selected Financial Data

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

Selected Financial Data of KAR Auction Services

For the Years Ended December 31, 2013, 2012, 2011, 2010 and 2009

The following consolidated financial data for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 is based on our audited financial statements.

	Year Ended December 31,				
(Dollars in millions except per share amounts)	2013	2012	2011	2010	2009
Operations:					
Operating revenues					
ADESA	$1,118.6	$1,053.5	$1,017.4	$1,075.9	$1,088.5
IAA	830.0	716.1	700.1	610.4	553.1
AFC	224.7	193.8	168.8	136.3	93.9
Total operating revenues	$2,173.3	$1,963.4	$1,886.3	$1,822.6	$1,735.5
Operating expenses (exclusive of depreciation and amortization)	1,722.2	1,506.2	1,424.6	1,382.5	1,367.8
Operating profit	256.7	267.0	281.9	268.8	195.3
Interest expense	104.7	119.4	143.1	141.4	172.6
Income from continuing operations	67.7	92.0	72.2	69.6	23.2
Net income	67.7	92.0	72.2	69.6	23.2
Net income per share					
Basic	0.49	0.67	0.53	0.52	0.21
Diluted	0.48	0.66	0.52	0.51	0.21
Weighted average shares outstanding					
Basic	137.9	136.5	136.0	134.9	108.0
Diluted	140.8	139.0	137.8	135.9	108.1
Cash dividends declared per common share	0.82	0.19	—	—	—
	As of December 31,				
	2013	2012	2011	2010	2009
Financial Position:					
Working capital [(1)]	$356.9	$294.5	$177.0	$287.9	$299.5
Total assets	5,127.2	4,922.3	4,779.1	4,525.0	4,251.3
Total debt, net of unamortized debt discount	1,767.2	1,818.3	1,902.8	1,875.7	2,272.9
Total stockholders' equity	1,481.8	1,443.7	1,343.2	1,244.6	1,141.5
	Year Ended December 31,				
	2013	2012	2011	2010	2009
Other Financial Data:					
Net cash provided by operating activities	$434.0	$290.2	$305.8	$467.6	$250.8
Capital expenditures	96.6	102.0	85.8	78.9	65.6
Depreciation and amortization	194.4	190.2	179.8	171.3	172.4

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

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

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

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this report on Form 10-K that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as "should," "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; dividend declarations and payments; 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:

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

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- our substantial amount of debt;
- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- any impairment to our goodwill or other intangible assets;
- our self-insurance for certain risks;
- any losses of key personnel;
- interruptions to service from our workforce;
- 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 2014.

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 and salvage auction services in North America. 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 65 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 inspections, storage, transportation, reconditioning, titling and other administrative services.
- The IAA segment serves a domestic and international customer base through live and online auctions and through 164 salvage vehicle auction sites in the United States and Canada at December 31, 2013. 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, 2013, AFC conducted business at 105 locations in the United States and Canada.

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

allocated by the holding company.

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Industry Trends

Whole Car

Used vehicles sold in North America through whole car auctions, including online only sales, were 8.0 million, 8.2 million and an estimated 8.7 million in 2011, 2012 and 2013, respectively. The reduction in auction volumes since 2009, when industry volumes exceeded 9 million used vehicles sold, is attributable to supply shortages in the North American whole car auction industry caused principally by declines in new vehicle sales and lease originations from 2007 to 2009 and declines in repossessions from 2009 to 2012. The supply shortages and resulting decline in industry auction volumes reflected a reduction in units sold by institutional consignors, which was partially offset by dealer consignment units sold.

Other reasons for the fluctuations in industry volumes, which may also impact future volumes include:

- New car sales in the U.S. declined from 17.0 million in 2005 to 10.4 million in 2009. Although new vehicle sales have climbed over the last four years to approximately 15.6 million units in 2013, the recovery in new vehicles sales has been gradual and may continue to be so for the foreseeable future.
- The previous decline in total new vehicle sales, coupled with a tightening of consumer credit and changing policies regarding delinquent loans by the major lenders, resulted in a decline in repossessed vehicles coming to auction.
- When lease residuals are below wholesale vehicle values, more vehicles are purchased by either the consumer or the "grounding dealer" (the dealer that the lessee returned the vehicle to) or by dealers in online auctions, prior to the vehicles being transported to a physical auction.
- As used vehicle prices have increased over the last few years, new vehicle dealers have shifted to selling more used vehicles, which can offset lower new vehicle sales. Dealers can also offer financing, warranties and insurance services on their used vehicle sales. Despite changes in the number of trade-ins dealers keep for retail sale as compared to periods prior to 2010, the number of dealer consignment vehicles remarketed through whole car auctions has increased since 2010.
- There was a reduction in the number of lease originations in 2008 and 2009, as new vehicle sales fell and lease financing was scaled back. This decline negatively impacted the supply of off-lease vehicles available at auction through 2012.

We estimate that used vehicle auction volumes in North America, including online only volumes, will be approximately 9.1 million units in 2014, approximately 9.5 million units in 2015 and approximately 9.7 million units in 2016.

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 14% in both 2013 and 2012, up from approximately 13% in 2011. There is no central reporting system that tracks the number of total loss vehicles in any given year which makes estimating industry volumes very difficult.

Fluctuations in used vehicle and commodity pricing have an impact on proceeds received in the salvage vehicle auction industry. In times of rising prices, as the industry has experienced over the last few years, revenue and gross profit are positively impacted. If used vehicle and commodity prices continue to moderate in 2014, proceeds, revenue and gross profit at salvage auctions may be negatively impacted, which could adversely affect the level of profitability.

Automotive Finance

AFC works with independent used vehicle dealers to improve their results by providing a comprehensive set of business and financial solutions that leverages its local branches, industry experience and scale, as well as KAR affiliations. Over the last few years, the U.S. independent used vehicle dealer base has rebounded from approximately 36,000 dealers in 2009 to about 37,000 dealers in 2013. During this time, AFC's dealer base has grown from over 9,700 dealers in 2009 to almost 12,000 dealers in 2013 and loan transactions, which includes both loans paid off and loans curtailed, have grown from approximately 800,000 in 2009 to approximately 1,355,000 in 2013.

Key challenges for the independent used vehicle dealer include used vehicle sales volume demand, 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.

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

Seasonality

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

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

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Results of Operations

Overview of Results of KAR Auction Services, Inc. for the Years Ended December 31, 2013 and 2012:

(Dollars in millions except per share amounts)	Year Ended December 31, 2013	2012
Revenues		
ADESA	$1,118.6	$1,053.5
IAA	830.0	716.1
AFC	224.7	193.8
Total revenues	2,173.3	1,963.4
Cost of services*	1,232.2	1,087.1
Gross profit*	941.1	876.3
Selling, general and administrative	490.0	419.1
Depreciation and amortization	194.4	190.2
Operating profit	256.7	267.0
Interest expense	104.7	119.4
Other income, net	(2.6)	(4.0)
Loss on modification/extinguishment of debt	5.4	—
Income before income taxes	149.2	151.6
Income taxes	81.5	59.6
Net income	$67.7	$92.0
Net income per share		
Basic	$0.49	$0.67
Diluted	$0.48	$0.66

* Exclusive of depreciation and amortization

For the year ended December 31, 2013, we had revenue of $2,173.3 million compared with revenue of $1,963.4 million for the year ended December 31, 2012, an increase of 11%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Superstorm Sandy

In October 2012, Superstorm Sandy damaged property throughout the Eastern United States with the most significant damage concentrated in New Jersey and New York. As a direct result of Superstorm Sandy's effect on New York City and neighboring communities, damage from the storm is estimated at over $70 billion. Although the damage from Superstorm Sandy was widespread, the most significant damage was concentrated on the eastern seaboard of the United States. KAR and its subsidiaries did not experience significant damage to its properties or vehicles stored on our properties for our customers. Certain auction activities were delayed due to power outages, temporary loss of Internet access and the inability of customers to attend the auctions immediately following the damage created by Superstorm Sandy.

IAA provides salvage auction services to substantially all of the major automobile insurance companies in the United States. Contracts with IAA's insurance customers require IAA to provide services in the event of catastrophic events like Superstorm Sandy. Typically these catastrophic events create a temporary increase in the number of cars processed and sold. The nature of the damage, the need to service our customers in a short period of time and the geographic concentration in a heavily populated, high cost area, led to substantially increased costs incurred to handle the significantly greater volumes of vehicles.

Superstorm Sandy was unique in that its impact was greatest in the densely populated New York City area. This resulted in a high concentration of total loss vehicles in a relatively small geographic area. It is estimated that Superstorm Sandy damaged over 200,000 vehicles. IAA's customers assigned over 50,000 total loss vehicles to IAA for processing. In order to store and process these vehicles, IAA secured over 400 acres of temporary space in New York and New Jersey. In addition, the difficult infrastructure of the New York City and Long Island areas and the

shortage of towing capacity required IAA to incur

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significantly greater towing costs to move damaged vehicles to its sites for processing. In order to serve our customers in this region, IAA had to bring hundreds of employees to the affected areas to assist in the timely processing of these vehicles. All of these activities resulted in a temporary increase in costs related to Superstorm Sandy vehicles.

For the year ended December 31, 2013, IAA sold over 45,000 Superstorm Sandy vehicles resulting in revenue of approximately $30.1 million and cost of services of approximately $43.6 million. Overall, IAA incurred a pre-tax net loss of $13.5 million and $9.1 million related to the processing of Superstorm Sandy vehicles for the years ended December 31, 2013 and 2012, respectively. This net loss has been excluded from Adjusted EBITDA in accordance with the definitions in our Credit Agreement. These losses are net of auction services revenue realized upon the sale of the vehicles. The significantly higher tow costs incurred in order to respond to the requirements of our customers, increased occupancy costs due to the leasing of temporary locations to process Superstorm Sandy vehicles and increased labor costs for the temporary work force brought into the New York and New Jersey area has resulted in a net loss on the processing of the Superstorm Sandy vehicles.

Selling, General and Administrative - Stock-Based Compensation

Selling, general and administrative expenses increased $70.9 million, or 17%, to $490.0 million for the year ended December 31, 2013, compared with $419.1 million for the year ended December 31, 2012. A $44.0 million increase in stock-based compensation expense contributed to the overall increase in selling, general and administrative expenses. In connection with KAR LLC's sale of its shares of KAR Auction Services, all of the remaining $52.1 million of stock-based compensation expense related to the KAR LLC and Axle LLC profit interests (operating units and value units) was recognized in 2013, of which $39.8 million was recognized in the fourth quarter of 2013. In addition, in the fourth quarter of 2013, certain exit options were modified to extend the option lives, which resulted in additional stock-based compensation expense of $9.5 million in 2013. For a further discussion of selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization increased $4.2 million, or 2%, to $194.4 million for the year ended December 31, 2013, compared with $190.2 million for the year ended December 31, 2012. The increase in depreciation and amortization was due to an increase resulting from certain assets placed in service over the last twelve months.

Interest Expense

Interest expense decreased $14.7 million, or 12%, to $104.7 million for the year ended December 31, 2013, compared with $119.4 million for the year ended December 31, 2012. The decrease in interest expense was primarily due to the decrease in the interest rate on Term Loan B debt which was refinanced on March 12, 2013. The interest rate on Term Loan B debt was 3.75% at December 31, 2013 compared with an interest rate of 5% at December 31, 2012. The decrease in interest expense was partially offset by an increase in interest expense at AFC, which resulted from an increase in the average U.S. portfolio financed in 2013 as compared with 2012.

Loss on Modification/Extinguishment of Debt

In March 2013, we amended our Credit Agreement and recorded a $3.9 million pretax charge resulting from certain expenses related to the Credit Agreement amendment, as well as the write-off of certain unamortized debt issuance costs associated with the term loan. Additionally, in April 2013, we prepaid the $150.0 million principal amount of the floating rate senior notes with proceeds received from refinancing Term Loan B as part of the Second Amendment to the Credit Agreement. In the second quarter of 2013, we recorded a $0.8 million pretax charge primarily resulting from the write-off of unamortized debt issuance costs associated with the floating rate senior notes. Finally, in the second quarter of 2013, we recorded a $0.7 million pretax charge primarily resulting from the write-off of unamortized securitization issuance costs associated with AFC's securitization facilities.

Income Taxes

We had an effective tax rate of 54.6% for the year ended December 31, 2013, compared with an effective tax rate of 39.3% for the year ended December 31, 2012. Excluding the effect of the discrete items, our effective tax rate for the year ended December 31, 2013 and 2012 would have been 53.8% and 41.9%, respectively. Income before income taxes includes the impact, if any, of profit interest expense which is not deductible by us for income tax purposes. For the years ended December 31, 2013 and 2012 there was profit interest expense of $52.1 million and $12.9 million, respectively. Excluding the effect of the nondeductible profit interest expense on income before income taxes, the

Company's income taxes for the year ended December 31, 2013 and 2012 would have been 40.5% and 36.2% of income before income taxes, respectively. During the year ended December 31, 2012, our effective tax rate benefited from the recognition of $4.7 million of previously unrecognized deferred tax assets related to foreign tax credits and state net operating losses.

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ADESA Results

(Dollars in millions)	Year Ended December 31, 2013	2012
ADESA revenue	$1,118.6	$1,053.5
Cost of services*	629.9	595.7
Gross profit*	488.7	457.8
Selling, general and administrative	252.3	249.3
Depreciation and amortization	87.9	96.9
Operating profit	$148.5	$111.6

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $65.1 million, or 6%, to $1,118.6 million for the year ended December 31, 2013, compared with $1,053.5 million for the year ended December 31, 2012. The increase in revenue was primarily a result of a 9% increase in the number of vehicles sold, partially offset by a 3% decrease in revenue per vehicle sold to approximately $545 for the year ended December 31, 2013, compared with approximately $560 for the year ended December 31, 2012.

The increase in volume sold was attributable to an increase in institutional volume, including vehicles sold on our online only platform, as well as an 8% increase in dealer consignment units sold for the year ended December 31, 2013 compared with the year ended December 31, 2012. Online sales volumes for ADESA represented approximately 35% of the total vehicles sold in 2013, compared with approximately 31% in 2012. "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 represent approximately half of ADESA's online sales volume. ADESA sold approximately 410,000 and 310,000 vehicles through its online only offerings in 2013 and 2012, respectively.

Revenue, including all ancillary services, per vehicle sold at physical auction locations increased $6 to $651 for the year ended December 31, 2013, compared with $645 for the year ended December 31, 2012. The increase in revenue per vehicle sold at physical auction locations was attributable to an increase in auction fees, as a result of the increase in mix towards dealer consignment vehicles, as well as selective fee increases. Revenue per vehicle sold in online only auctions decreased $8 to $118 for the year ended December 31, 2013, compared with $126 for the year ended December 31, 2012. The decrease in online only auctions was attributable to an increased number of cars sold in closed private label sales, which includes uniquely branded selling systems between manufacturers or their captive finance arms and their franchised dealers. 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 56.8% for the year ended December 31, 2013, compared with 56.7% for the year ended December 31, 2012. For the year ended December 31, 2013, dealer consignment vehicles represented approximately 49% of used vehicles sold at ADESA physical auction locations, compared with approximately 48% for the year ended December 31, 2012.

Gross Profit

For the year ended December 31, 2013, gross profit for ADESA increased $30.9 million, or 7%, to $488.7 million, compared with $457.8 million for the year ended December 31, 2012. Gross profit for ADESA was 43.7% of revenue for the year ended December 31, 2013, compared with 43.5% of revenue for the year ended December 31, 2012. The increase in gross profit percentage for the year ended December 31, 2013, compared with the year ended December 31, 2012, was primarily the result of the 6% increase in revenue. In addition, the gross profit percentage also benefited from the lower utilization of ancillary services as a result of increases in both vehicles sold online and dealer consignment vehicles.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $3.0 million, or 1%, to $252.3 million for the year ended December 31, 2013, compared with $249.3 million for the year ended December 31, 2012, primarily due to increases in non-cash stock-based compensation expense, marketing expenses and compensation expense, partially offset by decreases in travel expenses, professional fees and bad debt expense.

