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

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

For the fiscal year ended December 31, 2020
OR

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

Commission File Number: 001-34568

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

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

11299 N. Illinois Street, 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	**Trading symbol**	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	KAR	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the registrant's common stock held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was $1,764,687,348 at June 30, 2020.

As of February 12, 2021, 129,702,004 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 2020 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, 2020.

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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," "KAR" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries;
- "ADESA" or "ADESA Auctions" refer, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including Openlane, Inc. (together with Openlane, Inc.'s subsidiaries, "Openlane"), Nth Gen Software Inc. ("TradeRev"), BacklotCars, Inc. ("BacklotCars"), ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited")) and ADESA Europe (formerly known as CarsOnTheWeb ("COTW"));
- "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. PWI was sold on December 1, 2020;
- "Credit Agreement" refers to the Amended and Restated Credit Agreement, dated March 11, 2014 (as amended, amended and restated, modified or supplemented from time to time), among KAR Auction Services, Inc., as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and JPMorgan Chase Bank N.A., as administrative agent;
- "Credit Facility" refers to the $950 million, senior secured term loan B-6 facility due September 19, 2026 ("Term Loan B-6") and the $325 million, senior secured revolving credit facility due September 19, 2024 (the "Revolving Credit Facility"), the terms of which are set forth in the Credit Agreement;
- "IAA" refers, collectively, to Insurance Auto Auctions, Inc., formerly a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries and other related entities, including HBC Vehicle Services Limited ("HBC"). See Note 4 of the Notes to Consolidated Financial Statements;
- "KAR Auction Services" refers to KAR Auction Services, Inc., and not to its subsidiaries;
- "Senior notes" refers to the 5.125% senior notes due 2025 ($950 million aggregate principal outstanding at December 31, 2020);
- "Series A Preferred Stock" refers to the Series A Convertible Preferred Stock, par value $0.01 per share (571,606 shares of Series A Preferred Stock were outstanding at December 31, 2020);
- "Term Loan B-4" refers to the senior secured term loan B-4 facility, the terms of which are set forth in the Credit Agreement;
- "Term Loan B-5" refers to the senior secured term loan B-5 facility, the terms of which are set forth in the Credit Agreement; and
- "2017 Revolving Credit Facility" refers to the $350 million senior secured revolving credit facility existing under the Credit Agreement prior to September 19, 2019.

PART I

Item 1. Business

Overview

We are a leading provider of used vehicle auctions and related vehicle remarketing services in North America and Europe. We leverage technology to facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles through our multiple proprietary Internet venues and 74 North American facilities at December 31, 2020. In 2020, we facilitated the sale of approximately 3.1 million used 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, collateral recovery services and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold through our auctions.

Our end-to-end platform serves the remarketing needs of OEMs, dealers, fleet operators, rental companies and financial institutions. We are an auction company that provides advanced and integrated mobile, digital and on-premise marketplaces. We are a technology company that delivers next generation tools to accelerate and simplify remarketing. We are also an analytics company that leverages data to inform and empower our customers with clear, actionable insights.

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA's auctions are typically sold by used vehicle dealers, vehicle manufacturers and their captive finance companies, financial institutions, commercial fleet operators and rental car companies to franchised and independent used vehicle dealers. Through ADESA.com, ADESA provides a comprehensive remarketing solution to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions. The Company operates TradeRev and BacklotCars digital auction platforms to serve wholesale transactions between automotive dealers. An important component of ADESA's services to its buyers is providing short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers through our wholly-owned subsidiary, AFC, which has 115 locations throughout North America.

At December 31, 2020, the Company provided Simulcast and Simulcast+ digital auction platforms through a North American network of 74 whole car auction locations. ADESA also includes ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom and ADESA Europe (formerly known as CarsOnTheWeb), an online wholesale vehicle auction marketplace in Continental Europe. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with providers and buyers of used vehicles.

Our Corporate History

KAR Auction Services, Inc., doing business as KAR Global, was incorporated in 2006 and commenced operations in 2007. ADESA entered the vehicle remarketing industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC. ADESA remained a public company until 1995 when ALLETE, Inc. purchased a majority of its outstanding equity interests. In 2004, ALLETE, Inc. sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders. ADESA was acquired by the Company in 2007. At that time the Company also acquired Insurance Auto Auctions, Inc. ("IAA"), a North American salvage auction business. In a series of transactions between 2012 and 2013, our former owners (private equity investors) sold all of their common stock in secondary offerings. In 2019, IAA was separated from KAR Auction Services through a tax-free spin-off and now operates as a separate entity (NYSE: IAA).

Our Industry

Auctions are the hub of the remarketing system for used 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 fleet vehicles that have reached a predetermined age or mileage. The following are key industry highlights:

Whole Car Auction Industry Volumes

Whole car auction volumes in North America, including off-premise volumes and mobile application volumes, were approximately 12.0 million in 2019. Data for the whole car auction industry is collected by the National Auto Auction Association ("NAAA") through an annual survey. NAAA industry volumes for 2020 have not yet been released, but we expect that volumes in 2020 were substantially lower than in 2019. The NAAA industry volumes collected by the annual survey do not include off-premise volumes or mobile application volumes (e.g., Openlane, TradeRev and BacklotCars), but we have included these volumes in our totals. The COVID-19 pandemic has had a material impact on the whole car auction industry and we are unable to estimate future volumes.

Whole Car Market

The North American used vehicle auction market is largely consolidated. Manheim, a subsidiary of Cox Enterprises, Inc. and ADESA are the two largest auction providers in the North American whole car auction market. The remaining providers in the market are substantially smaller in size.

Floorplan Financing

An important component of the whole car auction industry is providing short-term inventory-secured financing, known as floorplan financing. By providing buyers (primarily independent used vehicle dealers) access to capital, the independent used vehicle dealers are able to place inventory on their lots. AFC and its competitors play a significant role in the whole car auction industry by providing liquidity in the auction lanes.

Our Business Strategy

KAR's strategy is to be the world's leading digital marketplace for used vehicles. This progressive strategy reflects the shifting landscape of the remarketing industry and automotive sector, the evolving needs and expectations of our customers and the opportunities that emerged and accelerated through the 2020 global pandemic. The strategy builds on KAR's integrated technology and data analytics capabilities while leveraging the Company's broad geographic footprint and physical infrastructure.

We are committed to the digital transformation of wholesale remarketing. We believe digital platforms benefit sellers by attracting a larger buyer-base, providing greater flexibility around when and where to launch sales, and enabling more advanced and targeted marketing techniques. We believe buyers benefit from digital platforms through greater transparency, access to inventory beyond their local auction market and the ability to browse, bid and buy safely and conveniently from any location, on any device, at any time. For KAR, going digital enables a faster, more agile and efficient operating model, which should in turn deliver greater value to our stakeholders.

KAR has identified four strategic priorities that we believe will advance this strategy and continue to position our company for the future. Those priorities are:

- Digital transformation;
- Growing dealer consignment;
- Expanding our commercial business; and
- Improve the customer experience.

Digital transformation: The cornerstone of digital transformation is technology, so we intend to continue to invest in new digital platforms, data analytics capabilities and digital talent to power our marketplaces. We are transforming our operating model and enabling functions to support KAR's digital future.

- **Physical locations & operations**: ADESA's physical locations across North America provide comprehensive services to on-premise and off-premise customers, including inspection, reconditioning, mechanical work, storage and logistics. We intend to continue to invest in new technology and processes to transform how we approach the work performed at these locations to reduce cycle time, improve the services offered and create new opportunities for revenue generation.

- **Enabling capabilities**: We also understand that as transactions become more digital, our capabilities need to evolve to meet the increased customer needs and expectations in a digital marketplace. We are enhancing our imaging, inspection and vehicle representation capabilities to more closely simulate seeing and touching a vehicle on-premise. We also intend to continue to build on and diversify our data and analytics capabilities to provide our customers with actionable information to help them make better buying and selling decisions.
- **Talent**: The Company's shift to a digital model has enabled us to become a more efficient organization. We are reducing on-premise labor while increasing resource levels in our technology, engineering, analytics and product teams. We will continue to evaluate our talent pool and seek new talent where necessary.

Growing dealer consignment: The dealer consignment business represents approximately one-third of the Company's current transaction portfolio and we believe an area with significant opportunity for growth. Over the past several years, KAR has completed two strategic acquisitions to capture greater share in this space: TradeRev and BacklotCars. Both platforms provide dealers with fast, easy mobile-app solutions to sell and source inventory from other dealers. They provide comprehensive vehicle condition reports, greater transparency into bidding activity, and real-time market price discovery on listed vehicles. The Company is integrating and leveraging technology, capabilities and staff from TradeRev, BacklotCars and ADESA to deliver what we believe will be the best digital dealer-to-dealer solution in the market.

Expanding our commercial business: The commercial consignment business represents approximately two-thirds of the Company's transactional volume, and growing our share in this area remains a strategic priority. The Company's commercial offerings include Openlane, Simulcast and Simulcast+. The foundation of KAR's commercial offering is Openlane, the digital platform powering more than 40 private label websites for our OEM and financial institution consignor customers. We continue to invest in staff and technology to enhance the digital experience for our commercial customers using any of our multiple platforms.

Improve the customer experience: Ultimately, the transition to a fully digital business requires an exceptional customer experience. We are developing and improving our offerings to deliver a more simplified, intuitive and customer-centric user experience. We are also working towards centralizing many key customer support and administrative functions to ensure a faster, more predictable and consistent experience for our customers.

Our Business Segments

We operate as two reportable business segments: ADESA Auctions and AFC. Our revenues for the year ended December 31, 2020 were distributed as follows: ADESA 88% and AFC 12%. Prior to December 31, 2020, the costs and expenses of the holding company were reported separately from the reportable segments and included expenses associated with the corporate offices, such as salaries, benefits and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. These holding company costs and expenses are now included in the reportable segments. The holding company costs and expenses for prior periods have also been reclassified to conform to the current presentation.

ADESA

Overview

We are the second largest provider of whole car auctions and related services to the vehicle remarketing industry in North America. We serve our customer base through online auctions and strategically located auction facilities that are developed to draw professional sellers and buyers together and allow the buyers to inspect and compare vehicles remotely via ADESA.com or in person. Our online service offerings allow us to offer vehicles for sale from any location. On-premise marketplace sales are initiated online for vehicles at one of our locations across North America and include Simulcast, Simulcast+ and DealerBlock sales. Off-premise marketplace sales are initiated online and include Openlane, TradeRev, BacklotCars and ADESA Europe sales.

Vehicles available at our auctions include vehicles from commercial customers such as off-lease vehicles, repossessed vehicles, rental vehicles and other fleet vehicles that have reached a predetermined age or mileage, 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 on-premise and off-premise marketplaces, 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 on-premise marketplaces on at least a weekly basis at most ADESA locations and the auctions are simulcast over the Internet with streaming audio and video (ADESA Simulcast) so that remote bidders can participate via our online products. Our online auctions (DealerBlock, TradeRev and BacklotCars) 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.

We generate revenue from auction fees paid by vehicle buyers and sellers, as well as fees from related services. Generally, we do not take title to or bear the risk of loss for vehicles sold at whole car auctions. Our buyer fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while seller fees are typically fixed. We add buyer fees to the gross sales price paid by buyers for each vehicle, and generally customers do not receive title or possession of vehicles after purchase until payment is received, proof of floorplan financing is provided or credit is approved. We generally deduct seller fees and other ancillary service fees to sellers from the gross sales price of each vehicle before remitting the net amount to the seller. ADESA also sells vehicles that have been purchased, which represent approximately 1% of total vehicles sold.

Customers

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

Services

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

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

Sales and Marketing

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

Managers of individual auction locations are ultimately responsible for providing services to the commercial 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 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 a centralized team of inventory consultants matching buyers and inventory. Both the local sales representatives and the inventory consultants are managed by a corporate-level team focused on developing and implementing standard best practices and expanding relationships with major dealer groups. We believe this combination of a centralized structure with decentralized resources enhances relationships with the dealer community and may further increase dealer consignment business at our auctions.

Through our KAR Global 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 online solutions include:

ADESA Technology	Description
ADESA Simulcast® / Simulcast+	Our live auction Internet bidding solution, ADESA Simulcast®, operates in concert with our on-premise marketplaces 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 Simulcast® 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 on-premise marketplace that is underway. Simulcast+ is a fully digital auction operated remotely with an automated auctioneer, sequential sales, audio and visual cues to simulate the live auction experience and all buyers and sellers interacting virtually through the Simulcast platform.
ADESA.com, ADESA.eu, ADESA.co.uk and ADESA DealerBlock®	This platform provides for either real-time or "bulletin-board" online auctions of consigned inventory at on-premise marketplace locations. We also utilize this platform to provide certain selling capabilities for our consignors that facilitate the sale of vehicles prior to their arrival at an on-premise marketplace site. Auctions can be either closed (restricted to certain eligible dealers) or open (available to all eligible dealers) and inventory feeds of vehicles are automated with many customers' systems as well as third party providers that are integrated with various dealer management systems. Oftentimes, the vehicles offered for sale prior to their arrival at an on-premise marketplace site are "private-labeled" for the consignors.
TradeRev	This mobile app replicates the on-premise marketplace setting, enabling dealers to launch and participate in live, real-time auctions directly from their smartphone, tablet or desktop. TradeRev gives dealers the ability to start an auction any time of day and users can complete the entire transaction within the app, including optional inspection, title and arbitration services, instant live bids at appraisal, floorplan financing and transportation. This platform is currently used in the United States and Canada.
BacklotCars	This mobile app and web-based dealer-to-dealer wholesale platform is utilized in the United States and features a 24/7 "bid-ask" marketplace offering vehicles with comprehensive inspections performed by automobile mechanics.
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.

Competition

In the North American whole car auction industry, we compete with Manheim, a subsidiary of Cox Enterprises, Inc., OVE.com (Manheim's "Online Vehicle Exchange"), RMS Automotive (a subsidiary of Cox Enterprises, Inc.), SmartAuction (a subsidiary of Ally Bank), as well as several smaller chains of auctions, independent auctions and a number of digital auction platforms, including Auction Edge, ACV and EBlock auctions. In addition, used car retailers, such as CarMax and Carvana, have developed proprietary auction platforms for selling vehicles to other dealers. In the United States, competition is strongest with Manheim for the supply of used vehicles from national commercial 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.

The whole car auction industry is highly fragmented in Europe where we compete primarily with British Car Auctions and Manheim. There are also a number of small independent auction operations throughout Europe.

In the dealer-to-dealer auction market, our mobile applications, TradeRev and BacklotCars, currently compete with ACV Auctions, EBlock, Manheim Express, CarWave, TradeHelper and others.

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 locations throughout North America. In 2020, AFC serviced approximately 1.5 million loan transactions, which includes both loans paid off and loans extended, or curtailed. We sell the majority of our U.S. dollar-denominated finance receivables without recourse to a wholly-owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a group of bank purchasers on a revolving basis. We also securitize the majority of our Canadian dollar denominated finance receivables through a separate third-party facility. We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

Preferred Warranties, Inc. ("PWI") is a vehicle service contract business. We receive advance payments for the vehicle service contracts and unearned revenue was deferred and recognized over the terms of the contracts, which ranged from 3 months to 7 years, on an individual contract basis. The Company sold PWI in December 2020.

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 2020, approximately 87% of the vehicles floorplanned by AFC were vehicles purchased by dealers at any auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. As of December 31, 2020, we serviced auctions through 115 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 normally 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, 2020, AFC had approximately 10,900 active dealers with an average line of credit of approximately $290,000 and no one dealer representing greater than 2% of our portfolio. An average of approximately 15 vehicles per active dealer were floorplanned with an approximate average value outstanding of $11,800 per vehicle as of December 31, 2020.

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 field personnel. AFC's corporate-level team and Business Development Center also provide sales and marketing support to AFC field personnel by helping to identify new dealer opportunity 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 field network. Typically, we assess a floorplan fee at the inception of a loan and we collect all accrued fees and interest when the loan is extended or repaid in full. In addition, AFC generally holds the title or other evidence of ownership to all vehicles which are floorplanned. Typical loan terms are 30 to 90 days, each with a possible loan extension. For an additional fee, this loan extension allows the dealer to extend the duration of the loan beyond the original term for another 30 to 90 days if the dealer makes payment towards principal and pays accrued fees and interest.

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

Collateral Management

Collateral management is an integral part of daily operations at each AFC location, including our corporate headquarters. AFC's proprietary computer-based system facilitates this daily collateral management by providing real-time access to dealer information and enables field 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. Field personnel are proactive in managing collateral by monitoring loans and notifying dealers that payments are coming due. In addition, approximately 55,000 routine audits, or inventory audits, are performed annually on the dealers' lots through our AutoVIN subsidiary. Poor results from inventory audits typically require field 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 thirteen 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 field offices to track trends before an account becomes a troubled account and to determine, together with collection attorneys, the best strategy to secure the collateral once a troubled account is identified.

Securitization

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC's securitization facility has been in place since 1996. AFC Funding Corporation had a committed facility of $1.60 billion from a third-party facility for U.S. finance receivables at December 31, 2020. The agreement expires on January 31, 2024.

We also have an agreement in place for the securitization of Automotive Finance Canada Inc.'s ("AFCI") receivables. This securitization facility provides up to C$175 million in financing for eligible finance receivables through a third-party conduit (separate from the U.S. facility). The agreement expires on January 31, 2024. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

Competition

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

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

Seasonality

The volume of vehicles sold through our auctions generally fluctuates from quarter to quarter. This seasonality is caused by several factors including weather, the timing of used vehicles available for sale from selling customers, 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. 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.

Government Regulation

Our operations are subject to regulation, supervision and licensing under various federal, state, provincial, local and foreign 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, limit interest rates, fees and other charges and protect personal data. 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 a complex framework of federal, state, local and foreign laws and regulations, including vehicle brokerage and auction laws and currency reporting obligations, which have in the past, and could in the future, subject us to claims, challenge our business model, or otherwise harm our business." Changes in government regulations or interpretations of existing regulations could result in increased costs, reduced vehicle prices and decreased profitability for us. In addition, failure to comply with present or future regulations or changes in existing regulations or in their interpretation could have a material adverse effect on our operating results and financial condition.

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 liability, damage our reputation and require costly investigative, remedial or corrective actions.

In the used vehicle remarketing industry, large numbers of vehicles are stored and/or refurbished at auction facilities and during that time 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. Some of the facilities on which we operate are impacted by recognized environmental concerns and pollution conditions. We have incurred and may in the future incur expenditures relating to compliance and risk mitigation efforts, 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.

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 and Human Capital

At December 31, 2020, we had approximately 10,000 employees, of which approximately 7,500 were located in the U.S. and approximately 2,500 were located in Canada, Mexico, Uruguay, the U.K. and Europe. Approximately 88% of our workforce consists of full-time employees. Currently, less than 1% of our employees participate in collective bargaining agreements. We have also established a works council in Belgium pursuant to local law. In addition to the employee workforce, we also utilize independent contractors and temporary labor services to provide certain services.

Our people have been critical to our digital transformation. Led by our Chief People Officer, we have programs and practices in place to onboard, support and retain our talent, and to source new talent in a highly competitive environment. We recognize the importance of our workforce and the employee experience, and strive to offer competitive compensation and benefits while fostering a culture of open dialogue, inclusion and belonging. Additionally, we enable support functions and people managers that are dedicated to the growth and development of our teams.

Available Information

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

The SEC maintains a website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

Item 1A. Risk Factors

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

Risks Related to Our Business and Operations

The COVID-19 pandemic continues to create significant risk and uncertainty and has had, and is expected to continue to have, an adverse impact on our business, results of operations and financial condition.

The extent of the impact of the COVID-19 pandemic on our business, results of operations and financial results will continue to depend on future developments that are uncertain and unpredictable, including new information that may emerge concerning the severity and duration of the COVID-19 pandemic and the effectiveness of actions taken to contain the COVID-19 outbreak or treat its impact. Additionally, the COVID-19 pandemic implicates and exacerbates many of the other risks described in this Item 1A. "Risk Factors," including but not limited to risks relating to general economic conditions. This situation continues to evolve and additional impacts may arise that we are not aware of currently. Due to the unprecedented nature of the pandemic and responses thereto, we cannot identify all of the risks we face from the pandemic and its aftermath.

Governments in the various jurisdictions we operate have mandated, and continue to introduce, numerous and varying measures to slow the spread of COVID-19, including travel bans and restrictions, quarantines, curfews, shelter-in-place and safer-at-home orders, business shutdowns and closures. Certain jurisdictions began easing restrictions only to return to tighter restrictions in the face of increases in new COVID-19 cases. These measures have not only negatively impacted consumer spending and business spending habits, they have also adversely impacted and are expected to continue to impact our workforce and operations and the operations of our customers, suppliers and business partners. Specifically, the measures taken to slow the spread of COVID-19 have impacted our business by directly impacting retail automobile sales; lowering sales volumes, which could be depressed longer than expected; requiring our employees to work from home; and limiting the number of attendees at our sites. The duration of these measures is unknown, may be extended and additional measures may be imposed, and they are likely to continue to adversely affect our business, results of operations and financial condition.

COVID-19 has caused and may continue to cause us to modify our business practices. We are focused on attempting to mitigate the negative impacts of COVID-19 on our business, which has required and will continue to require a substantial investment of time and resources across our enterprise. While we have developed and implemented and continue to develop and implement health and safety protocols, business continuity plans and crisis management protocols in an effort to try to mitigate the negative impact of COVID-19 on our employees and our business, there can be no assurance that we will be successful in our efforts. Further, our increased reliance on remote access to our information systems continues to increase our exposure to cybersecurity attacks or data security incidents, along with other risks related to the reliability of technology to support remote operations.

The broader implications for our business and results of operations remain uncertain and will depend on many factors outside our control, including, without limitation, the timing, extent, trajectory and duration of the pandemic, the development and availability of effective treatments and vaccines, the imposition of protective public safety measures, and the timing and extent to which normal economic and operating conditions resumes. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of its impact.

We operate in a highly competitive industry. If we are not successful in competing with our known competitors and/or disruptive new entrants, then our market position or competitive advantage could be threatened and our business and results of operations could be adversely impacted.

We face significant competition for the supply of used 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 and NextGear Capital), (2) new entrants, including new vehicle remarketing venues and dealer financing services, and (3) other participants in the automotive industry with vehicle remarketing capabilities (e.g., rental car companies, automobile retailers and wholesalers). 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 marketplaces (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 marketplaces. Increased competition could result in price reductions, reduced margins or loss of market share.

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

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

In addition, if one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. Our competitors may also establish or strengthen cooperative relationships with our current or future data providers, technology partners, or other parties with whom we have relationships, thereby limiting our ability to develop, improve, and promote our solutions. We may not be able to compete successfully against current or future competitors, and competitive pressures may harm our revenue, business, and financial results.

ADESA, through its on-premise and off-premise wholesale vehicle platforms, currently competes with online wholesale and retail vehicle selling platforms, including OVE.com and RMS Automotive (both affiliated with Cox Enterprises, Inc.), SmartAuction, mobile applications (e.g., ACV Auctions and EBlock) 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 on-premise and off-premise marketplaces to decrease. If the number of vehicles sold through our auctions decreases due to these competitors or other industry changes, our revenue and profitability may be negatively impacted. In addition, our long-lived assets could also become subject to impairment.