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IAA Results

	Year Ended December 31,	
(Dollars in millions)	2013	2012
IAA revenue	$830.0	$716.1
Cost of services*	545.9	449.5
Gross profit*	284.1	266.6
Selling, general and administrative	82.4	69.8
Depreciation and amortization	73.8	68.1
Operating profit	$127.9	$128.7

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $113.9 million, or 16%, to $830.0 million for the year ended December 31, 2013, compared with $716.1 million for the year ended December 31, 2012. The increase in revenue was a result of an increase in vehicles sold of approximately 13% for the year ended December 31, 2013, as well as increases in revenue per vehicle sold. IAA's total loss vehicle inventory has increased over 10% at December 31, 2013, as compared to December 31, 2012 (excluding, in 2012, Superstorm Sandy units in inventory). Vehicles sold under purchase agreements were approximately 7% of total salvage vehicles sold for the years ended December 31, 2013 and 2012. Online sales volumes for IAA for the years ended December 31, 2013 and 2012 represented approximately half of the total vehicles sold by IAA.

Gross Profit

For the year ended December 31, 2013, gross profit at IAA increased to $284.1 million, or 34.2% of revenue, compared with $266.6 million, or 37.2% of revenue, for the year ended December 31, 2012. The gross profit increase was primarily the result of the 16% increase in revenue. The decrease in gross profit as a percentage of revenue was mainly attributable to an increase in expenses associated with processing total loss vehicles related to Superstorm Sandy, which included increases in towing costs, compensation expense, temporary rental property expense, travel expenses and miscellaneous yard and auction expenses, as well as increased costs associated with volume increases. An increase in the purchase price of vehicles sold under purchase agreements also contributed to the decrease in gross profit as a percentage of revenue, as the entire selling price of the vehicle is recorded as revenue and cost of services. For the year ended December 31, 2013, IAA sold over 45,000 Superstorm Sandy vehicles resulting in revenue of approximately $30.1 million and cost of services of approximately $43.6 million. For the year ended December 31, 2012, Superstorm Sandy vehicles resulted in revenue of approximately $5.7 million and cost of services of approximately $14.8 million. Overall, for the years ended December 31, 2013 and 2012, IAA incurred a pre-tax net loss of $13.5 million and $9.1 million, respectively, related to the processing of Superstorm Sandy vehicles. Excluding the impact of revenues and expenses associated with Superstorm Sandy, the gross profit as a percentage of revenue for the years ended December 31, 2013 and 2012 would have been approximately 37.2% and 38.8%, respectively. For a further discussion of Superstorm Sandy, see the "Superstorm Sandy" section included in "Results of Operations" above.

Selling, General and Administrative

Selling, general and administrative expenses at IAA increased $12.6 million, or 18%, to $82.4 million for the year ended December 31, 2013, compared with $69.8 million for the year ended December 31, 2012. The increase in selling, general and administrative expenses was attributable to increases in incentive-based compensation expense of $1.7 million, stock-based compensation expense of $1.2 million, information technology costs of $1.3 million and compensation expense of $0.9 million. The increase in incentive-based compensation reflects a higher level of bonus achievement. In addition, in 2012, a $2.9 million gain on the sale of excess property and a $0.8 million insurance refund resulted in decreased selling, general and administrative expenses.

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AFC Results

(Dollars in millions except volumes and per loan amounts)	Year Ended December 31, 2013	2012
AFC revenue		
Interest and fee income	$211.1	$190.3
Other revenue	10.7	10.7
Provision for credit losses	(9.6)	(7.2)
Other service revenue	12.5	—
Total AFC revenue	224.7	193.8
Cost of services*	56.4	41.9
Gross profit*	168.3	151.9
Selling, general and administrative	26.2	21.3
Depreciation and amortization	27.6	23.3
Operating profit	$114.5	$107.3
Loan transactions	1,354,955	1,239,755
Revenue per loan transaction, excluding "Other service revenue"	$157	$156

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2013, AFC revenue increased $30.9 million, or 16%, to $224.7 million, compared with $193.8 million for the year ended December 31, 2012. The increase in revenue was the result of a 9% increase in loan transactions and $12.5 million of "Other service revenue" generated by Preferred Warranties, Inc. ("PWI"), for the year ended December 31, 2013, compared with the same period in 2012. PWI, a service contract business, was acquired in June 2013. In addition, managed receivables increased to $1,107.6 million at December 31, 2013 from $1,004.2 million at December 31, 2012.

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

Gross Profit

For the year ended December 31, 2013, gross profit for the AFC segment increased $16.4 million, or 11%, to $168.3 million, compared with $151.9 million for the year ended December 31, 2012, primarily as a result of a 16% increase in revenue, partially offset by a 35% increase in cost of services. The increase in cost of services was primarily the result of the inclusion of expenses associated with PWI, as well as increases in compensation expense.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $4.9 million, or 23%, to $26.2 million for the year ended December 31, 2013, compared with $21.3 million for the year ended December 31, 2012. The increase was partially the result of $1.5 million in expenses associated with PWI. The remaining increase related to increases in stock-based compensation expense, professional fees and compensation expense.

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Holding Company Results

(Dollars in millions)	Year Ended December 31, 2013	2012
Selling, general and administrative	$129.1	$78.7
Depreciation and amortization	5.1	1.9
Operating loss	$(134.2)	$(80.6)

Selling, General and Administrative

For the year ended December 31, 2013, selling, general and administrative expenses at the holding company increased $50.4 million, or 64%, to $129.1 million, compared with $78.7 million for the year ended December 31, 2012, primarily as a result of an increase in stock-based compensation expense related to the KAR LLC and Axle LLC profit interests of $39.2 million, as well as an increase in medical costs of $6.9 million and incentive-based compensation of $0.8 million. For the year ended December 31, 2013, stock-based compensation expense related to the KAR LLC and Axle LLC operating and value units was $52.1 million, compared with $12.9 million for the year ended December 31, 2012. For the year ended December 31, 2013, approximately $37.5 million was paid to the KAR LLC profit interest holders and approximately $41.3 million was paid to the Axle LLC profit interest holders. The cash received by the profit interest holders was paid by KAR LLC and Axle LLC. None of the Company's cash was used to pay the profit interest holders.

Overview of Results of KAR Auction Services, Inc. for the Years Ended December 31, 2012 and 2011:

(Dollars in millions except per share amounts)	Year Ended December 31, 2012	2011
Revenues		
ADESA	$1,053.5	$1,017.4
IAA	716.1	700.1
AFC	193.8	168.8
Total revenues	1,963.4	1,886.3
Cost of services*	1,087.1	1,035.2
Gross profit*	876.3	851.1
Selling, general and administrative	419.1	389.4
Depreciation and amortization	190.2	179.8
Operating profit	267.0	281.9
Interest expense	119.4	143.1
Other income, net	(4.0)	(4.7)
Loss on extinguishment of debt	—	53.5
Income before income taxes	151.6	90.0
Income taxes	59.6	17.8
Net income	$92.0	$72.2
Net income per share		
Basic	$0.67	$0.53
Diluted	$0.66	$0.52

* Exclusive of depreciation and amortization

For the year ended December 31, 2012, we had revenue of $1,963.4 million compared with revenue of $1,886.3 million for the year ended December 31, 2011, an increase of 4%. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

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Superstorm Sandy

In October 2012, Superstorm Sandy damaged property throughout the Eastern United States with the most significant damage concentrated in New Jersey and New York. As a direct result of Superstorm Sandy's effect on New York City and neighboring communities, damage from the storm is estimated at over $70 billion. Although the damage from Superstorm Sandy was widespread, the most significant damage was concentrated on the eastern seaboard of the United States. KAR and its subsidiaries did not experience significant damage to its properties or vehicles stored on our properties for our customers. Certain auction activities were delayed due to power outages, temporary loss of Internet access and the inability of customers to attend the auctions immediately following the damage created by Superstorm Sandy.

IAA provides salvage auction services to substantially all of the major automobile insurance companies in the United States. Contracts with IAA's insurance customers require IAA to provide services in the event of catastrophic events like Superstorm Sandy. Typically these catastrophic events create a temporary increase in the number of cars processed and sold. The nature of the damage, the need to service our customers in a short period of time and the geographic concentration in a heavily populated, high cost area, led to substantially increased costs incurred to handle the significantly greater volumes of vehicles.

Superstorm Sandy was unique in that its impact was greatest in the densely populated New York City area. This resulted in a high concentration of total loss vehicles in a relatively small geographic area. It is estimated that Superstorm Sandy damaged over 200,000 vehicles. IAA's customers assigned over 50,000 total loss vehicles to IAA for processing. In order to store and process these vehicles, IAA secured over 400 acres of temporary space in New York and New Jersey. In addition, the difficult infrastructure of the New York City and Long Island areas and the shortage of towing capacity required IAA to incur significantly greater towing costs to move damaged vehicles to its sites for processing. In order to serve our customers in this region, IAA had to bring hundreds of employees to the affected areas to assist in the timely processing of these vehicles. All of these activities resulted in a temporary increase in costs related to Superstorm Sandy vehicles.

In the fourth quarter of 2012, IAA incurred a pre-tax net loss of $9.1 million related to the processing of Superstorm Sandy vehicles. This net loss was excluded from Adjusted EBITDA in accordance with the definitions in our Credit Agreement. These losses were net of auction services revenue realized or to be realized upon the sale of the vehicles. The significantly higher tow costs incurred in order to respond to the requirements of our customers, increased occupancy costs due to the leasing of temporary locations to process Superstorm Sandy vehicles and increased labor costs for the temporary work force brought into the New York and New Jersey area has resulted in a net loss on the processing of the Superstorm Sandy vehicles.

Depreciation and Amortization

Depreciation and amortization increased $10.4 million, or 6%, to $190.2 million for the year ended December 31, 2012, compared with $179.8 million for the year ended December 31, 2011. The increase in depreciation and amortization was primarily representative of an increase of $11.3 million related to OPENLANE, which was acquired in the fourth quarter of 2011, partially offset by a net decrease in depreciation and amortization as five year life computer software and technology assets, revalued as part of the April 20, 2007 merger between ADESA and IAA, became fully amortized.

Interest Expense

Interest expense decreased $23.7 million, or 17%, to $119.4 million for the year ended December 31, 2012, compared with $143.1 million for the year ended December 31, 2011. The decrease in interest expense was primarily representative of $14.5 million in interest expense incurred in the second quarter of 2011 in connection with the settlement and termination of our $650 million notional swap agreement. In addition, interest expense decreased as a result of the second quarter 2011 prepayment of our $450.0 million principal amount 83/4% senior notes and the remaining $131.1 million principal balance of our 10% senior subordinated notes, partially offset by Term Loan B debt, which had an interest rate of 5% at December 31, 2012, compared with our previous term loan debt, which had an interest rate of approximately 3% until its prepayment in May 2011. The decrease in interest expense was also partially offset by an increase in interest expense at AFC, which resulted from an increase in the average U.S. portfolio financed in 2012 as compared with 2011, as well as an increase in the cost of funds, beginning in the second

quarter of 2011.

Other Income, Net

We had other income of $4.0 million for the year ended December 31, 2012, compared with $4.7 million for the year ended December 31, 2011. The change in other income was primarily representative of $4.6 million of contingent consideration that was reversed during 2011 as compared with $1.1 million of contingent consideration that was recorded in 2012. The contingent consideration related to certain prior year acquisitions and the adjustments were based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable

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would or would not be met. In addition, we had foreign currency transaction gains for the year ended December 31, 2012, compared with foreign currency transaction losses for the year ended December 31, 2011.

Loss on Extinguishment of Debt

In May 2011, we terminated our previous credit facility, entered into as of April 20, 2007, and recorded a $24.5 million pretax charge representative of the write-off of certain unamortized debt issuance costs associated with our previous term loan. In addition, in June 2011, we prepaid $450.0 million principal amount of the 83/4% senior notes and the remaining $131.1 million principal balance of the 10% senior subordinated notes with proceeds received from Term Loan B and cash on hand. As a result, we also recorded a $29.0 million pretax charge representative of the net premiums payable related to the repurchase of these notes, the write-off of certain unamortized debt issuance costs associated with these notes, as well as certain expenses related to the prepayment of these notes.

Income Taxes

We had an effective tax rate of 39.3% for the year ended December 31, 2012, compared with an effective tax rate of 19.8% for the year ended December 31, 2011. During the year ended December 31, 2012, our effective tax rate of 39.3% benefited from the recognition of $4.7 million of previously unrecognized deferred tax assets related to foreign tax credits and state net operating losses. Excluding the effect of the discrete items for the year ended December 31, 2012, our effective tax rate for the year ended December 31, 2012 would have been 41.9%. During the year ended December 31, 2011, our effective tax rate of 19.8% benefited from the reversal of $18.6 million in reserves for uncertain tax positions due to the expiration of certain statutes of limitations. Excluding the effect of the discrete items for the year ended December 31, 2011, our effective tax rate for the year ended December 31, 2011 would have been 40.2%. The change in the tax rate, excluding the effect of discrete items, was primarily attributable to the increase in non-deductible profit interest expense, as well as differences in effective tax rates in state and foreign jurisdictions. Income before income taxes includes the impact of $12.9 million in profit interest expense and a credit of $0.1 million reflected as negative profit interest expense for the years ended December 31, 2012 and 2011, respectively, which is not deductible by us for income tax purposes.

ADESA Results

	Year Ended December 31,	
(Dollars in millions)	2012	2011
ADESA revenue	$1,053.5	$1,017.4
Cost of services*	595.7	582.3
Gross profit*	457.8	435.1
Selling, general and administrative	249.3	219.6
Depreciation and amortization	96.9	88.1
Operating profit	$111.6	$127.4

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $36.1 million, or 4%, to $1,053.5 million for the year ended December 31, 2012, compared with $1,017.4 million for the year ended December 31, 2011. The increase in revenue was primarily a result of an 8% increase in the number of vehicles sold, partially offset by a 4% decrease in revenue per vehicle sold to approximately $560 for the year ended December 31, 2012, compared with approximately $585 for the year ended December 31, 2011. OPENLANE, which was acquired in the fourth quarter of 2011, incrementally increased ADESA's revenue approximately $77.5 million for the year ended December 31, 2012.

The total number of used vehicles sold at ADESA increased 8% for the year ended December 31, 2012, compared with the year ended December 31, 2011, and resulted in an increase in ADESA revenue of approximately $34.4 million. Excluding OPENLANE, the total number of used vehicles sold at ADESA decreased approximately 4% for the year ended December 31, 2012, compared with the year ended December 31, 2011. The decrease in same store volume sold was attributable to a decline in institutional supplier inventory levels, partially offset by an 11% (excluding OPENLANE) increase in dealer consignment units sold in 2012 compared with 2011. Online sales

volumes for ADESA, which includes both LiveBlock and OPENLANE sales, represented approximately 30% of the total vehicles sold by ADESA in 2012, compared with approximately 24% in 2011. LiveBlock operates in real-time with our physical auctions and provides registered buyers with the opportunity to participate in live auctions.

The 4% decrease in revenue per vehicle sold was primarily attributable to lower revenue per vehicle sold at OPENLANE, as fewer ancillary services offerings are utilized for online vehicle sales. In addition, decreases in ancillary and related services resulted in decreased ADESA revenue of approximately $17.2 million, while fluctuations in the Canadian exchange rate resulted in decreased ADESA revenue of approximately $2.6 million. Partially offsetting the decreases in revenue was incremental fee income related to selective fee increases, which resulted in increased ADESA revenue of approximately $21.5 million. 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, decreased to 57.4% for the year ended December 31, 2012, compared with 60.7% for the year ended December 31, 2011. The decrease in conversion rates is representative of a change in the mix of vehicles sold toward more dealer consignment vehicles, which convert at a lower rate, as dealers have the option of returning vehicles to their stores for retail sale or utilizing alternative wholesale channels. For the year ended December 31, 2012, dealer consignment vehicles represented approximately 48% of used vehicles sold at ADESA physical auction locations, an increase from approximately 42% for the year ended December 31, 2011.

Gross Profit

For the year ended December 31, 2012, gross profit for ADESA increased $22.7 million, or 5%, to $457.8 million, compared with $435.1 million for the year ended December 31, 2011. Gross profit for ADESA was 43.5% of revenue for the year ended December 31, 2012, compared with 42.8% of revenue for the year ended December 31, 2011. The increase in gross profit as a percentage of revenue for the year ended December 31, 2012, compared with the year ended December 31, 2011, was primarily the result of the 8% increase in the number of vehicles sold, partially offset by a 2% increase in cost of services. The increase in cost of services was primarily attributable to the addition of OPENLANE costs, as well as lower conversion rates, partially offset by lower utilization of ancillary and related services.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $29.7 million, or 14%, to $249.3 million for the year ended December 31, 2012, compared with $219.6 million for the year ended December 31, 2011, primarily due to the acquisition and integration of OPENLANE, which accounted for approximately $28.1 million of the increase, as well as an increase in incentive-based compensation expense, an increase in professional fees and a loss on the sale of idle property, partially offset by decreases in compensation expense and stock-based compensation expense, as well as fluctuations in the Canadian exchange rate.