In the dealer-to-dealer auction market, our mobile applications, TradeRev and BacklotCars, currently compete with ACV Auctions, EBlock, Manheim Express, CarWave, TradeHelper and others. The dealer-to-dealer space is experiencing a digital disruption as competitors and new market participants introduce new technologies. If TradeRev and BacklotCars are unable to compete and gain market share in the dealer-to-dealer space, our business and revenues may be negatively impacted.

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

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

Our business is dependent on information technology, particularly as we execute our digital transformation strategy. Robust information technology systems, platforms and products are critical to our operating environment, digital online products and competitive position. It is strategically significant that we lead the digital transformation occurring in our industry. We may not be successful in structuring our technology or developing, acquiring or implementing technology systems which are competitive and responsive to the needs of our customers. We might lack sufficient resources to continue to make the significant technology investments to effectively compete with our competitors. Certain technology initiatives that management considers important to our long-term success will require capital investment, have significant risks associated with their execution, and could take several years to implement. If we are unable to develop and implement these initiatives in a cost-effective, timely manner or at all, it could damage our relationships with our customers and negatively impact our financial condition and results of operations. There can be no assurance that others will not acquire similar or superior technologies sooner than we do or that we will acquire technologies on an exclusive basis or at a significant price advantage. If we do not accurately predict, prepare and respond to new kinds of technology innovations, market developments and changing customer needs, our revenues, profitability and long-term competitiveness could be materially adversely affected.

If we are unable to successfully execute on our business strategy, if our strategy proves to be ineffective, or if we improperly align new strategies with our vision, our business, financial performance and growth could be adversely affected.

Our business, results of operations and financial condition depend on our ability to execute our business strategy. See “Our Business Strategy” under “Item 1. Business” included in this Annual Report on Form 10-K. 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, and even if we do succeed, we may not realize the expected benefits of our strategy. 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.

Unsuccessful implementation of business initiatives to reduce costs and align our business to our digital operating model, or unintended consequences of the implementation of such initiatives, may adversely affect our business.

We have taken certain steps, including reductions in force, internal reorganizations and reallocation of resources from physical to digital channels to reduce the cost of our operations, improve efficiencies, and realign our organization and staffing to better match our market opportunities and digital initiatives. We have shifted and continue to shift resources from our physical channels to efforts focused on digital channels and technologies, and we continue our efforts to reduce overhead and manage our variable and fixed-cost structure. We may continue to take similar steps in the future as we seek to realize operating synergies, achieve our target operating model and profitability objectives, and more closely reflect changes in the strategic direction of our business. These changes could be disruptive to our business, and we may experience a loss of accumulated knowledge, loss of continuity and inefficiency, adverse effects on employee morale, loss of key personnel and other retention issues during transitional periods. These initiatives can require a significant amount of time and focus, which may divert attention from operating and growing our business. In addition, many of our competitors continue to offer a traditional physical channel auction environment. If our efforts to focus on digital channels and technologies do not engage customers at the same level as in the past, or if we fail to achieve some or all of the expected benefits of our cost reduction and business alignment initiatives, it could have an adverse effect on our competitive position and market share, business, financial condition and results of operations.

We may be unable to meet our customers’ expectations, which could impact customer retention and adversely affect our operating results and financial condition.

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

ADESA’s agreements with its largest commercial suppliers of used vehicles are generally subject to cancellation by either party upon 30 to 90 days’ notice. In addition, it is common that commercial suppliers regularly review their relationships with whole car 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 or provide services on less favorable terms. 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.

If we fail to effectively identify, value, manage, complete and integrate acquisitions, our operating results, financial condition and growth prospects could be adversely affected.

Acquisitions have been a significant part of our growth strategy and have enabled us to further broaden and diversify our service offerings. Our strategy generally includes acquisitions of companies, products, services and technologies to expand our online, digital and mobile capabilities and the acquisition and integration of additional facilities. 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. There can be no assurance that we will identify appropriate targets, will acquire such businesses on favorable terms, will be able to successfully integrate such organizations into our business or will be able to realize anticipated benefits. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and they could materially adversely affect our business, financial condition and results of operations. Acquisitions may also have unanticipated tax, legal, regulatory and accounting ramifications, including as a result of recording goodwill that is subject to impairment testing on a regular basis and potential periodic impairment charges. Another accounting ramification includes the valuation of contingent consideration at the acquisition date which is subject to remeasurement each reporting period and could result in additional expense. In addition, we expect to compete against existing and new competitors for suitable acquisitions. If we are able to consummate acquisitions, such acquisitions could be dilutive to earnings, and we could overpay for such acquisitions.

Additional risks and challenges we face in connection with acquisitions include, but not limited to:

- incurring significantly higher capital expenditures, operating expenses and operating losses of the business acquired;
- coordination of technology, research and development, and sales and marketing functions, along with integration of the acquired business's accounting, management information, human resources, and other administrative systems;
- incurring liability for pre-acquisition activities of the acquired business;
- implementing or remediating the controls, procedures, and policies of the acquired business;
- incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- retaining and integrating acquired employees, including cultural challenges associated with integrating employees from the acquired business into our organization;
- maintaining important business relationships and contracts of the acquired business; and
- integrating the acquired business onto our systems and ensuring the acquired business meets our financial reporting requirements and timelines.

Any of these risks, if realized, could materially and adversely affect our business, financial condition and results of operations.

Our expansion into markets outside the U.S. and our non-U.S. based operations subject us to unique operational, competitive and regulatory risks.

Acquisitions and other strategies to expand our operations beyond North America subject us to significant risks and uncertainties. As a result, we may not be successful in realizing anticipated synergies or we may experience unanticipated integration expenses. As we continue to explore opportunities to expand our business internationally, we will need to develop policies and procedures to manage our business on a global scale. There can be no assurance that we will identify appropriate international targets, acquire such businesses on favorable terms, or be able to successfully grow and integrate such organizations into our business. Operationally, acquired businesses typically depend on key relationships and our failure to maintain those relationships could have an adverse effect on our operating results and financial condition.

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

- exposure to foreign currency exchange rate risk, which may have an adverse impact on our revenues and profitability;
- exposure to the principal or purchase auction model rather than the agency or consignment model, which may have an adverse impact on our margins and expose us to inventory risks;
- restrictions on our ability to repatriate funds, as well as repatriation of funds currently held in foreign jurisdictions, which may result in higher effective tax rates;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to operate in certain foreign markets;
- compliance with anti-corruption and anti-bribery laws, including the Foreign Corrupt Practices Act and the U.K. Bribery Act;
- compliance with various privacy regulations, including the General Data Protection Regulation ("GDPR");
- dealing with unfamiliar regulatory agencies and laws, including those favoring local competitors;
- dealing with political and/or economic instability, including the exit of the U.K. from the E.U. ("Brexit");
- the difficulty of managing and staffing foreign offices, as well as the increased travel, infrastructure, legal and compliance costs associated with international operations;
- localizing our product offerings; and
- adapting to different business cultures and market structures.

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

Significant disruptions of information technology systems could adversely affect our business and reputation.

We rely on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, and to manage or support a variety of our business processes and activities. The secure operation of these systems, and the processing, maintenance, enhancement and reliability of these systems, are critical to our business operations and strategy. The technology to operate some of our businesses is provided, in whole or in part, by third-party service providers, and we do not own or control the operation of third party facilities. Information technology systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, acts of war, electronic and physical break-ins, computer viruses, earthquakes and similar events. The occurrence of any of these events could damage information technology systems or hardware and cause them to fail. In addition, any financial difficulties, up to and including bankruptcy, faced by our service providers or any of their subcontractors, may have negative effects on our business, the nature and extent of which are difficult to predict. Information technology risks (including the confidentiality, integrity and availability of digital assets) have significantly increased as new technologies have proliferated, and as organized criminals, hackers, terrorists and other bad actors have become more sophisticated. These threats, which may be external or internal may be malicious, or may result from human or computer error. Our customers also rely on our information technology systems to conduct their operations. In addition, our customers increasingly use personal equipment and mobile devices that may be beyond our control. Any significant disruptions of our information technology systems could negatively impact our business and customers, damage our reputation and materially adversely affect our consolidated financial position and results of operations.

Data security concerns relating to our technology or breaches of information technology systems, could adversely affect our business and reputation.

We have experienced cyber-attacks and security incidences of varying degrees and believe we will continue to be a potential target of such threats and attacks, particularly as we execute our digital transformation strategy. The technology infrastructure and systems of our suppliers, vendors, service providers and partners have also in the past experienced and may in the future experience such threats and attacks. Continuous cyber-attacks or a sustained attack could lead to service interruptions, malfunctions or other failures in the technology that supports our businesses and customers, as well as the operations of our customers or other third parties. Continuous cyber-attacks could also damage our reputation with our customers and other parties and the market, additional costs (such as repairing systems, adding personnel or security technologies or compliance costs), regulatory penalties, financial losses to both us and our customers and partners and the loss of customers and business opportunities. If such attacks are not detected in a timely manner, their effect could be compounded.

Although we have technology and information security policies and processes and disaster recovery plans in place, these measures may not be adequate to ensure that our operations will not be compromised or disrupted should such an event occur. If our information technology systems are compromised, become inoperable for extended periods of time or cease to function properly, we may have to make a significant investment to fix or replace the information technology and our ability to provide many of our electronic and online solutions to our customers may be impaired, which would have a material adverse effect on our consolidated operating results and financial position. In addition, as cyber-threats continue to evolve, we may be required to expend significant additional resources to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could result in the loss or misuse of proprietary, confidential or sensitive information, disrupt our business, damage our reputation, expose us to legal liability and materially adversely affect our consolidated financial position and results of operations.

Compliance with U.S. and global privacy and data security requirements could result in additional costs and liabilities or inhibit our ability to collect, transmit and/or store data, and the failure to comply with such requirements could subject us to significant fines and penalties, which could adversely affect our business, financial condition and reputation.

Aspects of our operations and businesses are subject to certain privacy regulations in the United States, including the California Consumer Privacy Act ("CCPA") and around the globe, including the European Union's General Data Protection Regulation (the "GDPR"). We collect, process and store sensitive data, including proprietary business and customer information, as well as personally identifiable information of our customers, their consumers and our employees. A growing number of legislative and regulatory bodies have adopted consumer notification and other requirements in the event that consumer information is accessed and/or acquired by unauthorized persons, and additional regulations regarding the use, access, accuracy, security and retention of such data are possible. Our compliance with global laws and regulations relating to privacy, data protection and information security may materially increase our costs or otherwise limit our ability to continue or pursue certain business activities. Our failure to comply with applicable laws or regulations could also result in fines, sanctions, private litigation, government enforcement, business disruption, credit reporting and other expenses, damage to our reputation and loss of customers. We maintain cyber risk insurance, but this insurance may not be sufficient to cover all losses from any future disruption, security incident or breach.

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

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

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

In addition, the supply of vehicles coming to auction could be impacted by initiatives to switch from vehicles with internal combustion engines to electric vehicles. The sale of electric vehicles is dependent on consumer adoption, which could be impacted by numerous factors, including perceptions about electric vehicle features, quality, safety, performance and cost; perceptions about the range over which electric vehicles may be driven on a single battery charge; high fuel-economy internal combustion engine vehicles; volatility in the cost of fuel; government regulations and economic incentives; and access to charging facilities. If consumer behavior and vehicle ownership trends move from vehicles with internal combustion engines to electric vehicles, the number of vehicles coming to auction could decline, the ancillary services we provide could decline or change, we could incur expenses associated with the purchase and installation of charging stations at our facilities and our revenues and profitability may be adversely affected.

Furthermore, off-premise marketplace platforms were utilized for the sale of approximately 49% of vehicles sold in North America by ADESA in 2020, compared with approximately 42% in 2019. If sellers and buyers increase the number of vehicles transacted on off-premise marketplace platforms, our revenue per vehicle will likely decline. In connection with online auctions, ADESA offers on-premise marketplaces, which allow buyers to physically inspect and compare vehicles. In addition, our cost structure includes a significant fixed cost component, including occupancy costs and land, that cannot be readily reduced if revenue per vehicle declines. If a shift in the percentage of used vehicles sold on off-premise marketplace platforms as compared with used vehicles sold at on-premise marketplaces occurs, and we are unable to generate new sources of revenue, our operating results and financial condition could be adversely affected.

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

Loss of business from, or changes in the consignment patterns of, our key customers could have a material adverse effect on our business and operating results. Generally, commercial and dealer customers make no binding long-term commitments to us regarding consignment volumes. Any such customer could reduce its overall supply of vehicles for our auctions or otherwise seek to materially change the terms of its business relationship with us at any time. Any such change could harm our business and operating results. While no single customer accounted for 10% or more of our consolidated revenues in 2020, the loss of, or material reduction in business from, our key customers could have a material adverse effect on our business and operating results.

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

Our success depends in large part on the talents and efforts of our executives and other key employees, including those with digital capabilities. Our future success will depend upon our ability to continue to identify, hire, develop, motivate and retain talented personnel. If we lose the services of one or more of our key personnel, or if one or more key personnel joins a competitor or otherwise competes with us, we may not be able to effectively implement our business strategies and our business could be materially adversely affected. Many of our key personnel have extensive experience with our business and have established business relationships with customers and suppliers and, as a result, if we lose key personnel, we may have difficulty in executing our business plan and strategy, retaining and attracting customers on favorable terms and providing acceptable levels of customer service. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur, whether we will effectively manage leadership transitions 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.

In addition, our failure to put in place adequate succession plans for key roles or the failure of key personnel to successfully transition into new roles could have an adverse effect on our business and operating results. The unexpected or abrupt departure of one or more of our key personnel and the failure to effectively transfer knowledge and effect smooth key personnel transitions may have an adverse effect on our business resulting from the loss of such person's skills, knowledge of our business, and years of industry experience. If we cannot effectively manage leadership transitions and management changes in the future, our reputation and future business prospects could be adversely affected.

Used vehicle prices impact fee revenue per unit and may impact the supply of used vehicles, loan losses at AFC and could adversely affect our profitability.

The volume of new vehicle production, accuracy of lease residual estimates, interest rate fluctuations, customer demand and changes in regulations, among other things, all potentially affect the pricing of used vehicles. Used vehicle prices may affect the volume of vehicles entered for sale at our auctions and the demand for those used vehicles, the fee revenue per unit, loan losses for our dealer financing business and our ability to retain customers. When used vehicle prices are high, used vehicle dealers may retail more of their trade-in vehicles on their own rather than selling them at auction. A sustained reduction in used vehicle pricing could result in a potential loss of consignors, an increase in loan losses at AFC and decreased profitability.

ADESA also sells vehicles that have been purchased (e.g., inherited vehicles, vehicles returned under the ADESA Assurance program or vehicles purchased by ADESA Europe and others). The number of vehicles purchased by ADESA continues to grow. When a vehicle is purchased and then resold, rather than sold on a consignment basis, we are exposed to inventory risks, including losses from theft, damage and obsolescence. In addition, when vehicles are purchased, we are subject to changes in vehicle values, which could adversely affect our revenue and profitability.

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

We regularly evaluate our capacity in all our markets and where appropriate, seek to increase capacity through the acquisition of additional land and facilities. We may not be able to reach agreements to purchase or lease storage facilities in markets where we have limited excess capacity, and zoning restrictions or difficulties obtaining use permits may limit our ability to expand our capacity through acquisitions of new land. In addition, we may not be able to renew or enter into new leases at commercially reasonable rates, or our facilities may be subject to condemnation or eminent domain proceedings. If we fail to have sufficient capacity at one or more of our facilities, our relationships with vehicle suppliers could be adversely affected, which could adversely affect our operating results and financial condition.

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

Adverse economic conditions, including those resulting from the COVID-19 pandemic or otherwise, 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 numbers of vehicles from various suppliers, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.
- *Decline in the demand for used vehicles.* We may experience a decrease in demand for used vehicles from buyers due to factors including the lack of availability of consumer credit and declines in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles at auction, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers may reduce dealer demand for used vehicles.
- *Decrease in consumer spending.* Consumer purchases of new and used vehicles may be adversely affected by economic conditions such as employment levels, wage and salary levels, trends in consumer confidence and spending, reductions in consumer net worth, interest rates, inflation, the availability of consumer credit and taxation policies. Consumer purchases in general may decline during recessions, periods of prolonged declines in the equity markets or housing markets and periods when disposable income and perceptions of consumer wealth are lower. Changes to U.S. federal tax policy may negatively affect consumer spending. In addition, the increased use of vehicle sharing and alternate methods of transportation, including autonomous vehicles, could lead to a decrease in consumer purchases of new and used vehicles and a decrease in vehicle rentals. To the extent retail and rental car company demand for new and used vehicles decreases, negatively impacting our auction volumes, our results of operations and financial position could be materially and adversely affected.

- *Volatility in the asset-backed securities market.* Volatility and disruption in the asset-backed commercial paper market could lead to a narrowing of interest rate spreads at AFC in certain periods. In addition, any volatility and disruption has affected, and could affect, AFC's cost of financing related to its securitization facility.
- *Ability to service and refinance indebtedness.* Uncertainty in the financial markets may negatively affect our ability to service our existing debt, access additional financing or to refinance our existing indebtedness on favorable terms or at all. If economic weakness exists, it may affect our cash flow from operations and results of operations, which may affect our ability to service payment obligations on our debt or to comply with our debt covenants.
- *Increased counterparty credit risk.* Any market deterioration could increase the risk of the failure of financial institutions party to our Credit Agreement and other counterparties with which we do business to honor their obligations to us. Our ability to replace any such obligations on the same or similar terms may be limited if challenging credit and general economic conditions exist.

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

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

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

We rely and expect to continue to rely on a combination of confidentiality, assignment 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 and Canada. 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 such measures will be adequate or that others will not offer products or concepts that are substantially similar to ours and compete with our business. Changes in laws and regulations or adverse court rulings may also negatively affect our ability to protect our proprietary rights or prevent others from using our intellectual property and technology. 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 rely on third-party technology for key components of our business, and if these or other third parties do not perform adequately or terminate their relationships with us, our business and results of operations could be harmed.

We rely on third-party technology for certain of our critical business functions, including certain inspection and marketplace technologies. If these technologies fail, or if such third party service providers or strategic partners were to cease operations, temporarily or permanently, face financial distress or other business disruptions, increase their fees, or if our relationships with these providers or partners deteriorate or terminate, we could suffer increased costs and we may be unable to provide similar services until an equivalent provider could be found or we could develop replacement technology or operations. In addition, if we are unsuccessful in identifying or finding high-quality partners, if we fail to negotiate cost-effective relationships with them, or if we ineffectively manage these relationships, it could have an adverse impact 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.

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

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 our foreign subsidiaries. Approximately 21% of our revenues were attributable to our foreign operations for the year ended December 31, 2020. Changes in the value of foreign currencies, particularly the Canadian dollar relative to the U.S. dollar could negatively affect our profits from foreign operations and the value of the net assets of our foreign 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 foreign 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 foreign operations are translated using average exchange rates during each period.

Likewise, we have a significant number of non-U.S. based buyers who participate in our marketplaces. 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.

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 liability, damage our reputation and require costly investigative, remedial or corrective actions.

In the used vehicle remarketing industry, large numbers of vehicles are stored and/or refurbished at auction facilities and during that time 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. Some of the facilities on which we operate are impacted by recognized environmental concerns and pollution conditions. We have incurred and may in the future incur expenditures relating to compliance and risk mitigation efforts, 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.

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, 2020, our total corporate debt was approximately $1.9 billion, exclusive of liabilities related to our securitization facilities which are not secured by the general assets of KAR, and we had $325.0 million of borrowing capacity under our senior secured credit facilities. In addition, we had related outstanding letters of credit in the aggregate amount of $28.5 million at December 31, 2020, which would reduce the $325.0 million available for borrowings under the credit facilities.

Our indebtedness could have important consequences including:

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

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

If we cannot make scheduled payments on our debt, we would be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable, the lenders under our Credit Facility could terminate their commitments to lend us money and foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

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

Changes to tax laws and other adverse outcomes with taxing authorities could have an adverse effect on our business, financial condition, results of operations and cash flows.

From time to time legislative proposals at the federal, state and international level are made that could, if enacted, make significant changes to the tax laws that apply to the Company, including changes to corporate tax rates, allocation of profits amongst jurisdictions and other changes that reduce or eliminate deductions currently available to us. Such proposed changes in tax laws, if adopted, could adversely affect our business, financial condition, results of operations and cash flows. We are also subject to the examination of our income tax and other returns by the Internal Revenue Service and other tax authorities and have a number of such reviews underway at any time. It is possible that tax authorities may disagree with certain positions we have taken, and an adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. There can be no assurance that the outcomes from such examinations, or changes in our effective tax rates, will not have an adverse effect on our business, financial condition and results of operations.

Changes in interest rates or market conditions could adversely impact our profitability and business.

Rising interest rates may have the effect of depressing the sales of new and used vehicles because many consumers finance their vehicle purchases and rising auto loan rates increase the cost of purchasing a vehicle. Likewise, when interest rates increase, the subprime borrowing market often tightens, making interest rates even higher for those with lower credit scores. If increased interest rates depress the sales of new and/or used vehicles, then used vehicle trade-ins to dealers and auction volumes could be negatively impacted. These factors could adversely affect ADESA's revenues and profitability.

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.

As noted elsewhere, a portion of our indebtedness is at variable rates of interest. As such, increases in interest rates could also result in higher interest expenses.

We assume the settlement risk for vehicles sold through our marketplaces.

Typically, following the sale of a vehicle, we do not release the vehicle to a buyer until we have received full payment from the buyer or confirmation of arrangement for such payment. We may be obligated, however, to remit payment to a seller before receiving payment from a buyer, and, in those circumstances, we may not have recourse against sellers for any buyer's failure to satisfy its payment obligations. Revenue for a vehicle consigned to us for sale typically includes only the applicable buyer and seller fees associated with the transaction and not the vehicle sale proceeds. As a result, any failure to collect a receivable from the buyer in full may result in a loss up to the amount of the vehicle sale proceeds plus the applicable buyer fees and any collection related expenses. If we are unable to collect the vehicle sale price plus applicable buyer fees from buyers on a large number of vehicles, our revenue and cash flows may be negatively impacted resulting in a material adverse effect on our results of operations and financial condition.

We are subject to a complex framework of federal, state, local and foreign laws and regulations, including vehicle brokerage and auction laws and currency reporting obligations, which have in the past, and could in the future, subject us to claims, challenge our business model, or otherwise harm our business.

Our operations are subject to regulation, supervision and licensing under various federal, state, provincial, local and foreign 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 sale of used vehicles is regulated by various state and local motor vehicle departments and regulators.
- Some of the transport vehicles used at our facilities are regulated by the U.S. Department of Transportation or similar regulatory agencies in the other locations in which we operate.
- AFC is subject to laws in certain states and provinces which regulate commercial lending activities and interest rates and, in certain jurisdictions, require AFC or one of its subsidiaries to be licensed.
- 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.
- We are subject to federal, state and international laws, directives and regulations relating to the collection, use, retention, disclosure, security and transfer of personally identifiable information (e.g., GDPR and CCPA). These laws, directives, regulations and their interpretation and enforcement continue to evolve and may be inconsistent from jurisdiction to jurisdiction.
- Certain of the Company’s subsidiaries may be deemed subject to the regulations of the Consumer Financial Protection Act of 2010 due to their vendor relationships with financial institutions.
- PAR is subject to laws in certain states which regulate repossession administration activities and, in certain jurisdictions, require PAR to be licensed.
- We deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations.

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

We are subject to risks associated with legal and regulatory proceedings. If the outcomes of these proceedings are adverse to us, it could have a material adverse effect on our business, financial condition and results of operations.