IAA Results

	Year Ended December 31,	
(Dollars in millions)	2012	2011
IAA revenue	$716.1	$700.1
Cost of services*	449.5	415.3
Gross profit*	266.6	284.8
Selling, general and administrative	69.8	82.3
Depreciation and amortization	68.1	65.8
Operating profit	$128.7	$136.7

* Exclusive of depreciation and amortization

Revenue

Revenue from IAA increased $16.0 million, or 2%, to $716.1 million for the year ended December 31, 2012, compared with $700.1 million for the year ended December 31, 2011. The increase in revenue was a result of an increase in vehicles sold of approximately 3% for the year ended December 31, 2012. Included in the growth of units sold was an increase in the sale of vehicles sold under purchase agreements, in which the entire selling price of the vehicle is recorded as revenue. Vehicles sold under purchase agreements represented approximately 7% of total salvage vehicles sold for the year ended December 31, 2012, as compared with 5% for the year ended December 31, 2011. Also contributing to the growth in revenue were sales generated from the impact of Superstorm Sandy in the

Northeast Region in the fourth quarter of 2012. Online sales volumes for IAA for the years ended December 31, 2012 and 2011 represented approximately half of the total vehicles sold by IAA.

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Gross Profit

For the year ended December 31, 2012, gross profit at IAA decreased to $266.6 million, or 37.2% of revenue, compared with $284.8 million, or 40.7% of revenue, for the year ended December 31, 2011. The gross profit decrease was primarily the result of the 8% increase in cost of services. The decrease in gross profit as a percentage of revenue was mainly attributable to an increase in the purchase price of vehicles sold under purchase agreements and an increase in expenses associated with IAA's response to Superstorm Sandy in the Northeast Region, which included increases in towing costs, compensation expense, temporary real estate rental property expense, travel expenses and miscellaneous yard and auction expenses.

Selling, General and Administrative

Selling, general and administrative expenses at IAA decreased $12.5 million, or 15%, to $69.8 million for the year ended December 31, 2012, compared with $82.3 million for the year ended December 31, 2011. The decrease in selling, general and administrative expenses was attributable to a gain on the sale of excess property, as well as decreases in stock-based compensation expense and incentive-based compensation expense.

AFC Results

	Year Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	2012	2011
AFC revenue		
Interest and fee income	$ 190.3	$ 163.7
Other revenue	10.7	11.2
Provision for credit losses	(7.2)	(6.1)
Total AFC revenue	193.8	168.8
Cost of services*	41.9	37.6
Gross profit*	151.9	131.2
Selling, general and administrative	21.3	22.1
Depreciation and amortization	23.3	24.7
Operating profit	$ 107.3	$ 84.4
Loan transactions	1,239,755	1,064,891
Revenue per loan transaction	$ 156	$ 159

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2012, AFC revenue increased $25.0 million, or 15%, to $193.8 million, compared with $168.8 million for the year ended December 31, 2011. The increase in revenue was the result of a 16% increase in loan transactions for the year ended December 31, 2012, compared with the same period in 2011, partially offset by a 2% decrease in revenue per loan transaction for the year ended December 31, 2012. In addition, managed receivables increased to $1,004.2 million at December 31, 2012 from $883.2 million at December 31, 2011. Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $3, or 2%, primarily as a result of a decrease in average loan values and a decrease in floorplan and other fee income, partially offset by an increase in the average portfolio duration.

Gross Profit

For the year ended December 31, 2012, gross profit for the AFC segment increased $20.7 million, or 16%, to $151.9 million, compared with $131.2 million for the year ended December 31, 2011, primarily as a result of a 15% increase in revenue, partially offset by an 11% increase in cost of services. The increase in cost of services was primarily the result of an increase in the number of employees, as well as increases in lot check fees and incentive-based compensation expense.

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Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased $0.8 million, or 4%, to $21.3 million for the year ended December 31, 2012, compared with $22.1 million for the year ended December 31, 2011. The decrease was primarily the result of decreases in stock-based compensation expense and professional fees, partially offset by an increase in compensation expense.

Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	2012	2011
Selling, general and administrative	$78.7	$65.4
Depreciation and amortization	1.9	1.2
Operating loss	$(80.6)	$(66.6)

Selling, General and Administrative

For the year ended December 31, 2012, selling, general and administrative expenses at the holding company increased $13.3 million, or 20%, to $78.7 million, compared with $65.4 million for the year ended December 31, 2011, primarily as a result of an increase in stock-based compensation expense related to the KAR LLC and Axle LLC operating units (profit interests), which are remeasured each reporting period to fair value, as well as an increase in professional fees. For the year ended December 31, 2012, stock-based compensation expense related to the KAR LLC and Axle LLC operating units was $12.9 million. For the year ended December 31, 2011, we recognized a reduction in stock-based compensation expense related to the KAR LLC and Axle LLC operating units of $0.1 million.

LIQUIDITY AND CAPITAL RESOURCES

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

	December 31,	
(Dollars in millions)	2013	2012
Cash and cash equivalents	$191.6	$108.7
Restricted cash	18.8	11.9
Working capital	356.9	294.5
Amounts available under credit facility*	250.0	250.0
Cash flow from operations	434.0	290.2

* There were related outstanding letters of credit totaling approximately $26.3 million and $23.6 million at December 31, 2013 and 2012, respectively, which reduced the amount available for borrowings under the credit facility.

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.

Our available cash, which excludes cash in transit, was $145.3 million at December 31, 2013. Of this amount, approximately $24.9 million was held by 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 60 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 May 19, 2011, we established a $1.7 billion, six-year senior secured term loan facility ("Term Loan B") and a $250 million, five-year senior secured revolving credit facility, the terms of which are set forth in the Credit Agreement, dated as of May 19, 2011 (the "Credit Agreement").

In March 2013, we entered into the Second Amendment to the Credit Agreement. The amendment increased Term Loan B $150.0 million to $1.8 billion and decreased the interest rate on Term Loan B to Adjusted LIBOR plus 2.75% from Adjusted LIBOR plus 3.75%. In addition, the Adjusted LIBOR rate floor decreased to 1.0% from 1.25%. For the year ended December 31, 2013, we recorded a $3.9 million pretax charge resulting from certain expenses related to the Credit Agreement amendment, as well as the write-off of certain unamortized debt issuance costs associated with the term loan. The additional $150.0 million in proceeds received from Term Loan B were used to redeem the floating rate senior notes due in 2014 on April 3, 2013. In the second quarter of 2013, we recorded a $0.8 million pretax charge primarily resulting from the write-off of unamortized debt issuance costs associated with the redemption of the floating rate senior notes.

The Credit Facility is available for letters of credit, working capital and general corporate purposes (including refinancing certain Existing Indebtedness (as defined in the Credit Agreement)). 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. The Credit Agreement also permits up to $300 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders (with the consent of the administrative agent).

Term Loan B was issued at a discount of $8.5 million. The discount is being amortized to interest expense over the six-year term of the loan. Term Loan B is payable in quarterly installments equal to 0.25% of the aggregate principal amount as of the Second Amendment effective date, and commenced on March 31, 2013. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to (i) the net proceeds of certain debt offerings, asset sales and certain insurance recovery events; and (ii) for any fiscal year ending on or after December 31, 2011, any Excess Cash Flow, as defined in the Credit Agreement, on or before the 105th day following the end of the fiscal year. In April 2013, the Company made an excess cash flow payment of $39.4 million for the year ended December 31, 2012. For the year ended December 31, 2013, the Company has determined that an excess cash flow payment of $32.5 million will be made in April 2014. 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 $8.7 million of Term Loan B for the year ended December 31, 2013. The prepayments were credited to prepay in order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of Term Loan B, and thereafter to the remaining scheduled quarterly installments of Term Loan B on a pro rata basis. As such, after the debt prepayments, there are no further quarterly installments due until June 30, 2015.

Term Loan B bears interest at an Adjusted LIBOR rate plus 2.75% (with an Adjusted LIBOR rate floor of 1.0% per annum) and revolving loan borrowings at an Adjusted LIBOR rate plus 3.50%; however, for specified types of borrowings, the Company may elect to make term loan borrowings at a Base Rate (as defined in the Credit Agreement) plus 1.75% and revolving loan borrowings at a Base Rate plus 2.50%. The rate on Term Loan B was 3.75% at December 31, 2013. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement), which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate will step down by 25 basis points. The Company also pays a commitment fee of 50 basis points, payable quarterly, on the average daily unused amount of the credit facility. The fee may step down to 37.5 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

On December 31, 2013, $1,771.8 million was outstanding on Term Loan B and there were no borrowings on the revolving credit facility. In addition, there were related outstanding letters of credit in the aggregate amount of $26.3 million and $23.6 million at December 31, 2013 and December 31, 2012, respectively, which reduce the amount available for borrowings under the credit facility. Our Canadian operations also have a C$8 million line of credit which was undrawn as of December 31, 2013. However, there were related letters of credit outstanding totaling approximately C$1.2 million at December 31, 2013, which reduce credit available under the Canadian line of credit.

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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 perfected first-priority 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 capital expenditures, 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 option 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 nonrecurring 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, 2013 the ratio could not exceed 4.0 to 1.0 and it continues to decline throughout the remaining life of the Credit Facility until it reaches 2.5 to 1.0 at March 31, 2016. Our actual consolidated senior secured leverage ratio, including capital lease obligations of $30.7 million, was 3.07 to 1.0 at December 31, 2013.

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, 2013.

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 and debt service payments 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 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 eligible finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of $800 million for U.S. finance receivables at December 31, 2013.

In June 2013, AFC and AFC Funding Corporation entered into the Fifth Amended and Restated Receivables Purchase Agreement (the “Receivables Purchase Agreement”). The Receivables Purchase Agreement increased AFC Funding's

U.S. committed liquidity from $650 million to $800 million and extended the facility's maturity date from June 30, 2014 to June 30, 2016. In addition, certain of the covenants and termination events in the Receivables Purchase Agreement that are tied to the performance of the finance receivables portfolio were modified. In the second quarter of 2013, we recorded a $0.7 million pretax charge primarily resulting from the write-off of a portion of the unamortized securitization issuance costs.

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We also have an agreement for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables. In June 2013, AFCI entered into the Second Amended and Restated Receivables Purchase Agreement (the “Canadian Receivables Purchase Agreement”). The Canadian Receivables Purchase Agreement extended the facility's maturity date from June 30, 2014 to June 30, 2016. In addition, certain of the covenants and termination events in the Canadian Receivables Purchase Agreement that are tied to the performance of the finance receivables portfolio were modified. AFCI's committed liquidity is provided through a third party conduit (separate from the U.S. facility) and was C$100 million at December 31, 2013. 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 $1,107.6 million and $1,004.2 million at December 31, 2013 and December 31, 2012, respectively. AFC's allowance for losses was $8.0 million at December 31, 2013 and December 31, 2012.

As of December 31, 2013 and December 31, 2012, $1,100.2 million and $996.0 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $772.4 million and $713.3 million of obligations collateralized by finance receivables at December 31, 2013 and December 31, 2012, 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, 2013, 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 (as defined in the Credit Agreement) 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 Adjusted EBITDA to evaluate our performance and to evaluate results relative to incentive compensation targets. 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:

	Year Ended December 31, 2013				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$50.2	$56.6	$76.1	$(115.2)	$67.7
Add back:					
Income taxes	40.1	32.8	40.2	(31.6)	81.5
Interest expense, net of interest income	0.6	0.8	16.7	86.2	104.3
Depreciation and amortization	87.9	73.8	27.6	5.1	194.4
Intercompany interest	52.5	37.8	(19.9)	(70.4)	—

EBITDA	231.3	201.8	140.7	(125.9)	447.9
Adjustments per the Credit Agreement	24.7	3.9	(7.1)	55.3	76.8
Superstorm Sandy	—	13.5	—	—	13.5
Adjusted EBITDA	$256.0	$219.2	$133.6	$(70.6)	$538.2

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	Year Ended December 31, 2012				
(Dollars in millions)	ADESA	IAA	AFC	Corporate	Consolidated
Net income (loss)	$38.4	$56.5	$64.1	$(67.0)	$92.0
Add back:					
Income taxes	14.5	33.7	46.0	(34.6)	59.6
Interest expense, net of interest income	0.8	1.4	15.0	101.9	119.1
Depreciation and amortization	96.9	68.1	23.3	1.9	190.2
Intercompany interest	54.3	37.8	(17.8)	(74.3)	—
EBITDA	204.9	197.5	130.6	(72.1)	460.9
Adjustments per the Credit Agreement	26.2	(0.2)	(10.4)	14.6	30.2
Superstorm Sandy	—	9.1	—	—	9.1
Adjusted EBITDA	$231.1	$206.4	$120.2	$(57.5)	$500.2

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

	Three Months Ended				Twelve Months Ended
(Dollars in millions)	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013	December 31, 2013
Net income (loss)	$29.1	$33.4	$22.8	$(17.6)	$67.7
Add back:					
Income taxes	17.0	22.9	19.6	22.0	81.5
Interest expense, net of interest income	28.7	24.5	25.8	25.3	104.3
Depreciation and amortization	47.3	49.0	49.6	48.5	194.4
EBITDA	122.1	129.8	117.8	78.2	447.9
Other adjustments per the Credit Agreement	6.1	3.1	2.9	3.4	15.5
Non-cash charges	0.4	7.9	13.2	53.0	74.5
AFC interest expense	(3.2)	(3.3)	(3.3)	(3.4)	(13.2)
Superstorm Sandy	10.8	2.7	—	—	13.5
Adjusted EBITDA	$136.2	$140.2	$130.6	$131.2	$538.2

Summary of Cash Flows

	Year Ended December 31,	
(Dollars in millions)	2013	2012
Net cash provided by (used by):		
Operating activities	$434.0	$290.2
Investing activities	(267.9)	(227.6)
Financing activities	(76.6)	(53.5)
Effect of exchange rate on cash	(6.6)	2.2
Net increase in cash and cash equivalents	$82.9	$11.3

Cash flow from operating activities was $434.0 million for the year ended December 31, 2013, compared with $290.2 million for the year ended December 31, 2012. The increase in operating cash flow was primarily attributable to:

- the timing of collections and the disbursement of funds to consignors related to auctions held near period-ends; and

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- increased profitability, excluding non-cash charges such as non-cash stock-based compensation and deferred income taxes.

Net cash used by investing activities was $267.9 million for the year ended December 31, 2013, compared with $227.6 million for the year ended December 31, 2012. The increase in net cash used by investing activities was primarily attributable to:

- net cash paid of $45.8 million for acquisitions in 2013, including PWI Holdings, Inc. and High Tech Locksmiths, compared with $1.1 million for acquisitions in 2012 (see Notes to Consolidated Financial Statements - Note 3, Acquisitions); and
- a decrease in proceeds from the sale of property and equipment;

partially offset by:

- a decrease in the additional finance receivables held for investment; and
- a decrease in capital expenditures of approximately $5.4 million. For a discussion of the Company's capital expenditures, see “Capital Expenditures” below.

Net cash used by financing activities was $76.6 million for the year ended December 31, 2013, compared with $53.5 million for the year ended December 31, 2012. The increase in net cash used by financing activities was primarily attributable to:

- $78.6 million in dividend payments in 2013, compared with $26.0 million in 2012;
- a reduction in long-term debt for the year ended December 31, 2013 due to payments on long-term debt of $52.7 million, compared with payments on long-term debt of $17.0 million for the year ended December 31, 2012;
- payments of $26.0 million for debt issuance costs in 2013, compared with payments of $3.4 million in 2012; and
- a decrease in the additional obligations collateralized by finance receivables;

partially offset by:

- the repayment of the Company's revolving credit facility totaling $68.9 million in 2012;
- the timing of book overdrafts, as there was an increase of $3.7 million for the year ended December 31, 2013, compared with a decrease of $24.1 million for the year ended December 31, 2012. Book overdrafts relate to the timing of payments to consignors of vehicles; and
- an increase in the issuance of common stock under stock plans;

Capital Expenditures

Capital expenditures for the years ended December 31, 2013 and 2012 approximated $96.6 million and $102.0 million, respectively. Capital expenditures were funded primarily from internally generated funds. We continue to invest in our core information technology capabilities and capacity expansion. Capital expenditures are expected to be approximately $105 million for fiscal year 2014. Anticipated capital expenditures are primarily attributable to ongoing information system projects, upkeep and improvements at existing vehicle auction facilities, improvements in information technology systems and infrastructure and expansion of existing auction sites that are at capacity. Future capital expenditures could vary substantially based on capital project timing and the initiation of new information systems projects to support our business strategies.

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Dividends

Subject to board of director approval, we expect to pay a quarterly dividend of $0.25 per share in 2014 using cash flow from operations, representing an annualized dividend of $1.00 per share. The following dividend information has been released in 2013 and 2014:

- On February 20, 2013, the board of directors announced a cash dividend of $0.19 per share that was paid on April 4, 2013, to stockholders of record at the close of business on March 25, 2013.
- On May 1, 2013, the board of directors announced a cash dividend of $0.19 per share that was paid on July 3, 2013, to stockholders of record at the close of business on June 24, 2013.
- On August 6, 2013, the board of directors announced a cash dividend of $0.19 per share that was paid on October 3, 2013, to stockholders of record at the close of business on September 24, 2013.
- On November 5, 2013, the board of directors announced a cash dividend of $0.25 per share that was paid on January 3, 2014, to stockholders of record at the close of business on December 20, 2013.
- On February 18, 2014, the board of directors announced a cash dividend of $0.25 per share payable on April 3, 2014, to stockholders of record at the close of business on March 26, 2014.

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

Acquisitions

In June 2013, the Company purchased the stock of PWI Holdings, Inc., whose subsidiary, Preferred Warranties, Inc., markets vehicle service contracts through a network of independent used vehicle dealers. The acquisition is expected to strengthen KAR's product offerings to independent used vehicle dealers. The assets of PWI Holdings, Inc. included accounts receivable, software and customer relationships related to the business. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

The purchase price of PWI Holdings, Inc., net of cash acquired, was $27.3 million. The acquired assets and liabilities were recorded based upon fair values, including $26.9 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames and software, which are being amortized over their respective useful lives. The acquisition resulted in goodwill of $22.7 million. The goodwill is recorded in the AFC reportable segment. The financial impact of this acquisition, including annualized pro forma financial results, was immaterial to the Company's statement of income for the year ended December 31, 2013.

On December 31, 2013, the Company purchased the assets of High Tech Locksmiths ("HTL"), which specializes in products for the automotive industry. HTL is the largest provider of transponder, remote, high-security and car smart keys in North America. HTL utilizes technologically advanced equipment and processes that will benefit customers across the KAR business units. The purchased assets of HTL included accounts receivable, inventory, operating equipment, software, customer relationships and tradenames related to the business and are reflected in our consolidated balance sheet at December 31, 2013.

The purchase price of HTL, was approximately $24.6 million, which included estimated contingent payments and deferred costs with a present value of $7.6 million. The maximum amount of undiscounted contingent payments and deferred costs related to this acquisition could approximate $8.5 million. The acquired assets and liabilities were recorded based upon preliminary fair values, including $11.0 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames and software, which are being amortized over their respective useful lives. The purchase accounting associated with this acquisition is preliminary, subject to determination of a working capital adjustment and final valuation results. The Company does not expect adjustments to the purchase accounting to be material. The acquisition resulted in goodwill of $3.7 million. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of this acquisition, including annualized pro forma financial results, was immaterial to the Company's statement of income for the year ended December 31, 2013.

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Contractual Obligations

The table below sets forth a summary of our contractual debt and lease obligations as of December 31, 2013. 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, 2013 (in millions):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1 - 3 Years	4 - 5 Years	More than 5 Years
Long-term debt					
$250 million revolving credit facility (a)	$—	$—	$—	$—	$—
Term loan B (a)	1,771.8	32.5	31.7	1,707.6	—
Capital lease obligations (b)	32.5	17.9	14.5	0.1	—
Interest payments relating to long-term debt (c)	237.4	82.2	131.0	24.2	—
Postretirement benefit payments (d)	0.3	—	0.1	0.1	0.1
Operating leases (e)	923.9	99.0	168.9	143.0	513.0
Total contractual cash obligations	$2,965.9	$231.6	$346.2	$1,875.0	$513.1

(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 debt instruments were held constant at current rates due to their unpredictable nature.

(d) Estimated future benefit payments for certain health care and death benefits for the retired employees of Underwriters Salvage Company, or USC. IAA assumed the obligation in connection with the acquisition of the capital stock of USC in 1994.

(e) 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, 2013, which are included in this Annual Report on Form 10-K.

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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. The allowances for credit losses and doubtful accounts are based on management's evaluation of the receivables portfolio under current economic conditions, the volume 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.

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's allowance for credit losses includes an estimate of losses for finance receivables. AFC controls credit risk through credit approvals, credit limits, underwriting and collateral management monitoring procedures, which includes holding vehicle titles where permitted.

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 three reporting units (which consist of our three operating and reportable business segments: ADESA Auctions, IAA and AFC). 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.

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.

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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. 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, utilizing historical claims experience. Trends in healthcare costs could have a significant impact on anticipated claims. If actual claims are higher than anticipated, our accrual might be insufficient to cover the claims costs, which would have an adverse impact on the operating results in that period.

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. Legal fees are expensed as incurred.

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.

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.

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New Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740)- Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance provides clarification on the presentation of unrecognized tax benefits and better reflects the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The new guidance is effective for reporting periods beginning after December 15, 2013. We do not expect the adoption of ASU 2013-11 will have a material impact on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220)—Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The new guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The new guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company's adoption of ASU 2013-02 did not have a material impact on the consolidated financial statements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, 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 or Mexican exchange rates. Canadian currency translation negatively affected net income by approximately $1.3 million and $1.0 million for the years ended December 31, 2013 and 2012, respectively. A 1% change in the average Canadian exchange rate for the year ended December 31, 2013 would have impacted net income by approximately $0.4 million. Currency exposure of our 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 2013 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. We designated our 2011 interest rate caps as cash flow hedges. The earnings impact of the derivatives designated as cash flow hedges were recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships was recognized in earnings. There was no significant ineffectiveness in the years ended December 31, 2013 or 2012.

In August 2013, we purchased four interest rate caps for 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 Term Loan B credit facility when three-month LIBOR exceeds 1.0%. The interest rate cap agreements cap three-month LIBOR at 1.0%, have an effective date of August 16, 2013 and mature on August 16, 2015.

In August 2011, we purchased three interest rate caps for an aggregate amount of approximately $1.1 million with an aggregate notional amount of $925 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility when one-month LIBOR exceeded 1.25%. The interest rate cap agreements each had an effective date of August 16, 2011 and each matured on August 16, 2013.

The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks. At December 31, 2013 and 2012, the aggregate fair value of the interest rate caps was a $0.8 million asset recorded in "Other assets" and a less than $0.1 million asset recorded in "Other current assets", respectively, on the consolidated balance sheet. Unrealized gains or losses on the interest rate derivatives designated as cash flow hedges were included as a component of "Accumulated other comprehensive income." At December 31, 2012, there was a net unrealized loss totaling $0.2 million, net of tax benefits of $0.1 million. We were exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. We have only partially hedged our exposure to interest rate fluctuations on our variable rate debt.

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, 2013 would have resulted in an increase in interest expense of approximately $2.4 million.

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Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control Over Financial Reporting

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

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2013, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (1992). Based on our assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2013. During our assessment, we did not identify any material weaknesses in 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, 2013, also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 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, 2013 and 2012, 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, 2013. We also have audited the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) 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, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by COSO.
/s/ KPMG LLP
Indianapolis, Indiana
February 19, 2014

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

	Year Ended December 31,		
	2013	2012	2011
Operating revenues			
ADESA Auction Services	$1,118.6	$1,053.5	$1,017.4
IAA Salvage Services	830.0	716.1	700.1
AFC	224.7	193.8	168.8
Total operating revenues	2,173.3	1,963.4	1,886.3
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	1,232.2	1,087.1	1,035.2
Selling, general and administrative	490.0	419.1	389.4
Depreciation and amortization	194.4	190.2	179.8
Total operating expenses	1,916.6	1,696.4	1,604.4
Operating profit	256.7	267.0	281.9
Interest expense	104.7	119.4	143.1
Other income, net	(2.6)	(4.0)	(4.7)
Loss on modification/extinguishment of debt	5.4	—	53.5
Income before income taxes	149.2	151.6	90.0
Income taxes	81.5	59.6	17.8
Net income	$67.7	$92.0	$72.2
Net income per share			
Basic	$0.49	$0.67	$0.53
Diluted	$0.48	$0.66	$0.52
Dividends declared per common share	$0.82	$0.19	$—

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2013	2012	2011
Net income	$67.7	$92.0	$72.2
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)	(16.6)	7.3	(9.0)
Unrealized gain (loss) on interest rate derivatives, net of tax of $(0.2), $(0.2), and $0.9 for the years ended December 31, 2013, 2012 and 2011	0.2	(0.3)	1.6
Early termination of swap agreement, net of tax of $5.5 for the year ended December 31, 2011	—	—	9.0
Total other comprehensive income (loss), net of tax	(16.4)	7.0	1.6
Comprehensive income	$51.3	$99.0	$73.8

See accompanying notes to consolidated financial statements

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

	December 31, 2013	2012
Assets		
Current assets		
Cash and cash equivalents	$191.6	$108.7
Restricted cash	18.8	11.9
Trade receivables, net of allowances of $4.8 and $5.3	354.3	342.4
Finance receivables, net of allowances $8.0 and $8.0	1,099.6	996.2
Deferred income tax assets	36.2	35.4
Other current assets	91.0	86.8
Total current assets	1,791.5	1,581.4
Other assets		
Goodwill	1,705.1	1,679.6
Customer relationships, net of accumulated amortization of $479.0 and $405.3	569.9	618.9
Other intangible assets, net of accumulated amortization of $219.6 and $168.9	307.1	305.2
Unamortized debt issuance costs	37.9	24.9
Other assets	11.9	11.6
Total other assets	2,631.9	2,640.2
Property and equipment, net of accumulated depreciation of $472.6 and $415.5	703.8	700.7
Total assets	$5,127.2	$4,922.3

See accompanying notes to consolidated financial statements

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

	December 31, 2013	2012
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$435.5	$388.4
Accrued employee benefits and compensation expenses	63.9	63.5
Accrued interest	0.3	1.6
Other accrued expenses	93.0	75.8
Income taxes payable	2.3	0.6
Dividends payable	34.7	—
Obligations collateralized by finance receivables	772.4	713.3
Current maturities of long-term debt	32.5	43.7
Total current liabilities	1,434.6	1,286.9
Non-current liabilities		
Long-term debt	1,734.7	1,774.6
Deferred income tax liabilities	354.8	318.6
Other liabilities	121.3	98.5
Total non-current liabilities	2,210.8	2,191.7
Commitments and contingencies (Note 16)		
Stockholders' equity		
Preferred stock, $0.01 par value: Authorized shares: 100,000,000 Issued shares: none	—	—
Common stock, $0.01 par value: Authorized shares: 400,000,000 Issued and outstanding shares: 139,027,581 (2013) 136,657,645 (2012)	1.4	1.4
Additional paid-in capital	1,534.0	1,433.9
Accumulated deficit	(72.3)	(26.7)
Accumulated other comprehensive income	18.7	35.1
Total stockholders' equity	1,481.8	1,443.7
Total liabilities and stockholders' equity	$5,127.2	$4,922.3

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2010	135.5	$1.4	$1,381.6	$(164.9)	$ 26.5	$1,244.6
Net income				72.2		72.2
Other comprehensive income, net of tax					1.6	1.6
Issuance of common stock under stock plans	0.8		6.0			6.0
Stock-based compensation expense			17.0			17.0
Excess tax benefits from stock-based compensation			1.8			1.8
Balance at December 31, 2011	136.3	$1.4	$1,406.4	$(92.7)	$ 28.1	$1,343.2
Net income				92.0		92.0
Other comprehensive income, net of tax					7.0	7.0
Issuance of common stock under stock plans	0.4		3.3			3.3
Stock-based compensation expense			23.2			23.2
Excess tax benefits from stock-based compensation			1.0			1.0
Cash dividends declared to stockholders ($0.19 per share)				$(26.0)		$(26.0)
Balance at December 31, 2012	136.7	$1.4	$1,433.9	$(26.7)	$ 35.1	$1,443.7
Net income				67.7		67.7
Other comprehensive loss, net of tax					(16.4)	(16.4)
Issuance of common stock under stock plans	2.3		25.3			25.3
Stock-based compensation expense			67.2			67.2
Excess tax benefits from stock-based compensation			7.6			7.6
Cash dividends declared to stockholders ($0.82 per share)				(113.3)		(113.3)
Balance at December 31, 2013	139.0	$1.4	$1,534.0	$(72.3)	$ 18.7	$1,481.8

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2013	2012	2011
Operating activities			
Net income	$67.7	$92.0	$72.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	194.4	190.2	179.8
Provision for credit losses	11.7	9.5	8.3
Deferred income taxes	22.7	(3.7)	(3.5)
Amortization of debt issuance costs	11.1	7.1	10.1
Stock-based compensation	67.2	23.2	17.0
Contingent consideration adjustment	—	1.1	(4.6)
Loss (gain) on disposal of fixed assets	0.1	(1.5)	(0.2)
Loss on modification/extinguishment of debt	5.4	—	53.5
Other non-cash, net	5.5	13.2	9.8
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables and other assets	11.8	(80.0)	1.5
Accounts payable and accrued expenses	36.4	39.1	(38.1)
Net cash provided by operating activities	434.0	290.2	305.8
Investing activities			
Net increase in finance receivables held for investment	(118.8)	(126.5)	(120.1)
Acquisition of businesses, net of cash acquired	(45.8)	(1.1)	(214.6)
Purchases of property, equipment and computer software	(96.6)	(102.0)	(85.8)
Proceeds from the sale of property and equipment	0.2	5.7	0.3
(Increase) decrease in restricted cash	(6.9)	(3.7)	0.4
Net cash used by investing activities	(267.9)	(227.6)	(419.8)
Financing activities			
Net increase (decrease) in book overdrafts	3.7	(24.1)	32.5
Net (decrease) increase in borrowings from lines of credit	—	(68.9)	68.9
Net increase in obligations collateralized by finance receivables	64.0	101.1	90.2
Proceeds from long-term debt	188.0	—	1,691.5
Payments for debt issuance costs/amendments	(26.0)	(3.4)	(30.6)
Payments on long-term debt	(52.7)	(17.0)	(1,153.1)
Payment for early extinguishment of debt	(188.4)	—	(600.7)
Payments on capital leases	(15.7)	(13.9)	(8.5)
Payments of contingent consideration and deferred acquisition costs	(1.6)	(5.6)	(3.9)
Initial net investment for interest rate caps	(2.2)	—	(1.1)
Issuance of common stock under stock plans	25.3	3.3	6.0
Excess tax benefits from stock-based compensation	7.6	1.0	1.8
Dividends paid to stockholders	(78.6)	(26.0)	—
Net cash (used by) provided by financing activities	(76.6)	(53.5)	93.0
Effect of exchange rate changes on cash	(6.6)	2.2	(0.7)
Net increase (decrease) in cash and cash equivalents	82.9	11.3	(21.7)
Cash and cash equivalents at beginning of period	108.7	97.4	119.1
Cash and cash equivalents at end of period	$191.6	$108.7	$97.4
Cash paid for interest	$89.8	$109.0	$136.8
Cash paid for taxes, net of refunds	$46.8	$65.3	$36.5

See accompanying notes to consolidated financial statements

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KAR Auction Services, Inc.
Notes to Consolidated Financial Statements
December 31, 2013, 2012 and 2011
Note 1—Organization and Other Matters
KAR Auction Services, Inc. was organized in the State of Delaware on November 9, 2006. We are a holding company that was organized for the purpose of consummating a merger with ADESA, Inc. and related transactions that resulted in ADESA and Insurance Auto Auction, Inc. becoming, directly or indirectly, subsidiaries of the Company. We had no operations prior to the merger transactions on April 20, 2007.
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;
- "2007 Transactions" refers to the following events: On December 22, 2006, KAR LLC entered into a definitive merger agreement to acquire ADESA. The merger occurred on April 20, 2007. Concurrently with the merger, IAA was contributed by affiliates of Kelso & Company and Parthenon Capital and IAA's management to KAR Auction Services. Both ADESA and IAA became wholly-owned subsidiaries of KAR Auction Services, which was wholly-owned by KAR LLC prior to the initial public offering. KAR Auction Services is the accounting acquirer, and the assets and liabilities of both ADESA and IAA were recorded at fair value as of April 20, 2007;
- "ADESA" refers, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including OPENLANE, Inc. (together with OPENLANE, Inc.'s subsidiaries, "OPENLANE");
- "AFC" refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries and other related entities, including PWI Holdings, Inc.;
- "Axle LLC" refers to Axle Holdings II, LLC, the former ultimate parent company of IAA and a holder of common equity interests in KAR LLC;
- "Credit Agreement" refers to the Credit Agreement, dated May 19, 2011, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent, as amended on November 29, 2012 and March 12, 2013;
- "2007 Credit Agreement" refers to the previous Credit Agreement, dated April 20, 2007, among KAR Auction Services, as the borrower, KAR LLC, as guarantor, the several lenders from time to time parties thereto and the administrative agent, the joint bookrunners, the co-documentation agents, the syndication agent and the joint lead arrangers named therein, as amended on June 10, 2009, October 23, 2009 and November 11, 2010. The 2007 Credit Agreement was terminated concurrently with our entry into the Credit Agreement described above;
- "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 Credit Agreement;
- "Equity Sponsors" refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P.;
- "IAA" refers, collectively, to Insurance Auto Auctions, Inc., a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries;
- "KAR Auction Services" refers to KAR Auction Services, Inc. and not to its subsidiaries; and
- "KAR LLC" refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors, other equity co-investors and management of the Company.