We have in the past been, are currently, and may in the future become, subject to a variety of legal actions relating to our current and past business operations, including but not limited to litigation claims and legal proceedings related to environmental, intellectual property, labor and employment, privacy, regulatory compliance, securities, tax, and tort laws. Such claims may be asserted against us by individuals, either individually or through class actions, by governmental entities in civil or criminal investigations and proceedings or by other entities. These actions could expose us to adverse publicity and to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil fines and penalties, including but not limited to suspension or revocation of licenses to conduct business. 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. Any claims against us, whether meritorious or not, could be time consuming, costly, and harmful to our reputation, and could require significant amounts of management time and corporate resources. If any of these legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or be forced to change the way in which we operate our business, which could have an adverse effect on our business, financial condition, and operating results.

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 our results of operations and financial position.

We depend on the continued and uninterrupted service from our workforce.

Prior to 2018, none of our employees were covered by collective bargaining agreements. In 2018, a group of employees, representing less than 1% of our total employees, entered into a collective bargaining agreement. If a significant number of our employees were to become unionized or collective bargaining agreement terms were to deviate significantly from our current compensation and benefits structure, we could be subject to a substantial increase in labor and benefits expenses that we may be unable to pass through to customers for some period of time, if at all.

We have a significant amount of goodwill and other intangible assets which, if they become 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, as well as other intangible assets, be periodically evaluated for impairment based on their fair value. Goodwill and other intangible assets represent a significant percentage of our total assets. 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 or other intangible assets and a reduction in net income. In the second quarter of fiscal 2020, we recorded $25.5 million of goodwill impairment and $4.3 million of impairment for customer relationships related to our ADESA Remarketing Limited reporting unit, and we may be required to record impairment charges in the future.

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 accounting for our business is complicated, particularly in the areas of revenue recognition and determining certain estimates, and is subject to change based on the advancement of our business model and interpretations of relevant accounting principles. In addition, 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. Changes to our business model and accounting policies could result in changes to our financial statements and could require that we change how we process, analyze and report financial information and our financial reporting controls.

Risks Related to the IAA Spin-Off

If the IAA spin-off does not qualify as a tax-free transaction for U.S. federal income tax purposes, the Company and its stockholders could be subject to substantial tax liabilities.

In connection with the spin-off of IAA, we received a private letter ruling from the Internal Revenue Service (the "IRS Ruling") and an opinion from our tax counsel on the basis of certain facts, representations, covenants and assumptions, substantially to the effect that, for U.S. federal income tax purposes, the distribution of IAA common shares in the spin-off qualified as a transaction that generally is tax-free to us and our stockholders, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). The IRS Ruling and the opinion of tax counsel relied on, among other things, various assumptions and representations as to factual matters made by the Company and IAA, which, if inaccurate or incomplete in any material respect, could jeopardize the conclusions reached in the IRS Ruling and opinion. The opinion is not binding on the Internal Revenue Service (the "IRS"), or the courts, and notwithstanding the tax opinion, there can be no assurance that the qualification of the spin-off as a transaction under Sections 368(a)(1)(D) or 355 or other provisions of the Code will not be challenged by the IRS or by others in court, or that any such challenge would not prevail. Notwithstanding the IRS Ruling and the opinion, the IRS could determine on audit that the spin-off should be treated as a taxable transaction if it determines that any of the facts, assumptions, representations or covenants set forth in the tax opinion is not correct or has been violated, or that the spin-off should be taxable for other reasons, including as a result of a significant change in stock or asset ownership after the distribution, or if the IRS were to disagree with the conclusions of the tax opinion.

If the spin-off fails to qualify for tax-free treatment, we would, for U.S. federal income tax purposes, be treated as if we had sold the IAA common stock in a taxable sale for its fair market value, and our stockholders would be treated as receiving a taxable distribution in an amount equal to the fair market value of the IAA common stock received in the distribution. In addition, we and/or IAA could incur significant U.S. federal income tax liabilities or tax indemnification obligations, whether under applicable law or a tax matters agreement that we entered into with IAA, if it is ultimately determined that certain related transactions undertaken in anticipation of the spin-off are taxable.

We may be exposed to claims and liabilities as a result of the IAA spin-off, and IAA's indemnification obligations may not fully protect us.

In connection with the spin-off, IAA agreed to indemnify the Company for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to protect us against the full amount of any liabilities that may arise, or that IAA will be able to fully satisfy its indemnification obligations. The failure to receive amounts for which we are entitled to indemnification could adversely affect our operating results and financial condition.

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 and could expose us to securities class action litigation.

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 but not limited to the following:

- our announcements or our competitors' announcements regarding new products or services, enhancements, significant contracts, acquisitions or strategic investments;
- changes in earnings estimates or recommendations by securities analysts, if any, who cover our common stock;
- results of operations that are below our announced guidance or below securities analysts' or consensus estimates or expectations;
- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in our capital structure, such as future issuances of securities, sales of large blocks of common stock by our stockholders or our incurrence of additional debt;
- repurchases of our common stock pursuant to our share repurchase program;
- investors' general perception of us and our industry;
- changes in general economic and market conditions (including as a result of the COVID-19 pandemic);
- 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. Likewise, following periods of volatility in the market price of a company's securities, securities class action litigation could be initiated. If such litigation were introduced against us, it could result in substantial costs and a diversion of our attention and resources, which could have a material adverse effect on our business.

The issuance of shares of our Series A Preferred Stock reduces the relative voting power of holders of our common stock, and the conversion and sale of those shares would dilute the ownership of such holders and may adversely affect the market price of our common stock.

As of December 31, 2020, 571,606 shares of our Series A Preferred Stock were outstanding, representing approximately 20% of our outstanding common stock, including the Series A Preferred Stock on an as-converted basis. Holders of Series A Preferred Stock are entitled to a cumulative dividend at the rate of 7% per annum, payable quarterly in arrears. Dividends will be payable in kind through the issuance of additional shares of Series A Preferred Stock for the first eight dividend payment dates, and thereafter, in cash or in kind, or any combination thereof, at our option. Because holders of our Series A Preferred Stock are entitled to vote, on an as-converted basis, together with holders of our common stock on all matters submitted to a vote of the holders of our common stock, the issuance of the Series A Preferred Stock, and the subsequent issuance of additional shares of Series A Preferred Stock through the payment of in kind dividends, effectively reduces the relative voting power of the holders of our common stock. In addition, the conversion of the Series A Preferred Stock into common stock would dilute the ownership interest of existing holders of our common stock. Furthermore, any sales in the public market of the common stock issuable upon conversion of the Series A Preferred Stock would increase the number of shares of our common stock available for public trading, and could adversely affect prevailing market prices of our common stock. Pursuant to customary registration rights agreements, we are required to register for resale the shares of Series A Preferred Stock and the shares of common stock issuable upon conversion of the Series A Preferred Stock. This registration facilitates the resale of such securities into the public market, and any such resale would increase the number of shares of our common stock available for public trading. Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our common stock.

Apax and the other holders of our Series A Preferred Stock may exercise influence over us.

As of December 31, 2020, the outstanding shares of our Series A Preferred Stock represented approximately 20% of our outstanding common stock, including the Series A Preferred Stock on an as-converted basis. The terms of the Series A Preferred Stock require the approval of a majority of our Series A Preferred Stock by a separate class vote for us to:

- amend our organizational documents in a manner that would have an adverse effect on the Series A Preferred Stock; or
- issue securities that are senior to, or equal in priority with, the Series A Preferred Stock.

In addition, under our investment agreement, dated as of May 26, 2020 (the "Apax Investment Agreement"), with an affiliate of Apax Partners, L.P. ("Apax"), for so long as Apax and its affiliates beneficially own shares of Series A Preferred Stock (and/or shares of common stock issued upon conversion of Series A Preferred Stock) that represent, on an as-converted basis, at least 50% of Apax's initial shares of Series A Preferred Stock on an as-converted basis, Apax and its affiliates will have the right to designate one director to our board of directors. Circumstances may occur in which the interests of Apax and its affiliates could diverge from, or even conflict with, the interests of our other stockholders. For example, the existence of Apax as a significant stockholder and Apax's board designation rights may have the effect of delaying or preventing changes in control or management or limiting the ability of our other stockholders to approve transactions that they may deem to be in the best interests of the Company. Apax and its affiliates may seek to cause us to take courses of action that, in their judgment, could enhance its investment in the Company but which might involve risks to our other stockholders or adversely affect us or our other stockholders.

Our Series A Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to, the rights of our common stockholders, which could adversely affect our liquidity and financial condition, and may result in the interests of the holders of our Series A Preferred Stock differing from those of our common stockholders.

The Series A Preferred Stock ranks senior to the shares of our common stock with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of our affairs. The holders of Series A Preferred Stock have the right to receive a liquidation preference entitling them to be paid out of our assets available for distribution to stockholders before any payment may be made to holders of any other class or series of capital stock, an amount equal to the greater of (a) the sum of the original liquidation preference plus all accrued but unpaid dividends or (b) the amount that such holder would have been entitled to receive upon our liquidation, dissolution and winding up if all outstanding shares of such series of Series A Preferred Stock had been converted into common stock immediately prior to such liquidation, dissolution or winding up. In addition, the holders of the Series A Preferred Stock are entitled to a cumulative dividend at the rate of 7% per annum, payable quarterly in arrears (dividends are payable in kind for the first eight dividend payments, and thereafter in cash or in kind). The holders of the Series A Preferred Stock are also entitled to participate in dividends declared or paid on our common stock on an as-converted basis. The holders of our Series A Preferred Stock also have the right, subject to certain exceptions, to require us to repurchase all or any portion of the Series A Preferred Stock upon certain change of control events at the greater of (a) the consideration the holders would have received if they had converted their shares of Series A Preferred Stock into common stock immediately prior to the change of control event and (b) 105% of the sum of i) the liquidation preference thereof and ii) all accrued but unpaid dividends.

These dividend and share repurchase obligations could impact our liquidity and reduce the amount of cash flows available for general corporate purposes. Our obligations to the holders of the Series A Preferred Stock could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition. These preferential rights could also result in divergent interests between the holders of shares of Series A Preferred Stock and holders of our common stock.

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 129,700,156 shares of common stock were outstanding as of December 31, 2020. 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, including common stock issuable upon conversion of the Series A Preferred Stock, 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, and Delaware law contains, provisions that may be considered to have an anti-takeover effect and may delay or prevent a tender offer or other corporate transaction that a stockholder might consider to be in its best interest, including those transactions that might result in a premium over the market price for our shares.

These provisions include:

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

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

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

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

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

In October 2019, our board of directors authorized a repurchase of up to $300 million of the Company’s outstanding common stock through October 30, 2021. Repurchases of our common stock pursuant to our share repurchase program, or any future share repurchase program, could affect our stock price and increase its volatility. The existence of a share repurchase program could also cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. There can be no assurance that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased the shares of common stock. Although our share repurchase program is intended to enhance long-term stockholder value, short-term stock price fluctuations could reduce the program's effectiveness. Furthermore, the program does not obligate the Company to repurchase any dollar amount or number of shares of common stock, and may be suspended or discontinued at any time, which could cause the market price of our stock to decline.

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 through 2034. At December 31, 2020, properties utilized by the ADESA business segment include 74 used vehicle auction facilities in North America, which are either owned or leased. Each auction may have additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles. The ADESA facilities in North America consist on average of approximately 75 acres of land per site.

Of AFC's 115 locations in North America at December 31, 2020, 78 are physically located at auction facilities (including 62 at ADESA locations). Each of the remaining AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its branches.

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

Item 3. Legal Proceedings

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

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 12, 2021, there were six stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by the holders of record.

Unregistered Sales of Equity Securities

The information required by Item 701 of Regulation S-K was previously disclosed (for the sale of Series A Preferred Stock) in the Company's Current Reports on Form 8-K, filed with the SEC on June 10, 2020 and June 30, 2020.