Business and Nature of Operations
As of December 31, 2013, we have a network of 65 ADESA whole car auction sites and 164 IAA salvage vehicle auction sites; in addition, we offer online auctions for both whole car and salvage vehicles. 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 Auctions 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

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private label solutions powered with software developed by our 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 Auctions and IAA facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership to 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 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 in North America. 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 105 locations throughout the United States and Canada as of December 31, 2013. 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.

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 and changes in self insurance reserves.

Business Segments

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

Derivative Instruments and Hedging Activity

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

designated any of the current interest

rate caps as hedges for accounting purposes. Accordingly, changes in the fair value of the interest rate derivatives are recognized as "Interest expense" in the consolidated statement of income.

Foreign Currency Translation

Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at average exchange rates in effect during the year. Assets and liabilities of foreign operations are translated using the exchange rates in effect at year end. Foreign currency transaction gains and losses are included in the consolidated statements of income within "Other income, net" and resulted in a gain of $0.2 million for the year ended December 31, 2013, a gain of $0.4 million for the year ended December 31, 2012 and a loss of $0.9 million for the year ended December 31, 2011. 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 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 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 60 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 notes receivable. The inventories, which consist of vehicles, supplies and parts, are accounted for on the specific identification method and are stated at the lower of cost or net realizable value.

Goodwill

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

Customer Relationships and Other Intangible Assets

Customer relationships are amortized on a straight-line basis over the life determined in the valuation of the particular acquisition. Other intangible assets generally consist of tradenames, computer software and non-compete agreements, which if amortized, are amortized using the straight-line method. Tradenames with indefinite lives are not amortized and tradenames that have been assigned a useful life are amortized over their estimated useful lives. Costs incurred related to software developed or obtained for internal use are capitalized during the application development stage of software development and amortized over their estimated useful lives. The non-compete agreements are amortized over the life of the agreements. The lives of other intangible assets are re-evaluated periodically when facts and circumstances indicate that revised estimates of useful lives may be warranted.

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 B, the bank 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 over the lives of the related debt issues.

Other Assets

Other assets consist of below market leases, deposits and other long-term assets.

Long-Lived Assets

Management reviews our property and equipment, customer relationships and other intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The determination includes evaluation of factors such as current market value, future asset utilization, business climate, and future cash flows expected to result from the use of the related assets. If the carrying amount of a long-lived asset

exceeds the total amount of the estimated undiscounted future cash flows from that asset, a loss is recognized in the period to the extent that the carrying

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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 $116.1 million and $112.4 million at December 31, 2013 and 2012, respectively.

Environmental Liabilities

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties.

Revenue Recognition

ADESA Auction Services

Revenues and the related costs are recognized when the services are performed. Auction fees from sellers and buyers are recognized upon the sale of the vehicle through the auction process. Most of the vehicles that are sold through auctions are consigned to ADESA by the seller and held at ADESA's facilities or third party locations. ADESA does not take title to these consigned vehicles and recognizes revenue when a service is performed as requested by the owner of the vehicle. ADESA does not record the gross selling price of the consigned vehicles sold at auction as revenue. Instead, ADESA records only its auction fees as revenue because it does not take title to the consigned vehicles, 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.

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:

	Year Ended December 31,		
AFC Revenue (In millions)	2013	2012	2011
Interest and fee income	$211.1	$190.3	$163.7
Other revenue	10.7	10.7	11.2
Provision for credit losses	(9.6)	(7.2)	(6.1)
Other service revenue	12.5	—	—
	$224.7	$193.8	$168.8

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") and extend the terms of the receivable ("curtailment 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 postage fees, each of which are charged to and collected from AFC's customers.

Other service revenue

Other service revenue represents the revenue generated by Preferred Warranties, Inc. ("PWI"). PWI, a service contract business, was acquired in June 2013. PWI receives advance payments for warranty contracts and unearned revenue is deferred and recognized over the terms of the contracts.

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 such as stock options. The effect of stock options 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 share 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 estimated 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.

Note 3—Acquisitions

Some of our acquisitions from prior years include contingent payments related to revenues or unit volumes of certain vehicles sold subsequent to the purchase dates. We made payments for contingent consideration and deferred acquisition costs in 2013, 2012 and 2011 totaling approximately $1.6 million, $5.6 million and $3.9 million, respectively, of which approximately $0.1 million and $1.8 million resulted in additional goodwill for the years ended December 31, 2012 and 2011, respectively. In addition, in 2012 and 2011, we recorded and reversed contingent consideration of approximately $1.1 million and $4.6 million, respectively, related to certain prior year acquisitions based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would or would not be met. The contingent consideration adjustments were recorded to "Other income, net" in the consolidated statements of income.

2013 Acquisitions

In June 2013, the Company purchased the stock of PWI Holdings, Inc., whose subsidiary, Preferred Warranties, Inc., markets vehicle service contracts through a network of independent used vehicle dealers. The acquisition is expected to strengthen KAR's product offerings to independent used vehicle dealers. The assets of PWI Holdings, Inc. included accounts receivable, software and customer relationships related to the business. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

The purchase price of PWI Holdings, Inc., net of cash acquired, was $27.3 million. The acquired assets and liabilities were recorded based upon fair values, including $26.9 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames and software, which are being amortized over their respective useful lives. The acquisition resulted in goodwill of $22.7 million. The goodwill is recorded in the AFC reportable segment. The financial impact of this acquisition, including annualized pro forma financial results, was immaterial to the Company's statement of income for the year ended December 31, 2013.

In December 2013, the Company purchased the assets of High Tech Locksmiths ("HTL"), which specializes in products for the automotive industry. HTL is the largest provider of transponder, remote, high-security and car smart keys in North America. HTL utilizes technologically advanced equipment and processes that will benefit customers across the KAR business units. The purchased assets of HTL included accounts receivable, inventory, operating equipment, software, customer relationships and tradenames related to the business and are reflected in our consolidated balance sheet at December 31, 2013.

The purchase price of HTL, was approximately $24.6 million, which included estimated contingent payments and deferred costs with a present value of $7.6 million. The maximum amount of undiscounted contingent payments and deferred costs related to this acquisition could approximate $8.5 million. The acquired assets and liabilities were recorded based upon preliminary fair values, including $11.0 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames and software, which are being amortized over their respective useful lives. The purchase accounting associated with this acquisition is preliminary, subject to determination of a working capital adjustment and final valuation results. The Company does not expect adjustments to the purchase accounting to be material. The acquisition resulted in goodwill of $3.7 million. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of this acquisition, including annualized pro forma financial results, was immaterial to the Company's statement of income for the year ended December 31, 2013.

2011 Acquisitions

In August 2011, ADESA entered into an Agreement and Plan of Merger (the "Merger Agreement") with OPENLANE. In October 2011, we completed the acquisition of OPENLANE, which became a wholly-owned subsidiary of ADESA. OPENLANE is a North American online automotive auction company that provides a market for online buyers and sellers of wholesale vehicles. OPENLANE offers its comprehensive remarketing solutions to auto manufacturers, captive finance companies, lease and daily rental companies, used vehicle dealers, financial institutions and wholesale auto auctions throughout the United States and Canada.

As a result of the merger and pursuant to the terms of the Merger Agreement, each outstanding share of OPENLANE common stock and preferred stock (other than those shares of common stock or preferred stock held by OPENLANE) was converted into the right to receive an amount in cash as set forth in the Merger Agreement. The value of the cash consideration payable in the merger was $208.4 million plus approximately $35 million for excess cash on OPENLANE's balance sheet at the

closing of the merger. We funded the cash consideration paid at closing with a combination of approximately $98.4 million of existing cash on-hand and borrowings of approximately $145 million from our revolving credit facility. We utilized approximately $35 million of acquired cash to immediately repay a portion of the borrowings on the revolving credit facility. In addition, we entered into operating lease obligations related to various facilities through 2017. Initial annual lease payments for the various facilities were approximately $1.6 million per year. Financial results for the acquisition have been included in our consolidated financial statements from the date of acquisition.

During 2011, we also completed the acquisitions of a company that auctions heavy machinery, a company that develops satellite-based GPS technology for advanced vehicle tracking and a salvage facility. The purchase agreements included contingent payments related to financial results and business deployments subsequent to the purchase date. The purchased assets included fixed assets, software, inventory, accounts receivable 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 2011, net of cash, was approximately $214.0 million, which included estimated contingent payments with a present value of $0.4 million. The maximum amount of undiscounted contingent payments related to these acquisitions could approximate $0.4 million. The acquired assets and liabilities were recorded based upon fair values, including $94.7 million assigned to intangible assets, representing the fair value of acquired customer relationships, tradenames, software and noncompete agreements, which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $123.6 million.

Note 4—Stock-Based Compensation Plans

Our stock-based compensation expense includes expense associated with KAR Auction Services, Inc. service and exit option awards, performance-based restricted stock units ("PRSUs"), KAR LLC profit interests and Axle LLC profit interests. We have classified the KAR Auction Services, Inc. service and exit options and PRSUs as equity awards. In addition, we have classified the KAR LLC and Axle LLC profit interests as liability awards. The main difference between a liability-classified award and an equity-classified award is that liability-classified awards are remeasured each reporting period at fair value.

The compensation cost that was charged against income for all stock-based compensation plans was $67.2 million, $23.2 million and $17.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, and the total income tax benefit recognized in the consolidated statement of income for options was approximately $5.4 million, $3.6 million and $6.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. There is no income tax benefit recognized by us with respect to the KAR LLC and Axle LLC profit interests. We did not capitalize any stock-based compensation cost in the years ended December 31, 2013, 2012 or 2011. The following table summarizes our stock-based compensation expense by type of award (in millions):

	Year Ended December 31,		
	2013	2012	2011
Service options	$2.7	$2.3	$1.2
Exit options	12.2	8.0	15.9
PRSUs	0.2	—	—
KAR LLC operating units - profit interests	6.1	6.9	0.3
KAR LLC value units - profit interests	18.4	—	—
Axle LLC operating units - profit interests	5.4	6.0	(0.4)
Axle LLC value units - profit interests	22.2	—	—
Total stock-based compensation expense	$67.2	$23.2	$17.0

Axle Holdings, Inc. Stock Incentive Plan - Service Options and Exit Options

Prior to the merger transactions, IAA was a subsidiary of Axle Holdings, Inc. ("Axle Holdings"), which in turn was a subsidiary of Axle LLC. Axle Holdings maintained the Axle Holdings, Inc. Stock Incentive Plan to provide equity incentive benefits to the IAA employees. Under the Axle Holdings plan, service options and exit options were

awarded. The service options vested in three equal annual installments from the grant date based upon service with Axle Holdings and its

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subsidiaries. The exit options vested upon a change in equity control of Axle LLC. In connection with the completion of the merger transactions, the options (service and exit) to purchase shares of Axle Holdings, Inc. stock were converted into options (service and exit) to purchase shares of KAR Auction Services; these converted options have the same terms and conditions as were applicable to the options to purchase shares of Axle Holdings, Inc. The converted options are included in the KAR Auction Services, Inc. service option table and exit option table below.
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. 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. The incremental expense related to the modification was approximately $0.1 million. The exit options originally granted under the Axle Holdings, Inc. Stock Incentive 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 $16.01*	May 2011
An additional 25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeded $19.21*	January 2013
An additional 25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeded $22.41**	May 2013
An additional 25% of exit options vested and became exercisable when	(i) the fair market value of Company common stock exceeded $25.62**	August 2013

* Additional vesting conditions met: (ii) the price of the Company's common stock on the last trading day of a 90 consecutive trading day period was greater than or equal to 85% of $16.01 and $19.21, respectively; and (iii) the option holder was a director, officer, employee, consultant or agent of the Company or any of its subsidiaries on the date on which the conditions set forth in (i) and (ii) above were satisfied.

For purposes of determining the vesting conditions, the "fair market value" of any share of Company common stock, on any date of determination, was the average for 90 consecutive trading days prior to such date of determination of the last sales price for a share of Company common stock on the principal securities exchange on which the Company common stock was then listed.

** Additional vesting conditions met: (ii) the closing price of the Company's common stock exceeded $22.41 and $25.62, respectively, over a period of 20 consecutive trading days; and (iii) the option holder was a director, officer, employee, consultant or agent of the Company or any of its subsidiaries on the date on which the conditions set forth in (i) and (ii) above were satisfied.

For purposes of determining the vesting conditions, the "fair market value" of any share of Company common stock, on any date of determination, was the last sales price for a share of Company common stock on the principal securities exchange on which the Company common stock was then listed.
KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan - Service Options, Exit Options and PRSUs
We adopted the KAR Auction Services, Inc. 2009 Omnibus and Stock Incentive Plan ("Omnibus Plan") in December 2009. The Omnibus Plan is intended to provide equity or cash based awards to our employees. The maximum number of shares that may be issued pursuant to awards under the Omnibus Plan is approximately 6.5 million. The Omnibus

Plan provides for the grant of options, restricted stock, stock appreciation rights, other stock-based awards and cash based awards.

In 2013, 2012 and 2011, we granted approximately 0.6 million, 0.7 million and 1.3 million service options, respectively, with a weighted average exercise price of $23.92, $16.18 and $15.05 per share, respectively, under the Omnibus Plan. The options have a ten year life and vest in four equal annual installments, commencing on the first anniversary of the respective grant dates.

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.

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. We recognized compensation expense for the PRSUs of $0.2 million for the year ended December 31, 2013, and there was approximately $7.1 million of unrecognized compensation expense related to nonvested PRSUs which is expected to be recognized over a term of approximately 3.0 years.

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 KAR LLC. 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 the Equity Sponsors 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 KAR LLC 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 or 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. 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 is being recognized through December 31, 2014.

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The exit options granted under the KAR Auction Services, Inc. Stock Incentive Plan and the Omnibus Plan vest 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 shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $30.00*	N/A
An additional 25% of exit options shall vest and become exercisable if	(i) the fair market value of Company common stock exceeds $35.00*	N/A

* Additional vesting conditions: (ii) the closing price of the Company's common stock exceeded $20.00 and $25.00, respectively, and must exceed $30.00 and $35.00, respectively, over a period of 20 consecutive trading days; and (iii) the option holder is a director, officer, employee, consultant or agent of the Company or any of its subsidiaries on the date on which the conditions set forth in (i) and (ii) above are satisfied.

For purposes of determining the vesting conditions, the "fair market value" of any share of Company common stock, on any date of determination, is the last sales price for a share of Company common stock on the principal securities exchange on which the Company common stock is then listed.

Service Options Summary

The following table summarizes service option activity under the Omnibus Plan and the Plan for the year ended December 31, 2013:

Service Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2013	3,420,464	$13.31		
Granted	569,621	23.92		
Exercised	(1,029,260)	11.52		
Forfeited	(159,498)	14.53		
Canceled	(5,034)	10.78		
Outstanding at December 31, 2013	2,796,293	$16.03	7.3 years	$37.7
Exercisable at December 31, 2013	1,184,587	$12.98	5.9 years	$19.6

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, 2013. 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 $29.55 on December 31, 2013. The total intrinsic value of service options exercised during the years ended December 31, 2013, 2012 and 2011 was $12.8 million, $3.4 million and $7.2 million, respectively. The fair value of all vested and exercisable service options at December 31, 2013, 2012 and 2011 was $35.0 million, $33.9 million and $22.0 million, respectively.

We recognized compensation expense for the service options of approximately $2.7 million, $2.3 million and $1.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, there was approximately $6.2 million of unrecognized compensation expense related to nonvested service options which is expected to be recognized over a weighted average term of 2.4 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 years service period, using the straight-line attribution method. The weighted average fair value of the service options granted was $4.98 per share, $4.94 per share and $4.69 per share for the years ended December 31, 2013, 2012 and 2011, respectively. 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	2013	2012	2011
Risk-free interest rate	0.535% - 0.985%	0.555% - 0.65%	0.625% - 1.69%
Expected life	4 years	4 years	4 years
Expected volatility	35.0 %	38.0 %	38.0 %
Dividend yield	2.95% - 3.62%	0 %	0 %

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, 2013:

Exit Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2013	6,183,071	$10.52		
Granted	—	N/A		
Exercised	(1,334,417)	9.85		
Forfeited	(123,019)	10.87		
Canceled	(3,049)	8.74		
Outstanding at December 31, 2013	4,722,586	$10.67	4.1 years	$89.0
Exercisable at December 31, 2013	1,965,253	$10.43	4.0 years	$37.5

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, 2013. 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 $29.55 on December 31, 2013. The total intrinsic value of exit options exercised during the years ended December 31, 2013, 2012 and 2011 was $20.6 million, $0.2 million and $0.4 million, respectively. The fair value of all vested and exercisable exit options at December 31, 2013, 2012 and 2011 was $58.1 million, $1.9 million and $1.6 million, respectively.

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 is now being recognized over a new derived service period which ends December 31, 2014. We recognized compensation expense for these exit options of approximately $12.2 million, $8.0 million and $15.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, there was approximately $22.5 million of total unrecognized compensation expense related to the nonvested exit options which is expected to be recognized over 1.0 year.

Axle LLC Profit Interests

Axle LLC maintained two types of profit interests, operating units and value units, which were held by certain designated employees of IAA. A total of 191,152 operating units and 382,304 value units were maintained by Axle LLC and there were no changes to the terms and conditions of the units as a result of the merger transactions. The service requirement for the operating units was fulfilled during 2008 and the operating units were fully vested from that time. The operating units were accounted for as liability awards and as such, compensation expense related to the operating units was recognized using the graded-vesting attribution method. Compensation expense related to the Axle LLC operating units was $5.4 million and $6.0 million for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2011, $0.4 million of compensation expense for the Axle LLC operating units was reversed as the fair value of the operating units declined.

A portion of the value units vested upon a change in equity control of Axle LLC, as defined by the Axle LLC operating agreement. The number of value units that were eligible for a cash distribution was determined based on the strike price and certain performance hurdles based on the Equity Sponsors and other investors' achievement of certain multiples on their original indirect equity investment in Axle Holdings subject to a minimum internal rate of return at the time of distribution. The Company did not record compensation expense related to the value units until it became probable that an exit event (for example, a sale of all of the Equity Sponsors stock) would occur. As such, no compensation expense was recorded for the value units prior to 2013. Compensation expense related to the Axle LLC value units was $22.2 million for the year ended December 31, 2013.

All of the compensation expense related to the Axle LLC operating units and value units has been recognized and paid.

KAR LLC Profit Interests

Prior to December 10, 2009, KAR LLC owned 100% of the outstanding shares of KAR Auction Services. The KAR LLC operating agreement provided for profit interests in KAR LLC to be granted and held by certain designated employees of the Company. Two types of profit interests were created by the KAR LLC operating agreement: (1) operating units, which vested in four equal installments from the grant date and (2) value units, which were eligible for distributions upon attaining certain performance hurdles. A total of 121,046 operating units and 363,139 value units were maintained by KAR LLC.

The service requirement for the operating units was fulfilled during 2011 and the operating units were fully vested from that time. The operating units were accounted for as liability awards and as such, compensation expense related to the operating units was recognized using the straight-line attribution method. The compensation expense of KAR LLC, which is for the benefit of Company employees, resulted in a capital contribution from KAR LLC to the Company and compensation expense for the Company. Compensation expense related to the KAR LLC operating units was $6.1 million, $6.9 million and $0.3 million for the years ended December 31, 2013, 2012 and 2011, respectively.

A portion of the value units vested in connection with KAR LLC's sale of its shares in KAR Auction Services. The number of value units that were eligible for a cash distribution was determined based on the strike price and certain performance hurdles based on the Equity Sponsors 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 distribution. The Company did not record compensation expense related to the value units until it became probable that the performance conditions associated with the value units would be achieved. As such, no compensation expense

was recorded for the value units prior to the achievement of the performance conditions in 2013. Compensation expense related to the KAR LLC value units was $18.4 million for the year ended December 31, 2013.
All of the compensation expense related to the KAR LLC operating units and value units has been recognized and paid.

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KAR Auction Services, Inc. Employee Stock Purchase Plan
Our board of directors and stockholders adopted the KAR Auction Services, Inc. Employee Stock Purchase Plan ("ESPP") in December 2009 and the ESPP was implemented in the second quarter of 2010. A maximum of 1,000,000 shares of our common stock have been reserved for issuance under the ESPP and at December 31, 2013, 767,553 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.
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,		
	2013	2012	2011
Net income	$67.7	$92.0	$72.2
Weighted average common shares outstanding	137.9	136.5	136.0
Effect of dilutive stock options	2.9	2.5	1.8
Weighted average common shares outstanding and potential common shares	140.8	139.0	137.8
Net income per share			
Basic	$0.49	$0.67	$0.53
Diluted	$0.48	$0.66	$0.52

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 on net income per share-diluted is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per diluted share are excluded from the calculations. Approximately 0.3 million, 0.4 million and 0.9 million options were excluded from the calculation of diluted net income per share for the years ended December 31, 2013, 2012 and 2011, respectively. Total options outstanding at December 31, 2013, 2012 and 2011 were 7.5 million, 9.6 million and 9.6 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,		
	2013	2012	2011
Allowance for Credit Losses			
Balance at beginning of period	$8.0	$9.0	$9.7
Provision for credit losses	9.6	7.2	6.1
Recoveries	3.7	3.4	4.5
Less charge-offs	(13.3)	(11.6)	(11.3)
Balance at end of period	$8.0	$8.0	$9.0

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

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

	Year Ended December 31,		
	2013	2012	2011
Allowance for Doubtful Accounts			
Balance at beginning of period	$5.3	$6.4	$6.3
Provision for credit losses	2.1	2.3	2.2
Less net charge-offs	(2.6)	(3.4)	(2.1)
Balance at end of period	$4.8	$5.3	$6.4

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 eligible finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of $800 million for U.S. finance receivables at December 31, 2013.

In June 2013, AFC and AFC Funding Corporation entered into the Fifth Amended and Restated Receivables Purchase Agreement (the “Receivables Purchase Agreement”). The Receivables Purchase Agreement increased AFC Funding's U.S. committed liquidity from $650 million to $800 million and extended the facility's maturity date from June 30, 2014 to June 30, 2016. In addition, certain of the covenants and termination events in the Receivables Purchase Agreement that are tied to the performance of the finance receivables portfolio were modified. In the second quarter of 2013, we recorded a $0.7 million pretax charge primarily resulting from the write-off of a portion of the unamortized securitization issuance costs.

We also have an agreement for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables. In June 2013, AFCI entered into the Second Amended and Restated Receivables Purchase Agreement (the “Canadian Receivables Purchase Agreement”). The Canadian Receivables Purchase Agreement extended the facility's maturity date from June 30, 2014 to June 30, 2016. In addition, certain of the covenants and termination events in the Canadian Receivables Purchase Agreement that are tied to the performance of the finance receivables portfolio were modified. AFCI's committed liquidity is provided through a third party conduit (separate from the U.S. facility) and was C$100 million at December 31, 2013. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

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

	December 31, 2013		
	Principal Amount of:		
(in millions)	Receivables	Receivables Delinquent	Net Credit Losses During 2013
Floorplan receivables	$1,099.8	$5.1	$9.6
Other loans	7.8	—	—
Total receivables managed	$1,107.6	$5.1	$9.6

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	December 31, 2012 Principal Amount of:		
(in millions)	Receivables	Receivables Delinquent	Net Credit Losses During 2012
Floorplan receivables	$996.2	$3.8	$8.0
Other loans	8.0	—	0.2
Total receivables managed	$1,004.2	$3.8	$8.2

AFC's allowance for losses was $8.0 million at December 31, 2013 and 2012.
As of December 31, 2013 and 2012, $1,100.2 million and $996.0 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the $772.4 million and $713.3 million of obligations collateralized by finance receivables at December 31, 2013 and 2012, respectively.
Proceeds from the revolving sale of receivables to the bank facilities are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At December 31, 2013, we were in compliance with the covenants in the securitization agreements.
Note 8—Goodwill and Other Intangible Assets
Goodwill consisted of the following (in millions):

	ADESA Auctions	IAA	AFC	Total
Balance at December 31, 2011	$959.2	$523.4	$196.9	$1,679.5
Increase for acquisition activity	—	0.1	—	0.1
Balance at December 31, 2012	$959.2	$523.5	$196.9	$1,679.6
Increase for acquisition activity	3.7	—	22.7	26.4
Other	(0.3)	—	(0.6)	(0.9)
Balance at December 31, 2013	$962.6	$523.5	$219.0	$1,705.1

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. At December 31, 2012, there was $1,679.6 million of goodwill recorded on our consolidated balance sheet that was recorded as a result of the merger transactions, post merger acquisitions and contingent consideration related to prior year acquisitions. Goodwill increased in 2013 as a result of acquisitions. Most of the goodwill resulting from the businesses acquired in 2013 is not expected to be deductible for tax purposes.
A summary of customer relationships is as follows (in millions):

		December 31, 2013			December 31, 2012		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships	5 - 19	$1,048.9	$(479.0)	$569.9	$1,024.2	$(405.3)	$618.9

The decrease in customer relationships in 2013 was primarily related to the amortization of existing customer relationships, partially offset by increases for acquisition activity.

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

		December 31, 2013			December 31, 2012		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Tradenames	2 - Indefinite	$198.6	$(2.8)	$195.8	$197.1	$(1.8)	$195.3
Computer software & technology	3 - 7	302.4	(193.0)	109.4	251.5	(144.0)	107.5
Covenants not to compete	1 - 5	25.7	(23.8)	1.9	25.5	(23.1)	2.4
Total		$526.7	$(219.6)	$307.1	$474.1	$(168.9)	$305.2

Other intangibles increased in 2013 primarily as a result of computer software additions, as well as increases in technology and tradenames as a result of acquisitions, partially offset by amortization.

Amortization expense for customer relationships and other intangibles was $130.1 million, $117.8 million and $108.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Estimated amortization expense for the next five years is $126.9 million for 2014, $118.5 million for 2015, $103.0 million for 2016, $83.8 million for 2017 and $64.9 million for 2018.

Note 9—Property and Equipment

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

	Useful Lives	December 31,	
	(in years)	2013	2012
Land		$246.3	$257.9
Buildings	5 - 40	228.3	232.1
Land improvements	5 - 20	145.3	141.7
Building and leasehold improvements	3 - 33	273.8	231.7
Furniture, fixtures and equipment	1 - 10	254.5	231.8
Vehicles	3 - 6	9.2	6.3
Construction in progress		19.0	14.7
		1,176.4	1,116.2
Accumulated depreciation		(472.6)	(415.5)
Property and equipment, net		$703.8	$700.7

Depreciation expense for the years ended December 31, 2013, 2012 and 2011 was $64.3 million, $72.4 million and $71.7 million, respectively.

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

	December 31,	
Classes of Property	2013	2012
Furniture, fixtures and equipment	$73.6	$53.1
Accumulated depreciation	(40.8)	(23.6)
Capital lease assets	$32.8	$29.5

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

	Year Ended December 31,	
	2013	2012
Balance at beginning of period	$24.0	$24.0
Net payments	(59.3)	(51.0)
Expense	63.1	51.0
Balance at end of period	$27.8	$24.0

Individual stop-loss coverage for medical benefits was $0.4 million in 2013 and $0.3 million in 2012. There was no aggregate policy limit for medical benefits for the Company in either 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 both the 2013 and 2012 policy years. Once the $1.0 million corridor deductible is met, 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 $25.0 million and $20.0 million for the 2013 and 2012 policy years, respectively.
Note 11—Long-Term Debt
Long-term debt consisted of the following (in millions):

	Interest Rate		Maturity	December 31,	
				2013	2012
Term Loan B	Adjusted LIBOR	+ 2.75%	May 18, 2017	$1,771.8	$1,674.5
$250 million revolving credit facility	Adjusted LIBOR	+ 3.50%	May 18, 2016	—	—
Floating rate senior notes	LIBOR	+ 4.00%		—	150.0
Canadian line of credit	CAD Prime	+ 1.50%	Repayable upon demand	—	—
Total debt				1,771.8	1,824.5
Unamortized debt discount				(4.6)	(6.2)
Current portion of long-term debt				(32.5)	(43.7)
Long-term debt				$1,734.7	$1,774.6

The weighted average interest rate on our variable rate debt was 3.75% and 4.94% at December 31, 2013 and 2012.
Credit Facilities
On May 19, 2011, we established a $1.7 billion, six year senior secured term loan facility (Term Loan B in the table above) and a $250 million, five year senior secured revolving credit facility ($250 million revolving credit facility in the table above), the terms of which are set forth in the Credit Agreement, dated as of May 19, 2011. Concurrently with our entry into the Credit Agreement, we terminated our previous credit facility, dated as of April 20, 2007 (as amended, the "2007 Credit Agreement"). On May 19, 2011, we paid all principal outstanding and interest due under the 2007 Credit Agreement. No early termination penalties were incurred by the Company in connection with the termination of the 2007 Credit Agreement;

however, we incurred a non-cash loss on the extinguishment of the term loan under the 2007 Credit Agreement of $24.5 million as a result of the write-off of certain unamortized debt issuance costs.

On November 29, 2012, we entered into an amendment to the Credit Agreement. The amendment provided for, among other things, modifications to the Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement) financial covenant and modifications to increase the amount of Restricted Payments (as defined in the Credit Agreement) permitted to be paid under the Credit Agreement. Restricted payments include, among other things, dividends, stock buybacks and other payments made in respect of the Company's equity securities.

In March 2013, we entered into the Second Amendment to the Credit Agreement. The amendment increased Term Loan B $150.0 million to $1.8 billion and decreased the interest rate on Term Loan B to Adjusted LIBOR plus 2.75% from Adjusted LIBOR plus 3.75%. In addition, the Adjusted LIBOR rate floor decreased to 1.0% from 1.25%. For the year ended December 31, 2013, we recorded a $3.9 million pretax charge resulting from certain expenses related to the Credit Agreement amendment, as well as the write-off of certain unamortized debt issuance costs associated with the term loan. The additional $150.0 million in proceeds received from Term Loan B were used to redeem the floating rate senior notes due 2014 on April 3, 2013.

The Credit Facility is available for letters of credit, working capital and general corporate purposes (including refinancing certain Existing Indebtedness (as defined in the Credit Agreement)). 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. The Credit Agreement also permits up to $300 million of additional revolving or term loan commitments from one or more of the existing lenders or other lenders (with the consent of the administrative agent).

Term Loan B was issued at a discount of $8.5 million. The discount is being amortized to interest expense over the six year term of the loan. Term Loan B is payable in quarterly installments equal to 0.25% of the aggregate principal amount as of the Second Amendment effective date, and commenced on March 31, 2013. The Credit Facility is subject to mandatory prepayments and reduction in an amount equal to (i) the net proceeds of certain debt offerings, asset sales and certain insurance recovery events; and (ii) for any fiscal year ending on or after December 31, 2011, any Excess Cash Flow, as defined in the Credit Agreement, on or before the 105th day following the end of the fiscal year. In April 2013, the Company made an excess cash flow payment of $39.4 million for the year ended December 31, 2012. For the year ended December 31, 2013, the Company has determined that an excess cash flow payment of $32.5 million will be made in April 2014. 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 $8.7 million of Term Loan B for the year ended December 31, 2013. The prepayments were credited to prepay in order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of Term Loan B, and thereafter to the remaining scheduled quarterly installments of Term Loan B on a pro rata basis. As such, after the debt prepayments, there are no further quarterly installments due until June 30, 2015.

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 perfected first-priority 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 capital expenditures, 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, 2013.