On November 12, 2020, we also issued 857,630 shares of our common stock to three individuals and one trust in connection with the BacklotCars acquisition in the fourth quarter of 2020. We received $15 million as consideration for the sale of such securities. The issuance of these securities was exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon Section 4(a)(2) of the Securities Act as transactions by an issuer not involving any public offering and/or the private offering safe harbor provision of Rule 506 of Regulation D promulgated under the Securities Act.

Issuer Purchases of Equity Securities

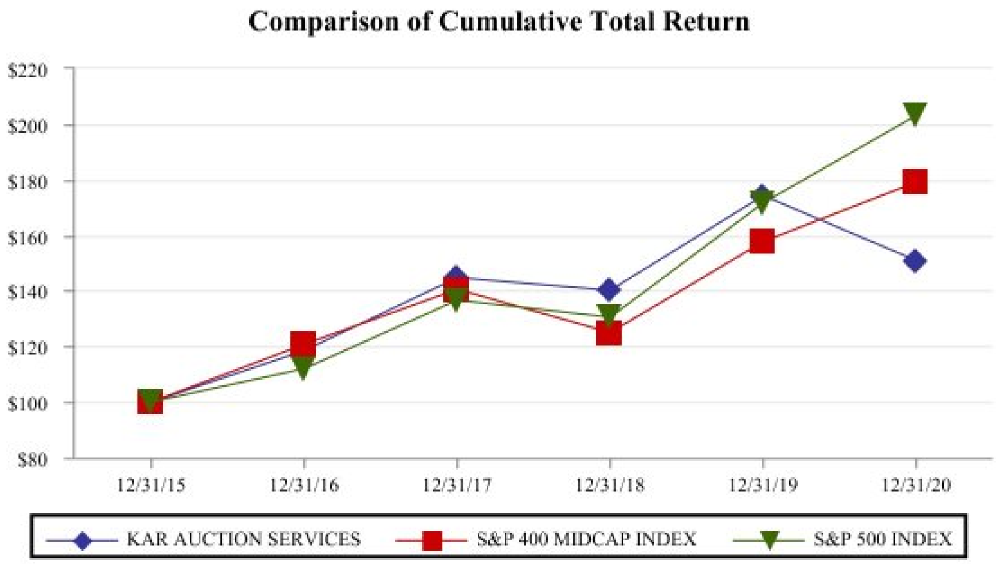
The following table provides information about purchases by KAR Auction Services of its shares of common stock during the quarter ended December 31, 2020:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) *(Dollars in millions)*
October 1 - October 31	—	$ —	—	$ 300.0
November 1 - November 30	585,086	17.50	585,086	289.8
December 1 - December 31	—	—	—	289.8
Total	585,086	$ 17.50	585,086	

(1) In October 2019, the board of directors authorized a repurchase of up to $300 million of the Company’s outstanding common stock, par value $0.01 per share, through October 30, 2021. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions.

Stock Price Performance Graph

The graph below shows the cumulative total stockholder return, assuming an investment of $100 and dividend reinvestment (and taking into account the value of the IAA, Inc. common shares distributed in the spin-off), for the period beginning on December 31, 2015 and ending on December 31, 2020, on each of KAR Auction Services' common stock, the Standard & Poor's 400 Midcap Index and the Standard and Poor's 500 Index. Our stock price performance shown in the following graph is not indicative of future stock price performance.



Company/Index	Base Period 12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
KAR Auction Services, Inc.	$ 100	$ 118.53	$ 144.53	$ 140.06	$ 174.08	$ 150.88
S&P 400 Midcap Index	$ 100	$ 120.74	$ 140.35	$ 124.80	$ 157.49	$ 179.00
S&P 500 Index	$ 100	$ 111.96	$ 136.40	$ 130.42	$ 171.49	$ 203.04

Item 6. Selected Financial Data

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

Selected Financial Data of KAR Auction Services, Inc.
For the Years Ended December 31, 2020, 2019, 2018, 2017 and 2016

The following consolidated financial data for the years ended December 31, 2020, 2019, 2018, 2017 and 2016 is based on our audited financial statements.

	Year Ended December 31,				
(In millions except per share amounts)	2020	2019	2018	2017	2016
Operations:					
Operating revenues					
ADESA	$ 1,920.1	$ 2,429.0	$ 2,101.9	$ 1,937.5	$ 1,765.3
AFC	267.6	352.9	340.9	301.3	286.8
Total operating revenues	$ 2,187.7	$ 2,781.9	$ 2,442.8	$ 2,238.8	$ 2,052.1
Operating expenses (exclusive of depreciation and amortization)	1,830.2	2,279.1	1,930.3	1,740.8	1,595.3
Operating profit	136.4	314.1	340.1	326.5	304.2
Interest expense	128.9	189.5	191.2	163.2	137.9
Income from continuing operations	0.5	92.4	117.6	174.0	101.7
Income (loss) from continuing operations per share					
Basic	(0.16)	0.70	0.88	1.28	0.74
Diluted	(0.16)	0.70	0.87	1.26	0.73
Weighted average shares outstanding					
Basic	129.3	131.6	134.3	136.3	137.6
Diluted	129.3	132.9	135.7	138.0	139.1
Cash dividends declared per common share	0.19	1.08	1.40	1.31	1.19

	As of December 31,				
	2020	2019	2018	2017	2016
Financial Position:					
Working capital [(1)]	$ 924.6	$ 726.8	$ 450.3	$ 513.2	$ 287.1
Total assets	6,798.2	6,581.2	5,699.4	5,545.9	5,198.7
Total debt, net of unamortized debt issuance costs/discounts	1,878.1	1,890.1	2,667.4	2,680.1	2,470.3
Total stockholders' equity	1,615.8	1,650.2	1,464.2	1,484.9	1,397.3

	Year Ended December 31,				
	2020	2019	2018	2017	2016
Other Financial Data:					
Net cash provided by operating activities - continuing operations	$ 384.4	$ 380.8	$ 438.6	$ 359.3	$ 242.9
Capital expenditures	101.4	161.6	131.3	97.3	113.1
Depreciation and amortization	191.3	188.7	172.4	171.5	152.6

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

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 the impact of COVID-19; our future growth; anticipated cost savings, revenue increases, credit losses and capital expenditures; dividend declarations and payments; common stock repurchases; tax rates and assumptions; strategic initiatives, greenfields and acquisitions; our competitive position and retention of customers; and our continued investment in information technology, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A. "Risk Factors" of this Annual Report on Form 10-K. Some of these factors include:

- the evolving impact of the COVID-19 pandemic on our business and the economy generally;
- our ability to effectively maintain or update information and technology systems;
- our ability to implement and maintain measures to protect against cyber-attacks;
- significant current competition and the introduction of new competitors;
- competitive pricing pressures;
- our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;
- our ability to meet or exceed customers' expectations, as well as develop and implement information systems responsive to customer needs;
- business development activities, including greenfields, acquisitions and integration of acquired businesses;
- costs associated with the acquisition of businesses or technologies;
- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;
- any losses of key personnel;
- our ability to obtain land or renew/enter into new leases at commercially reasonable rates;
- decreases in the number of used vehicles sold at on-premise marketplaces;
- changes in the market value of vehicles auctioned;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- the ability of consumers to lease or finance the purchase of new and/or used vehicles;
- the ability to recover or collect from delinquent or bankrupt customers;
- economic conditions including fuel prices, commodity prices, foreign exchange rates and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- trends in the number of commercial vehicles being brought to auction, in particular off-lease volumes;
- changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles and commercial lending activities;

- our ability to maintain our brand and protect our intellectual property;
- the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;
- weather, including increased expenses as a result of catastrophic events;
- general business conditions;
- our substantial amount of debt;
- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- litigation developments;
- our self-insurance for certain risks;
- interruptions to service from our workforce;
- any impairment to our goodwill or other intangible assets;
- changes in effective tax rates;
- the taxable nature of the spin-off of our former salvage auction business;
- 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 2021.

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.

Impact of COVID-19

On March 11, 2020, the World Health Organization ("WHO") designated COVID-19 as a pandemic. Governments in various jurisdictions we operate have mandated, and continue to introduce, numerous and varying measures to slow the spread of COVID-19, including travel bans and restrictions, quarantines, curfews, shelter-in-place and safer-at-home orders, business shutdowns and closures. Certain jurisdictions began easing restrictions only to return to tighter restrictions in the face of increases in new COVID-19 cases. The COVID-19 pandemic and the related preventative measures taken to help slow the spread have caused, and may continue to cause, significant volatility, uncertainty and economic disruption.

In response to these measures and for the protection of our employees and customers, on March 20, 2020 we temporarily suspended on-premise sale operations, including Simulcast-only sales, across North America. We began operating Simulcast-only sales in select markets on April 6, 2020 and expanded the Simulcast-only sales each week, where possible and as permitted by government directives. We also held Simulcast+ auctions at select locations, a fully digital auction operated remotely with an automated auctioneer, sequential sales, audio and visual cues to simulate the live auction experience and all buyers and sellers interacting virtually through the Simulcast platform.

All ADESA auction locations in the U.S. and Canada are offering vehicles for sale via ADESA Simulcast, DealerBlock and Simulcast+. Auction locations have resumed offering ancillary and related services, where possible and as permitted by government directives. Given the evolving health, economic, social and governmental environments, the potential impact that COVID-19 could have on our business remains uncertain.

As a result, we proactively took a number of significant steps to help secure our business and preserve available cash during the second, third and fourth quarters of 2020, including but not limited to reducing our compensation expense (including a reduction of base salaries across many levels of the organization, including the elimination of base salaries for our Chief Executive Officer, Chief Financial Officer and President and 50% reduction of base salaries for our other executive officers during the second quarter of 2020, furloughs and a reduction in force, among others), prohibiting non-essential business travel, suspending non-essential services provided by certain third parties at our locations, delaying or canceling capital projects at our on-premise marketplace locations and temporarily suspending the Company's quarterly dividend.

In addition, in June 2020 we issued and sold an aggregate of 550,000 shares of Series A Preferred Stock of the Company in private placements for net proceeds of approximately $528.2 million, as described in Note 14, "Convertible Preferred Stock."

We have also taken advantage of legislation introduced to assist companies during this time. In the second, third and fourth quarters of 2020, we recorded a total of approximately $8.3 million of employee retention credits taken under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and approximately $16.0 million under the Canada Emergency Wage Subsidy. These credits partially offset salaries and medical costs recorded in the U.S. and Canada. We will continue to monitor and assess the impact the CARES Act and similar legislation in other countries may have on our business and financial results.

While we have developed and implemented and continue to develop and implement health and safety protocols, business continuity plans and crisis management protocols in an effort to try to mitigate the negative impact of COVID-19 on our employees, customers and our business, the extent of the impact of the pandemic on our business and financial results will continue to depend on future developments that are uncertain and unpredictable, including new information that may emerge concerning the severity and duration of the COVID-19 pandemic and the effectiveness of actions taken to contain the COVID-19 outbreak or treat its impact.

The broader implications for our business and results of operations remain uncertain and will depend on many factors outside our control, including, without limitation, the timing, extent, trajectory and duration of the pandemic, the development and availability of effective treatments and vaccines, the imposition of protective public safety measures, and the timing to which normal economic and operating conditions resumes. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of its impact.

Overview

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

- The ADESA Auctions segment serves a domestic and international customer base through online auctions and it provides services from 74 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, 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 on-premise marketplaces. Vehicles sold on ADESA's digital platforms are typically sold by commercial fleet operators, financial institutions, rental car companies, new and used vehicle dealers and vehicle manufacturers and their captive finance companies to franchise and independent used vehicle dealers. ADESA also provides value-added ancillary services including inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification, titling, administrative and collateral recovery services. ADESA also includes TradeRev, an online automotive remarketing platform where dealers can launch and participate in real-time vehicle auctions at any time, BacklotCars, an app and web-based dealer-to-dealer wholesale vehicle platform, ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom and ADESA Europe (formerly known as CarsOnTheWeb), an online wholesale vehicle auction marketplace in Continental Europe.
- The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. At December 31, 2020, AFC conducted business at 115 locations in the United States and Canada. Prior to December 2020, the Company also sold vehicle service contracts through Preferred Warranties, Inc. ("PWI").