Term Loan B bears interest at an Adjusted LIBOR rate plus 2.75% (with an Adjusted LIBOR rate floor of 1.0% per annum) and revolving loan borrowings at an Adjusted LIBOR rate plus 3.50%; however, for specified types of borrowings, the Company may elect to make term loan borrowings at a Base Rate (as defined in the Credit Agreement) plus 1.75% and revolving loan borrowings at a Base Rate plus 2.50%. The rate on Term Loan B was 3.75% at December 31, 2013. In addition, if the Company reduces its Consolidated Senior Secured Leverage Ratio (as defined in the Credit Agreement), which is based on a net debt calculation, to levels specified in the Credit Agreement, the applicable interest rate will step down by 25 basis points. The Company also pays a commitment fee of 50 basis points, payable quarterly, on the average daily unused amount of

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the credit facility. The fee may step down to 37.5 basis points based on the Company's Consolidated Senior Secured Leverage Ratio as described above.

There were no borrowings on the revolving credit facility at December 31, 2013 and 2012, respectively. In addition, we had related outstanding letters of credit in the aggregate amount of $26.3 million and $23.6 million at December 31, 2013 and 2012, respectively, which reduce the amount available for borrowings under the credit facility.

Senior Notes

In 2007 we issued $450.0 million of 8 3/4% senior notes and $150.0 million of floating rate senior notes, both of which were due May 1, 2014. In addition, we issued $425.0 million of 10% senior subordinated notes due May 1, 2015.

In June 2011, we prepaid $450.0 million principal amount of the 8 3/4% senior notes and the remaining $131.1 million principal balance of the 10% senior subordinated notes with proceeds received from Term Loan B and cash on hand. We incurred a loss on the extinguishment of the notes of $29.0 million in the second quarter of 2011 representative of the net premiums payable related to the repurchase of the notes and the write-off of certain unamortized debt issuance costs.

In April 2013, we redeemed the $150.0 million floating rate senior notes with the additional proceeds received as part of the Second Amendment to the Credit Agreement. In the second quarter of 2013, we recorded a $0.8 million pretax charge primarily resulting from the write-off of unamortized debt issuance costs associated with the floating rate senior notes.

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 150 basis points. There were no borrowings under the Canadian line of credit at December 31, 2013 or 2012. There were related letters of credit outstanding totaling approximately C$1.2 million at December 31, 2013 and 2012, respectively, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility. The line of credit is guaranteed by certain ADESA Canada companies.

Future Principal Payments

At December 31, 2013, aggregate future principal payments on long-term debt are as follows (in millions):

2014	$32.5
2015	13.6
2016	18.1
2017	1,707.6
2018	—
Thereafter	—
	$1,771.8

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 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 Term Loan B credit facility when three-month LIBOR exceeds 1.0%. The interest rate cap agreements each had an effective date of

August 16, 2013 and each mature on August 16, 2015. The

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unamortized portion of the $2.2 million investment is recorded in “Other assets” on the consolidated balance sheet and is being amortized over the remaining life of the interest rate caps to interest expense. We have not designated any of the current interest rate caps as hedges for accounting purposes. We are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated.

In August 2011, we purchased three interest rate caps for approximately $1.1 million with an aggregate notional amount of $925 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility when one-month LIBOR exceeded 1.25%. The interest rate cap agreements each had an effective date of August 16, 2011 and each matured on August 16, 2013. The $1.1 million investment was amortized over the life of the interest rate caps to interest expense. The 2011 interest rate caps were designated as cash flow hedges.

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 tables present the fair value of our interest rate derivatives included in the consolidated balance sheets for the periods presented (in millions):

	Asset Derivatives			
	December 31, 2013		December 31, 2012	
Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
2013 Interest rate caps	Other assets	$0.8	Other assets	N/A

	Asset Derivatives			
	December 31, 2013		December 31, 2012	
Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
2011 Interest rate caps	Other current assets	N/A	Other assets	$—

We have not designated any of the 2013 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):

	Location of Gain / (Loss) Recognized in Income on Derivative	Amount of Gain / (Loss) Recognized in Income on Derivative		
		Year Ended December 31,		
Derivatives Not Designated as Hedging Instruments		2013	2012	2011
2013 Interest rate caps	Interest expense	$(1.4)	N/A	N/A

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The earnings impact of the 2011 interest rate derivatives designated as cash flow hedges was recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships was recognized in earnings; however, there was no significant ineffectiveness in 2013, 2012 or 2011. Unrealized gains or losses on the 2011 interest rate derivatives were included as a component of "Accumulated other comprehensive income." At December 31, 2012, there was a net unrealized loss totaling $0.2 million, net of tax benefits of $0.1 million. The following table presents the effect of the 2011 interest rate derivatives on our statement of equity and consolidated statements of income for the periods presented (in millions):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Year Ended December 31,		Location of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Year Ended December 31,	
	2013	2012		2013	2012
2011 Interest rate caps	N/A	$(0.5)	Interest expense	N/A	$—

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, 2013 and 2012, the estimated fair value of our long-term debt amounted to $1,778.5 million and $1,843.5 million, respectively. The estimates of fair value are based on broker-dealer quotes for our debt as of December 31, 2013 and 2012. 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 2035. Some of the leases contain renewal provisions upon the expiration of the initial lease term, as well as fair market value purchase provisions. In accordance with ASC 840, Leases, rental expense is being recognized ratably over the lease period, including those leases containing escalation clauses. The deferred portion of the rent, for the leases containing escalation clauses, is included in "Other liabilities" on the

consolidated balance sheet.

We also lease furniture, fixtures and equipment under capital leases. The economic substance of the leases is that we are financing the purchase of furniture, fixtures and equipment through leases and, accordingly, they are recorded as assets and

liabilities. The capital lease liabilities are included in "Other accrued expenses" and "Other liabilities" on the consolidated balance sheet. Depreciation expense includes the amortization of assets held under capital leases. Total future minimum lease payments for non-cancellable operating and capital leases with terms in excess of one year (excluding renewal periods) as of December 31, 2013 are as follows (in millions):

	Operating Leases	Capital Leases
2014	$99.0	$17.9
2015	89.4	9.8
2016	79.5	4.7
2017	74.3	0.1
2018	68.7	—
Thereafter	513.0	—
	$923.9	$32.5
Less: interest portion of capital leases		1.8
Total		$30.7

Total lease expense for the years ended December 31, 2013, 2012 and 2011 was $111.1 million, $96.1 million and $90.0 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,		
	2013	2012	2011
Income before income taxes:			
Domestic	$88.6	$92.4	$26.0
Foreign	60.6	59.2	64.0
Total	$149.2	$151.6	$90.0
Income tax expense (benefit):			
Current:			
Federal	$27.3	$35.2	$(13.5)
Foreign	23.6	21.9	26.4
State	7.9	6.2	8.4
Total current provision	58.8	63.3	21.3
Deferred:			
Federal	22.7	0.8	4.3
Foreign	(2.6)	(3.0)	(4.4)
State	2.6	(1.5)	(3.4)
Total deferred provision	22.7	(3.7)	(3.5)
Income tax expense	$81.5	$59.6	$17.8

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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,		
	2013	2012	2011
Statutory rate	35.0 %	35.0 %	35.0 %
State and local income taxes, net	4.9 %	2.5 %	1.2 %
Reserves for tax exposures	0.7 %	1.2 %	(18.5)%
Change in valuation allowance	2.8 %	(3.1)%	— %
International operations	(0.2)%	— %	0.5 %
Profit interests	12.2 %	3.0 %	— %
Other, net	(0.8)%	0.7 %	1.6 %
Effective rate	54.6 %	39.3 %	19.8 %

During 2013, the effective tax rate was impacted by $52.1 million in profit interest expense which is not deductible for income tax purposes and from the establishment of a valuation allowance against certain state net operating losses. During 2012, the effective tax rate benefited from the recognition of previously unrecognized deferred tax assets related to foreign tax credits and state net operating losses. During 2011, the effective rate benefited from the reversal of $18.6 million in tax reserves for uncertain tax positions due to the expiration of certain statute of limitations.
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.
Deferred tax assets (liabilities) are comprised of the following at December 31 (in millions):

	2013	2012
Gross deferred tax assets:		
Allowances for trade and finance receivables	$4.8	$5.1
Accruals and liabilities	42.2	34.0
Employee benefits and compensation	37.7	36.8
Interest rate cap	0.4	0.1
Net operating loss carryforwards	37.8	39.8
Investment basis difference	1.2	1.7
Foreign tax credit	3.1	3.4
Other	5.9	3.2
Total deferred tax assets	133.1	124.1
Deferred tax asset valuation allowance	(20.3)	(12.6)
Total	112.8	111.5
Gross deferred tax liabilities:		
Property and equipment	(84.4)	(55.1)
Goodwill and intangible assets	(329.8)	(337.3)
Other	(17.2)	(2.3)
Total	(431.4)	(394.7)
Net deferred tax liabilities	$(318.6)	$(283.2)

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

2014	$0.2
2015	0.7
2016	0.1
2017	0.2
2018	0.3
2019 to 2033	36.3
	$37.8

Permanently reinvested undistributed earnings of our foreign subsidiaries were approximately $143.8 million at December 31, 2013. 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 $19.8 million, $34.6 million and $0.3 million in 2013, 2012 and 2011, respectively. State and foreign income taxes paid by us, net of refunds, totaled $27.0 million, $30.7 million and $36.2 million in 2013, 2012 and 2011, 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,	
	2013	2012
Balance at beginning of period	$19.2	$17.4
Increase in prior year tax positions	2.1	2.1
Decrease in prior year tax positions	(0.2)	(0.1)
Increase in current year tax positions	0.9	1.0
Settlements	—	(0.3)
Lapse in statute of limitations	(0.8)	(0.9)
Balance at end of period	$21.2	$19.2

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $11.4 million and $11.2 million at December 31, 2013 and 2012, 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 $5.8 million and $4.6 million in 2013 and 2012, 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, Australia and Mexico. In general, the examination of our material tax returns is completed for the years prior to 2007.

Based on the potential outcome of the Company's tax examinations and the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the currently remaining unrecognized tax benefits will change within the next 12 months. The associated net tax impact on the reserve balance is estimated to be in the range of a $1.5 to $3.0 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. In 2011, the Company matched 50 percent of participant contributions up to 4 percent. Effective January 1, 2012, we began to match 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, 2013, 2012 and 2011 we contributed $8.3 million, $7.7 million and $3.4 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 and $0.2 million at December 31, 2013 and December 31, 2012, respectively. 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 currently cannot be quantified.

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.

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IAA—Lower Duwamish Waterway

On March 25, 2008, the United States Environmental Protection Agency, or the "EPA," issued 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" to IAA for a Superfund site known as the Lower Duwamish Waterway Superfund Site ("LDW Site") in Seattle, Washington. On November 7, 2012, the EPA issued a Second General Notice of Potential Liability, or "Second General Notice," to IAA for the LDW Site. Since 2004, IAA has operated a branch on property it leases in Tukwila, Washington, which is located adjacent to the LDW Site. The LDW Site was identified as a Superfund site in 2001, three years before IAA began leasing the branch in Tukwila. At this time, the EPA has not demanded that IAA pay any funds or take any action apart from responding to the Section 104(e) Information Request. The EPA's website indicates that the EPA has issued notice letters to approximately 116 entities, and has issued Section 104(e) Requests to more than 300 entities. Four Potentially Responsible Parties, or "PRPs," The Boeing Company, the City of Seattle, the Port of Seattle and King County, have funded a remedial investigation and feasibility study of the LDW Site, but the EPA has not yet issued a final plan for remediating the site. IAA is aware that certain authorities may bring natural resource damage claims against PRPs. In the General Notice and Second General Notice, the EPA informed IAA that the EPA believes IAA may be a PRP, but the EPA has not specified the factual basis for this assertion. At this time, the Company does not have adequate information to determine IAA's responsibility for contamination at this site, if any, or to estimate IAA's loss as a result of this potential liability.

In addition, the Washington State Department of 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. The current Tukwila property owner, the former Tukwila property owner and IAA have had discussions with the Washington State Department of Ecology concerning possible source control obligations, including an investigation of the water and soils entering the stormwater system, an analysis of the source of any contamination identified within the system and possible repairs and upgrades to the stormwater capture and filtration system. In 2011, IAA submitted results of its stormwater system investigation to comply with the Washington State Department of Ecology source control requirements. Additional source control obligations, if any, are not expected to have a material adverse effect on future recurring operating costs.

Note 17—Accumulated Other Comprehensive Income

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

	December 31,	
	2013	2012
Foreign currency translation gain	$18.5	$35.1
Unrealized loss on interest rate derivatives, net of tax	—	(0.2)
Unrealized gain on postretirement benefit obligation, net of tax	0.2	0.2
Accumulated other comprehensive income	$18.7	$35.1

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Note 18—Fair Value Measurements
We apply ASC 820, Fair Value Measurements and Disclosures, to our financial assets and liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The standard establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities, such as models or other valuation methodologies.
- Level 3 - Unobservable inputs that are based on our assumptions, are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect our own assumptions about how market participants would price the asset or liability.

The following tables summarize our financial assets measured at fair value on a recurring basis in accordance with ASC 820 (in millions):

Description	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013 Interest rate caps	$0.8	$—	$0.8	$—

Interest Rate Caps - Under the interest rate cap agreements purchased in August 2013, we receive interest on a notional amount when three-month LIBOR exceeds 1.0%. The fair value of the interest rate caps is based on quoted market prices for similar instruments from commercial banks.
Note 19—Related Party Transactions
Financial Advisory Agreements
We paid the Equity Sponsors travel expenses related to KAR Auction Services, pursuant to the terms contained in the financial advisory agreements. We paid the Equity Sponsors approximately $0.2 million, $0.1 million and $0.1 million for travel expenses for the years ended December 31, 2013, 2012 and 2011, respectively.
Additionally, the financial advisory agreements provide that KAR Auction Services indemnify the Equity Sponsors and their respective officers, directors, partners, employees, agents and control persons (as such term is used in the Securities Act and the rules and regulations thereunder) against any and all claims, losses and expenses as incurred arising in connection with the merger and the transactions contemplated by the merger agreement (including the financing of the merger) entered into in connection with the 2007 Transactions.
Registration Rights Agreement
At December 31, 2013, affiliates of the Equity Sponsors, other equity co-investors and members of our management no longer held an interest in our outstanding common stock directly or indirectly through their investment in KAR LLC. Pursuant to a registration rights agreement entered into with the Equity Sponsors, KAR LLC caused us to file a registration statement (Registration No. 333-174038) under the Securities Act. For the years ended December 31, 2013 and 2012, pursuant to the registration statement, KAR LLC sold 91,328,660 and 15,525,000, respectively, of its shares in KAR Auction Services. We incurred expenses of approximately $1.7 million and $0.6 million for the years ended December 31, 2013 and 2012, respectively, related to such sales and we received no proceeds from the sales. The expenses related to the sales were recorded to "Selling, general and administrative" in the consolidated statement

of income.