Historically, the costs and expenses of the holding company were reported separately from the reportable segments and included expenses associated with the corporate offices, such as salaries, benefits and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense included the interest expense incurred on finance leases and the corporate debt structure. Intercompany charges related primarily to interest on intercompany debt or receivables and certain administrative costs allocated by the holding company. Due to the spin-off of IAA in 2019 and the Company's transition from physical marketplaces to digital marketplaces, the Company has simplified its business and operations. Corporate expenses, previously reported as holding company expenses, are now included in the segments. Certain known expenses (e.g., information technology costs) were recorded directly to the ADESA and AFC segments. Interest expense previously reported by the holding company has been recorded in the ADESA segment. The residual shared services expenses were recorded at ADESA and allocated to AFC based on revenue and employee headcount. Holding company amounts reported in the segment results in the consolidated financial statements prior to December 31, 2020 have been reclassified to conform to the current presentation.

Industry Trends

Whole Car

Used vehicles sold in North America through whole car auctions, including off-premise volumes and mobile application volumes, were approximately 12.0 million and 11.5 million in 2019 and 2018, respectively. Data for the whole car auction industry is collected by the NAAA through an annual survey. NAAA industry volumes for 2020 have not yet been released, but we expect that volumes in 2020 were substantially lower than in 2019. The NAAA industry volumes collected by the annual survey do not include off-premise volumes or mobile application volumes (e.g., Openlane, TradeRev, BacklotCars and their respective competitors), but we have included these volumes in our totals. In addition to the traditional whole car auction market and off-premise venues described above, we believe mobile applications, such as TradeRev and BacklotCars, may provide an opportunity to expand our total addressable market for dealer-to-dealer transactions to as much as 15 million units from approximately 5 million units in 2019. TradeRev and BacklotCars sold approximately 316,000 vehicles in the digital dealer-to-dealer marketplace for the year ended December 31, 2020, compared with approximately 210,000 vehicles for the year ended December 31, 2019. This includes vehicles sold by BacklotCars prior to its acquisition in November 2020. The COVID-19 pandemic has had a material impact on the whole car auction industry and we are unable to estimate future volumes.

Automotive Finance

AFC works with independent used vehicle dealers to improve their results by providing a comprehensive set of business and financial solutions that leverages its local branches, industry experience and scale, as well as KAR affiliations. AFC's North American dealer base was comprised of approximately 13,600 dealers in 2020, and loan transactions, which includes both loans paid off and loans curtailed, were approximately 1.5 million in 2020.

Key challenges for the independent used vehicle dealer include demand for used vehicles, disruptions in pricing of used vehicle inventory, lack of access to consumer financing and increased used car retail activity of franchise and public dealerships (most of which do not utilize AFC or its competitors for floorplan financing), as well as the ability to operate in locations experiencing pandemic shelter-in-place orders. 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. A decrease in wholesale used car pricing could lead to increased losses if dealers are unable to satisfy their obligations.

Seasonality

The volume of vehicles sold through our auctions generally fluctuates from quarter-to-quarter. This seasonality is caused by several factors including weather, the timing of used vehicles available for sale from selling customers, 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. 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 various on-premise and off-premise services, and from dealer financing fees, interest income and other revenue at AFC. Although auction revenues primarily include the auction services and related fees, our related receivables and payables include the gross value of the vehicles sold.

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

Results of Operations

Overview of Results of KAR Auction Services, Inc. for the Years Ended December 31, 2020 and 2019:

(Dollars in millions except per share amounts)	Year Ended December 31, 2020	Year Ended December 31, 2019
Revenues		
Auction fees	**$ 887.7**	$ 1,115.3
Service revenue	**737.4**	1,018.2
Purchased vehicle sales	**295.0**	295.5
Finance-related revenue	**267.6**	352.9
Total revenues	**2,187.7**	2,781.9
Cost of services*	**1,284.8**	1,617.1
Gross profit*	**902.9**	1,164.8
Selling, general and administrative	**545.4**	662.0
Depreciation and amortization	**191.3**	188.7
Goodwill and other intangibles impairment	**29.8**	—
Operating profit	**136.4**	314.1
Interest expense	**128.9**	189.5
Other (income) expense, net	**2.1**	(7.7)
Loss on extinguishment of debt	**—**	2.2
Income from continuing operations before income taxes	**5.4**	130.1
Income taxes	**4.9**	37.7
Net income from continuing operations	**0.5**	92.4
Net income from discontinued operations	**—**	96.1
Net income	**$ 0.5**	$ 188.5
Net income (loss) from continuing operations per share		
Basic	**$ (0.16)**	$ 0.70
Diluted	**$ (0.16)**	$ 0.70

* Exclusive of depreciation and amortization

Overview

For the year ended December 31, 2020, we had revenue of $2,187.7 million compared with revenue of $2,781.9 million for the year ended December 31, 2019, a decrease of 21%. Businesses acquired in 2019 and 2020 accounted for an increase in revenue of $26.8 million or 1% of revenue. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization increased $2.6 million, or 1%, to $191.3 million for the year ended December 31, 2020, compared with $188.7 million for the year ended December 31, 2019. The increase in depreciation and amortization was primarily the result of certain assets placed in service over the last twelve months.

Goodwill and Other Intangibles Impairment

In light of the impact that the COVID-19 pandemic has had on the economy, forecasts for all reporting units were revised. These economic circumstances contributed to lower sales, operating profits and cash flows at ADESA Remarketing Limited (doing business as ADESA U.K.) through the first part of 2020 as compared to 2019, and the outlook for the business was significantly reduced. As a result of the updated forecasts, an impairment analysis of goodwill and intangibles was conducted. The change in circumstances resulted in the impairment of the goodwill balance totaling $25.5 million in our ADESA Remarketing Limited reporting unit and a non-cash goodwill impairment charge was recorded for this amount in the second quarter of 2020.

In addition, in the second quarter of 2020, a non-cash customer relationship impairment charge of approximately $4.3 million was also recorded in the ADESA Remarketing Limited reporting unit, representing the impairment in the value of this reporting unit's customer relationships.

Interest Expense

Interest expense decreased $60.6 million, or 32%, to $128.9 million for the year ended December 31, 2020, compared with $189.5 million for the year ended December 31, 2019. The decrease was primarily attributable to a decrease in the weighted average interest rate of approximately 1.0% and a decrease of $360.9 million in the average outstanding balance of corporate debt for the year ended December 31, 2020, compared with the year ended December 31, 2019, resulting from the pay down of debt of approximately $1.3 billion in connection with the spin-off of IAA on June 28, 2019 and a net increase in term loan debt of approximately $0.5 billion in connection with the debt refinancing on September 19, 2019. In addition, there was a decrease in interest expense at AFC of $24.9 million, which resulted from a decrease in the average finance receivables balance and interest rates for the year ended December 31, 2020, as compared with the year ended December 31, 2019.

Other (Income) Expense, Net

For the year ended December 31, 2020, we had other expenses of $2.1 million compared with other income of $7.7 million for the year ended December 31, 2019. The decrease in other (income) expense was primarily attributable to an increase in foreign currency losses of $5.6 million and an increase in contingent consideration valuation of $4.7 million, partially offset by other miscellaneous items aggregating $0.5 million.

Loss on Extinguishment of Debt

In September 2019, we amended our Credit Agreement and recorded a $2.2 million pretax charge primarily resulting from the write-off of unamortized debt issue costs associated with Term Loan B-4 and Term Loan B-5.

Income Taxes

We had an effective tax rate of 90.7% for the year ended December 31, 2020, compared with an effective tax rate of 29.0% for the year ended December 31, 2019. The 2020 rate was unfavorably impacted by the goodwill and other intangibles impairment charge and expense for the increase in the estimated value of contingent consideration for which no tax benefits have been recorded, as well as significantly reduced earnings and a greater proportion of earnings in higher tax jurisdictions. These were partially offset by the tax benefit from law changes, deductions related to stock-based compensation expenses and other discrete benefits.

Net Income from Discontinued Operations

On June 28, 2019, the Company completed the separation of its salvage auction business, IAA, through a spin-off, creating a new independent publicly traded salvage auction company. As such, the financial results of IAA have been accounted for as discontinued operations in the comparable 2019 results presented. For the year ended December 31, 2020 and 2019, the Company's financial statements included income from discontinued operations of $0.0 million and $96.1 million, respectively. For additional information on the IAA separation, see Note 4 of the Notes to Consolidated Financial Statements.

Impact of Foreign Currency

For the year ended December 31, 2020, fluctuations in the Canadian exchange rate decreased revenue by $1.2 million, operating profit by $0.3 million, net income by $0.2 million and had no impact on net income per diluted share. For the year ended December 31, 2020, fluctuations in the European exchange rate increased revenue by $5.2 million, increased operating profit by $0.1 million, decreased net income by $0.1 million and had no impact on net income per diluted share. In addition, for the year ended December 31, 2020, as a result of the goodwill and other intangibles impairment in the U.K., fluctuations in the British pound exchange rate decreased net income by $0.3 million.

Impact of COVID-19 on Our Operations

The Company has been subject to numerous orders and directives that have impacted our ability to operate our business throughout North America and in Europe. As a result of restrictions on our operations, we have adjusted our business processes to meet the needs of our customers while complying with the various laws, regulations, mandates and directives in each individual market we operate. In many cases, we have had to limit the number of employees and customers within our physical locations at any given time and modify the delivery of services to our customers. However, we were able to make adjustments in our operations that have permitted us to improve performance.

New and used car retail activity was reduced to unprecedented levels in early April 2020. Auto retail operations were required to temporarily close and supply and demand for used cars was disrupted. By mid-April, we were experiencing improved retail automobile sales and demand for used vehicle supply was beginning to improve. The Company was prepared to meet the needs of the wholesale used car marketplace with its technology-based auction platforms throughout North America and in Europe. The Company believes that certain changes to its business processes that were necessitated by the COVID-19 outbreak are sustainable going forward. The Company has reduced the labor required to process wholesale auction transactions and reduced its selling, general and administrative expenses.

In March 2020, the Company had over 15,000 active employees. In early April 2020, the Company furloughed approximately 11,000 employees. Since then, we have called back approximately 6,000 of these furloughed employees. We notified approximately 5,000 furloughed employees that changes in our business processes have resulted in the elimination of their positions.

ADESA Results

	Year Ended December 31,	
(Dollars in millions, except per vehicle amounts)	**2020**	**2019**
Auction fees	**$ 887.7**	$ 1,115.3
Service revenue	**737.4**	1,018.2
Purchased vehicle sales	**295.0**	295.5
Total ADESA revenue	**1,920.1**	2,429.0
Cost of services*	**1,205.7**	1,520.7
Gross profit*	**714.4**	908.3
Selling, general and administrative	**508.8**	621.1
Depreciation and amortization	**178.8**	175.5
Goodwill and other intangibles impairment	**29.8**	—
Operating profit (loss)	**$ (3.0)**	$ 111.7
On-premise vehicles sold	**1,511,000**	2,137,000
Off-premise vehicles sold	**1,551,000**	1,647,000
Total vehicles sold	**3,062,000**	3,784,000
Auction fees per vehicle sold	**$ 290**	$ 295
Gross profit per vehicle sold	**$ 233**	$ 240
Gross profit percentage, excluding purchased vehicles	**44.0%**	42.6%
Dealer consignment mix	**26%**	28%
Commercial mix	**74%**	72%

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $508.9 million, or 21%, to $1,920.1 million for the year ended December 31, 2020, compared with $2,429.0 million for the year ended December 31, 2019. The decrease in revenue was the result of a decrease in the number of vehicles sold and a decrease in average revenue per vehicle sold due to the mix of vehicles sold. Businesses acquired in 2019 accounted for an increase in revenue of $18.3 million, of which approximately $12.7 million was included in "Purchased vehicle sales." Businesses acquired in 2020 accounted for an increase in revenue of $8.5 million. The change in revenue included the impact of an increase in revenue of $5.2 million due to fluctuations in the European exchange rate and a decrease of $1.1 million due to fluctuations in the Canadian exchange rate.