Note 20—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. None of our operating segments have been aggregated in our segment reporting. 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). 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). 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. 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 office, such as salaries, benefits, and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense includes the interest expense incurred on 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, 2013 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,118.6	$830.0	$224.7	$—	$2,173.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	629.9	545.9	56.4	—	1,232.2
Selling, general and administrative	252.3	82.4	26.2	129.1	490.0
Depreciation and amortization	87.9	73.8	27.6	5.1	194.4
Total operating expenses	970.1	702.1	110.2	134.2	1,916.6
Operating profit (loss)	148.5	127.9	114.5	(134.2)	256.7
Interest expense	1.0	0.8	16.7	86.2	104.7
Other (income) expense, net	(2.7)	(0.7)	0.7	0.1	(2.6)
Loss on modification/extinguishment of debt	—	—	0.7	4.7	5.4
Intercompany expense (income)	59.9	38.4	(19.9)	(78.4)	—
Income (loss) before income taxes	90.3	89.4	116.3	(146.8)	149.2
Income taxes	40.1	32.8	40.2	(31.6)	81.5
Net income (loss)	$50.2	$56.6	$76.1	$(115.2)	$67.7
Assets	$2,296.4	$1,198.2	$1,547.5	$85.1	$5,127.2
Capital expenditures	$41.5	$39.4	$6.3	$9.4	$96.6

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2012 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,053.5	$716.1	$193.8	$—	$1,963.4
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	595.7	449.5	41.9	—	1,087.1
Selling, general and administrative	249.3	69.8	21.3	78.7	419.1
Depreciation and amortization	96.9	68.1	23.3	1.9	190.2
Total operating expenses	941.9	587.4	86.5	80.6	1,696.4
Operating profit (loss)	111.6	128.7	107.3	(80.6)	267.0
Interest expense	1.1	1.4	15.0	101.9	119.4
Other (income) expense, net	(2.6)	(1.2)	—	(0.2)	(4.0)
Intercompany expense (income)	60.2	38.3	(17.8)	(80.7)	—
Income (loss) before income taxes	52.9	90.2	110.1	(101.6)	151.6
Income taxes	14.5	33.7	46.0	(34.6)	59.6
Net income (loss)	$38.4	$56.5	$64.1	$(67.0)	$92.0
Assets	$2,270.1	$1,228.9	$1,386.5	$36.8	$4,922.3
Capital expenditures	$42.4	$47.3	$7.0	$5.3	$102.0

Financial information regarding our reportable segments is set forth below for the year ended December 31, 2011 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	$1,017.4	$700.1	$168.8	$—	$1,886.3
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	582.3	415.3	37.6	—	1,035.2
Selling, general and administrative	219.6	82.3	22.1	65.4	389.4
Depreciation and amortization	88.1	65.8	24.7	1.2	179.8
Total operating expenses	890.0	563.4	84.4	66.6	1,604.4
Operating profit (loss)	127.4	136.7	84.4	(66.6)	281.9
Interest expense	1.0	2.1	12.0	128.0	143.1
Other (income) expense, net	0.3	(5.3)	—	0.3	(4.7)
Loss on modification/extinguishment of debt	—	—	—	53.5	53.5
Intercompany expense (income)	52.4	38.3	(14.4)	(76.3)	—
Income (loss) before income taxes	73.7	101.6	86.8	(172.1)	90.0
Income taxes	17.9	36.1	29.6	(65.8)	17.8
Net income (loss)	$55.8	$65.5	$57.2	$(106.3)	$72.2
Assets	$2,281.1	$1,177.7	$1,282.4	$37.9	$4,779.1
Capital expenditures	$45.5	$34.6	$5.7	$—	$85.8

Geographic Information

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,		
	2013	2012	2011
Operating revenues			
U.S.	$1,854.0	$1,641.1	$1,563.9
Foreign	319.3	322.3	322.4
	$2,173.3	$1,963.4	$1,886.3

	December 31,	
	2013	2012
Long-lived assets		
U.S.	$3,127.0	$3,097.3
Foreign	208.7	243.6
	$3,335.7	$3,340.9

No single customer accounted for more than ten percent of our total revenues in any fiscal year presented.

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KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2013, 2012 and 2011

Note 21—Quarterly Financial Data (Unaudited)

Information for any one quarterly period is not necessarily indicative of the results that may be expected for the year.

2013 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$557.6	$541.4	$533.7	$540.6
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	331.4	298.9	296.2	305.7
Selling, general, and administrative expenses	100.8	112.2	120.3	156.7
Depreciation and amortization	47.3	49.0	49.6	48.5
Total operating expenses	479.5	460.1	466.1	510.9
Operating profit	78.1	81.3	67.6	29.7
Interest expense	28.8	24.5	26.0	25.4
Other (income) expense, net	(0.6)	(1.1)	(0.8)	(0.1)
Loss on modification/extinguishment of debt	3.8	1.6	—	—
Income before income taxes	46.1	56.3	42.4	4.4
Income taxes	17.0	22.9	19.6	22.0
Net income (loss)	$29.1	$33.4	$22.8	$(17.6)
Basic net income (loss) per share of common stock	$0.21	$0.24	$0.16	$(0.13)
Diluted net income (loss) per share of common stock	$0.21	$0.24	$0.16	$(0.13)

2012 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$506.9	$487.9	$474.9	$493.7
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	269.4	263.2	264.1	290.4
Selling, general, and administrative expenses	114.1	103.5	102.3	99.2
Depreciation and amortization	48.6	48.0	46.8	46.8
Total operating expenses	432.1	414.7	413.2	436.4
Operating profit	74.8	73.2	61.7	57.3
Interest expense	30.3	29.6	29.9	29.6
Other (income) expense, net	0.1	(0.5)	(1.2)	(2.4)
Income before income taxes	44.4	44.1	33.0	30.1
Income taxes	18.4	20.2	13.8	7.2
Net income	$26.0	$23.9	$19.2	$22.9
Basic net income per share of common stock	$0.19	$0.18	$0.14	$0.17
Diluted net income per share of common stock	$0.19	$0.17	$0.14	$0.16

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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, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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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 2014 Annual Meeting of Stockholders and such information will be incorporated by reference herein. Our executive officers as of February 7, 2014, are as follows:

James P. Hallett, 60, Chief Executive Officer and Director. Mr. Hallett has been our Chief Executive Officer since September 2009. Mr. Hallett was President and Chief Executive Officer of ADESA between April 2007 and September 2009. Mr. Hallett previously served in the following positions between August 1996 and May 2005: 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.

Warren W. Byrd, 51, Executive Vice President of Corporate Development and Real Estate. Mr. Byrd has been 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, 54, Chief Client Officer. Mr. Caruso has been 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, 47, Chief Executive Officer of AFC. Mr. Gottwald has been Chief Executive Officer of AFC since January 2009. 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 serves on the association's board of directors.

Peter J. Kelly, 45, Chief Technology Officer. Mr. Kelly has been 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.

Eric M. Loughmiller, 54, 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.

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Thomas C. O'Brien, 60, Chief Executive Officer of IAA and Director. Mr. O'Brien became Chief Executive Officer of IAA in November 2000. Mr. O'Brien also served as President of IAA from November 2000 to June 2011. Prior to joining IAA, Mr. O'Brien served as President of Thomas O'Brien & Associates from 1999 to 2000, Executive Vice President of Safelite Glass Corporation from 1998 to 1999, Executive Vice President of Vistar, Inc. from 1996 to 1997 and President of U.S.A. Glass, Inc. from 1992 to 1996. Mr. O'Brien is also a director of the Core Logic Corporation.
Rebecca C. Polak, 43, 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. 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, 39, 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 November 2005 to June 2013. Prior to joining ADESA, Ms. Price practiced employment law with Stewart & Irwin in Indianapolis from November 2000 to November 2005.
Benjamin Skuy, 51, 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, 45, 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, 51, 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.

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 2014 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 Web site at www.karauctionservices.com and available in print to any stockholder who requests it. Information on, or accessible through, our Web site 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 2014 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents

Incorporated by Reference."

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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 2014 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, 2013.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights(2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)(3)
Equity compensation plans approved by security holder(s)	7,741,999	$ 12.70	3,703,415
Equity compensation plans not approved by security holders	—	—	—
Total	7,741,999	$ 12.70	3,703,415

(1) Includes (a) service options, exit options and performance-based restricted stock units ("PRSUs") issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan; (b) service and exit options issued under the KAR Auction Services, Inc. Stock Incentive Plan; and (c) service and exit options carried over from the Axle Holdings, Inc. Stock Incentive Plan at the time of the merger on April 20, 2007. In December 2013, we granted a target amount of 223,120 PRSUs which vest in three years 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. As such, the target amount of 223,120 PRSUs has been included the table above.

(2) Awards issued post-merger by KAR Auction Services, Inc. have exercise prices ranging from $10.00 to $27.59. Axle Holdings, Inc. options that were carried over at the merger date have exercise prices ranging from $6.41 to $8.52. 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.

(3) The number of securities available for future issuance includes (a) 2,935,862 shares of common stock that may be issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan; and (b) 767,553 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 2014 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 2014 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

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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 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."

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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 19, 2014

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
/s/ JAMES P. HALLETT James P. Hallett	Chief Executive Officer and Director (Principal Executive Officer)	February 19, 2014
/s/ ERIC M. LOUGHMILLER Eric M. Loughmiller	Chief Financial Officer (Principal Financial and Accounting Officer)	February 19, 2014
/s/ DAVID J. AMENT David J. Ament	Director	February 19, 2014
/s/ RYAN M. BIRTWELL Ryan M. Birtwell	Director	February 19, 2014
/s/ BRIAN T. CLINGEN Brian T. Clingen	Chairman of the Board and Director	February 19, 2014
/s/ DONNA R. ECTON Donna R. Ecton	Director	February 19, 2014
/s/ ROBERT M. FINLAYSON Robert M. Finlayson	Director	February 19, 2014
/s/ PETER R. FORMANEK Peter R. Formanek	Director	February 19, 2014
/s/ MICHAEL B. GOLDBERG Michael B. Goldberg	Director	February 19, 2014
/s/ MICHAEL T. KESTNER Michael T. Kestner	Director	February 19, 2014
/s/ CHURCH M. MOORE Church M. Moore	Director	February 19, 2014

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Signature	Title	Date
/s/ THOMAS C. O'BRIEN Thomas C. O'Brien	Director	February 19, 2014
/s/ STEPHEN E. SMITH Stephen E. Smith	Director	February 19, 2014
/s/ JONATHAN P. WARD Jonathan P. Ward	Director	February 19, 2014

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EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	S-1/A	333-161907	3.1	12/10/2009	
3.2	Amended and Restated By-Laws of KAR Auction Services, Inc.	S-1/A	333-161907	3.2	12/10/2009	
4.1	Registration Rights Agreement, dated April 20, 2007, among KAR Auction Services, Inc. (formerly KAR Holdings, Inc.), KAR Holdings II, LLC, certain employees of KAR Auction Services, Inc. or its subsidiaries and each of their respective Permitted Transferees	S-4	333-148847	4.8	1/25/2008	
4.2	Form of common stock certificate	S-1/A	333-161907	4.2	12/10/2009	
10.1a	Credit Agreement, dated May 19, 2011, among KAR Auction Services, Inc., as borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC, as sole lead arranger, J.P. Morgan Securities LLC, Goldman Sachs Lending Partners LLC, Barclays Capital and Deutsche Bank Securities Inc., as joint bookrunners, Goldman Sachs Lending Partners LLC, as syndication agent, and Barclays Bank PLC and Deutsche Bank Securities Inc., as co-documentation agents	10-Q	001-34568	10.1	8/9/2011	
10.1b	First Amendment to Credit Agreement, dated as of November 29, 2012, among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders party thereto	8-K	001-34568	10.1	11/30/2012	
10.1c	Second Amendment to Credit Agreement, dated as of March 12, 2013, among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders party thereto	8-K	001-34568	10.1	3/13/2013	
10.1d	Incremental Term Loan Agreement No. 1, dated as of March 12, 2013, among the Incremental Term Loan Lenders, KAR Auction Services, Inc., the other Loan Parties hereto, and JPMorgan Chase Bank, N.A., as administrative agent	8-K	001-34568	10.2	3/13/2013	

10.2		Guarantee and Collateral Agreement, dated May 19, 2011, made by KAR Auction Services, Inc. and certain of its Subsidiaries in favor of JPMorgan Chase Bank, N.A., as administrative agent under the Credit Agreement	10-Q	001-34568	10.2	8/9/2011
10.3		Intellectual Property Security Agreement, dated May 19, 2011, made by KAR Auction Services, Inc., ADESA, Inc., Automotive Finance Corporation, Automotive Finance Consumer Division, LLC and Insurance Auto Auctions, Inc., in favor of JPMorgan Chase Bank, N.A., as administrative agent for the secured parties (as defined in the Credit Agreement)	10-Q	001-34568	10.3	8/9/2011
10.4	*	Conversion Option Plan of KAR Auction Services, Inc. (formerly KAR Holdings, Inc.)	S-1/A	333-158666	10.9	6/17/2009

Exhibit No.		Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.5	*	Form of Conversion Agreement, dated April 20, 2007, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and certain executive officers and employees of IAA	S-1/A	333-158666	10.13	6/17/2009	
10.6	*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Stock Incentive Plan	S-8	333-164032	10.1	12/24/2009	
10.7	*	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	
10.8a	*	Amended and Restated Employment Agreement, dated April 2, 2001, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	S-4	333-148847	10.22	1/25/2008	
10.8b	*	Amendment to Amended and Restated Employment Agreement, dated December 1, 2008, between Thomas C. O'Brien and Insurance Auto Auctions, Inc.	10-K	333-148847	10.31	3/11/2009	
10.9	*	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett	10-K	001-34568	10.15	2/28/2012	
10.10	*	Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Thomas Caruso	8-K	001-34568	10.3	12/17/2013	
10.11	*	Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Don Gottwald	8-K	001-34568	10.4	12/17/2013	
10.12	*	Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Eric Loughmiller	8-K	001-34568	10.5	12/17/2013	
10.13	*	Employment Agreement, dated December 17, 2013, between KAR Auction Services, Inc. and Rebecca Polak					X
10.14a	^	Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated April 20, 2007	S-1/A	333-158666	10.23	7/2/2009	

10.14b	First Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 10, 2009	10-K	001-34568	10.16b	2/28/2012
10.14c	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated December 15, 2009	10-K	001-34568	10.16c	2/28/2012
10.14d	Third Amendment to Second Amended and Restated Limited Liability Company Agreement of KAR Holdings II, LLC, dated February 27, 2012	10-K	001-34568	10.16d	2/28/2012
10.15a	Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated May 25, 2005	S-1/A	333-158666	10.24	6/17/2009
10.15b	Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated November 2, 2006	S-4	333-148847	10.25	1/25/2008

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Exhibit No.		Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.15c		First Amendment to the Amended and Restated Limited Liability Company Agreement of Axle Holdings II, LLC, dated April 20, 2007	S-4	333-148847	10.26	1/25/2008	
10.16	*	KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) Annual Incentive Program	10-K	333-148847	10.29	3/11/2009	
10.17a	^	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	
10.17b		Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847	10.33	1/25/2008	
10.17c		Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847	10.34	1/25/2008	
10.17d	^	Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847	10.35	1/25/2008	
10.17e		Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009	10-K	001-34568	10.19e	2/28/2012	
10.17f		Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011	10-K	001-34568	10.19f	2/28/2012	
10.18a	^	Fifth Amended and Restated Receivables Purchase Agreement, dated June 21, 2013, among Automotive Finance Corporation, AFC Funding Corporation, Fairway Finance Company, LLC, Saratoga Funding Corp., LLC, Deutsche Bank AG, New York Branch, BMO Harris Bank N.A., Fifth Third Bank and BMO Capital Markets Corp.	10-Q	001-34568	10.18	8/6/2013	
10.18b	^	Amendment No. 1 to Fifth Amended and Restated Receivables Purchase Agreement, dated November 21, 2013					X

10.19a	^	Second Amended and Restated Receivables Purchase Agreement, dated June 28, 2013, among KAR Auction Services, Inc., Automotive Finance Canada Inc. and BNY Trust Company of Canada	10-Q	001-34568	10.19	8/6/2013	
10.19b	^	Amending Agreement to Second Amended and Restated Receivables Purchase Agreement, dated November 22, 2013					X
10.20a		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	
10.20b		Guaranty of Lease, dated September 4, 2008, between KAR Auction Services, Inc. (formerly KAR Holdings, Inc.) and First Industrial L.P. (East 39 Acres at Otay Mesa, California)	8-K	333-148847	10.11	9/9/2008	
10.21a		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	10.40	9/9/2008	

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Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.21b	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	
10.22a	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	
10.22b	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	
10.23a	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	
10.23b	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	
10.24a	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	
10.24b	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	
10.25a	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	
10.25b	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	
10.26a	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	

10.26b	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
10.27a	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
10.27b	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
10.28	Form of Indemnification Agreement	8-K	001-34568	10.1	12/17/2013

Table of Contents

Exhibit No.		Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.29	*	KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, as Amended April 19, 2013	10-Q	001-34568	10.3	5/2/2013	
10.30a	*	Form of KAR Auction Services, Inc. Employee Stock Purchase Plan	S-8	333-164032	10.3	12/24/2009	
10.30b	*	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	
10.30c	*	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	
10.31	*	KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568	10.62	8/4/2010	
10.32	*	Form of Director Restricted Share Agreement	10-Q	001-34568	10.63	8/4/2010	
10.33	*	Form of Nonqualified Stock Option Agreement	S-1/A	333-161907	10.65	12/4/2009	
10.34	*	Form of Restricted Share Agreement	S-1/A	333-161907	10.66	12/4/2009	
10.35	*	Form of Performance-Based Restricted Stock Unit Agreement	8-K	001-34568	10.2	12/17/2013	
21.1		Subsidiaries of KAR Auction Services, Inc.					X
23.1		Consent of KPMG LLP, Independent Registered Public Accounting Firm					X
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

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^ 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.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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