On-premise marketplace sales are initiated online for vehicles at one of our locations across North America and include Simulcast, Simulcast+ and DealerBlock sales. Off-premise marketplace sales are initiated online and include Openlane, TradeRev, BacklotCars and ADESA Europe sales. The 19% decrease in the number of vehicles sold was comprised of a 29% decrease in on-premise vehicles sold and a 6% decrease in off-premise vehicles sold. Volumes sold for the year ended December 31, 2020 were materially impacted by the COVID-19 related restrictions placed on businesses throughout the world. Beginning the week of March 16, we experienced a significant decline in volumes, as customers began to cease operations in response to local, state and provincial directives. Throughout the second, third and fourth quarters, we held all sales through digital marketplaces to protect the health and well-being of our workforce and customers. All vehicles were offered online, cars were not driven through the auction lanes and we limited access to our physical locations to promote social distancing measures and help prevent the spread of COVID-19.

Service revenue for the year ended December 31, 2020 decreased $280.8 million, or 28%, primarily as a result of the decrease in vehicles sold and COVID-19 restrictions in the second quarter that limited our on-premise service offerings. Typically consigned vehicles located at our facilities utilize our service offerings at a higher rate than off-premise vehicles.

Gross Profit

For the year ended December 31, 2020, gross profit for ADESA decreased $193.9 million, or 21%, to $714.4 million, compared with $908.3 million for the year ended December 31, 2019. Gross profit for ADESA was 37.2% of revenue for the year ended December 31, 2020, compared with 37.4% of revenue for the year ended December 31, 2019. Gross profit as a percentage of revenue decreased for the year ended December 31, 2020 as compared with the year ended December 31, 2019, but we have taken measures to reduce expenses to help protect our business while our operations have been impacted by COVID-19, and vehicles sold online require less labor. In addition, our gross profit as a percentage of revenue is impacted by purchased vehicles. Excluding purchased vehicle sales, gross profit as a percentage of revenue was 44.0% and 42.6% for the years ended December 31, 2020 and 2019, respectively. The entire selling and purchase price of the vehicle is recorded as revenue and cost of services for purchased vehicles sold. Businesses acquired in 2019 and 2020 accounted for an increase in cost of services of $20.6 million for the year ended December 31, 2020.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment decreased $112.3 million, or 18%, to $508.8 million for the year ended December 31, 2020, compared with $621.1 million for the year ended December 31, 2019, primarily due to decreases in compensation expense of $45.7 million, marketing costs of $16.4 million, travel expenses of $13.0 million, severance of $8.2 million, professional fees of $6.4 million, supplies expense of $5.9 million, stock-based compensation of $5.0 million, other employee related expenses of $4.9 million, telecom expenses of $4.8 million, other miscellaneous expenses aggregating $4.8 million and the recording of the Employee Retention Credit provided under the CARES Act and the Canada Emergency Wage Subsidy of $9.8 million, partially offset by increases in information technology costs of $5.7 million and costs associated with acquisitions of $6.9 million.

Goodwill and Other Intangibles Impairment

In light of the impact that the COVID-19 pandemic has had on the economy, forecasts for all reporting units were revised. These economic circumstances contributed to lower sales, operating profits and cash flows at ADESA Remarketing Limited (doing business as ADESA U.K.) through the first part of 2020 as compared to 2019, and the outlook for the business was significantly reduced. As a result of the updated forecasts, an impairment analysis of goodwill and intangibles was conducted. The change in circumstances resulted in the impairment of the goodwill balance totaling $25.5 million in our ADESA Remarketing Limited reporting unit and a non-cash goodwill impairment charge was recorded for this amount in the second quarter of 2020.

In addition, in the second quarter of 2020, a non-cash customer relationship impairment charge of approximately $4.3 million was also recorded in the ADESA Remarketing Limited reporting unit, representing the impairment in the value of this reporting unit's customer relationships.

AFC Results

(Dollars in millions except volumes and per loan amounts)	Year Ended December 31, 2020	2019
Finance-related revenue		
Interest and fee income	**$ 266.1**	$ 342.1
Other revenue	**8.7**	10.9
Provision for credit losses	**(38.6)**	(35.3)
Warranty contract revenue	**31.4**	35.2
Total AFC revenue	**267.6**	352.9
Cost of services*	**79.1**	96.4
Gross profit*	**188.5**	256.5
Selling, general and administrative	**36.6**	40.9
Depreciation and amortization	**12.5**	13.2
Operating profit	**$ 139.4**	$ 202.4
Loan transactions	**1,519,000**	1,783,000
Revenue per loan transaction, excluding "Warranty contract revenue"	**$ 156**	$ 178

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2020, AFC revenue decreased $85.3 million, or 24%, to $267.6 million, compared with $352.9 million for the year ended December 31, 2019.The decrease in revenue was primarily the result of a 12% decrease in revenue per loan transaction and an 15% decrease in loan transactions.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $22, or 12%, primarily as a result of an increase in provision for credit losses for the year ended December 31, 2020, as well as decreases in interest yield. Revenue per loan transaction excludes "Warranty contract revenue."

The provision for credit losses increased to 2.1% of the average managed receivables for the year ended December 31, 2020 from 1.7% for the year ended December 31, 2019.

Gross Profit

For the year ended December 31, 2020, gross profit for the AFC segment decreased $68.0 million, or 27%, to $188.5 million, or 70.4% of revenue, compared with $256.5 million, or 72.7% of revenue, for the year ended December 31, 2019. The decrease in gross profit as a percent of revenue was primarily the result of a 24% decrease in revenue and an 18% decrease in cost of services. The decrease in cost of services was primarily the result of decreases in compensation expense of $7.9 million, PWI expenses of $5.6 million, lot audits of $1.8 million, travel expenses of $1.1 million, incentive-based compensation of $0.5 million and other miscellaneous expenses aggregating $0.4 million.

Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased $4.3 million, or 11%, to $36.6 million for the year ended December 31, 2020, compared with $40.9 million for the year ended December 31, 2019 primarily as a result of decreases in compensation expense of $1.1 million, travel expenses of $1.0 million, PWI expenses of $0.5 million, stock-based compensation of $0.5 million, severance of $0.5 million, promotion expenses of $0.5 million and other miscellaneous expenses aggregating $0.8 million, partially offset by an increase in information technology costs of $0.6 million.

Overview of Results of KAR Auction Services, Inc. for the Year Ended December 31, 2018:

An overview of the results of KAR Auction Services, Inc. for the year ended December 31, 2018 was included in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC on February 19, 2020.

Overview of Results of KAR Auction Services, Inc. for the Three Months Ended December 31, 2020 and 2019:

	Three Months Ended December 31,	
(Dollars in millions except per share amounts)	**2020**	**2019**
Revenues		
Auction fees	**$ 207.0**	$ 261.0
Service revenue	**173.5**	243.0
Purchased vehicle sales	**83.7**	79.3
Finance-related revenue	**65.4**	88.0
Total revenues	**529.6**	671.3
Cost of services*	**325.4**	394.9
Gross profit*	**204.2**	276.4
Selling, general and administrative	**139.7**	164.7
Depreciation and amortization	**50.6**	50.1
Operating profit	**13.9**	61.6
Interest expense	**30.5**	39.5
Other (income) expense, net	**3.9**	(2.5)
Income (loss) from continuing operations before income taxes	**(20.5)**	24.6
Income taxes	**(3.4)**	9.3
Net income (loss) from continuing operations	**(17.1)**	15.3
Net income from discontinued operations	**—**	4.5
Net income (loss)	**$ (17.1)**	$ 19.8
Net income (loss) from continuing operations per share		
Basic	**$ (0.21)**	$ 0.12
Diluted	**$ (0.21)**	$ 0.12

* Exclusive of depreciation and amortization

Overview

For the three months ended December 31, 2020, we had revenue of $529.6 million compared with revenue of $671.3 million for the three months ended December 31, 2019, a decrease of 21%. Business acquired in 2020 accounted for an increase in revenue of $8.5 million or 2% of revenue. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Depreciation and Amortization

Depreciation and amortization increased $0.5 million, or 1%, to $50.6 million for the three months ended December 31, 2020, compared with $50.1 million for the three months ended December 31, 2019. The increase in depreciation and amortization was primarily the result of depreciation and amortization for the assets of businesses acquired.

Interest Expense

Interest expense decreased $9.0 million, or 23%, to $30.5 million for the three months ended December 31, 2020, compared with $39.5 million for the three months ended December 31, 2019. The decrease was attributable to a decrease in the weighted average interest rate of approximately 1% and a decrease of $9.5 million in the average outstanding balance of corporate debt for the three months ended December 31, 2020 compared with the three months ended December 31, 2019. In addition, there was a decrease in interest expense at AFC of $6.3 million, which resulted from a decrease in the average finance receivables balance and interest rates for the three months ended December 31, 2020, as compared with the three months ended December 31, 2019. The decrease in interest expense was partially offset by an increase in interest expense on the interest rate swaps of approximately $1.6 million for the three months ended December 31, 2020.

Other (Income) Expense, Net

For the three months ended December 31, 2020, we had other expenses of $3.9 million compared with other income of $2.5 million for the three months ended December 31, 2019. The decrease in other (income) expense was primarily attributable to an increase in contingent consideration valuation of $4.7 million, an increase in foreign currency losses of $1.4 million and other miscellaneous items aggregating $0.3 million.

Income Taxes

We had an effective tax rate of 16.6% on a pre-tax loss for the three months ended December 31, 2020, compared with an effective tax rate of 37.8% for the three months ended December 31, 2019. The 2020 rate was unfavorably impacted by expense for the increase in the estimated value of contingent consideration for which no tax benefit has been recorded, as well as a greater proportion of earnings in higher tax jurisdictions. These were partially offset by the tax benefit from deductions related to stock-based compensation expenses and other discrete benefits.

Net Income from Discontinued Operations

On June 28, 2019, the Company completed the separation of its salvage auction business, IAA, through a spin-off, creating a new independent publicly traded salvage auction company. As such, the financial results of IAA have been accounted for as discontinued operations in the comparable 2019 results presented. For the three months ended December 31, 2020 and 2019, the Company's financial statements included income from discontinued operations of $0.0 million and $4.5 million, respectively.

Impact of Foreign Currency

For the three months ended December 31, 2020, fluctuations in the Canadian exchange rate increased revenue by $0.8 million, operating profit by $0.2 million, net income by $0.1 million and had no impact on net income per diluted share. For the three months ended December 31, 2020, fluctuations in the European exchange rate increased revenue by $4.0 million, increased operating profit by $0.3 million, decreased net income by $0.3 million and had no impact on net income per diluted share.

ADESA Results

(Dollars in millions, except per vehicle amounts)	Three Months Ended December 31, 2020	2019
Auction fees	**$ 207.0**	$ 261.0
Service revenue	**173.5**	243.0
Purchased vehicle sales	**83.7**	79.3
Total ADESA revenue	**464.2**	583.3
Cost of services*	**308.4**	370.9
Gross profit*	**155.8**	212.4
Selling, general and administrative	**130.6**	154.9
Depreciation and amortization	**47.7**	46.6
Operating profit (loss)	**$ (22.5)**	$ 10.9
On-premise vehicles sold	**328,000**	502,000
Off-premise vehicles sold	**353,000**	385,000
Total vehicles sold	**681,000**	887,000
Auction fees per vehicle sold	**$ 304**	$ 294
Gross profit per vehicle sold	**$ 229**	$ 239
Gross profit percentage, excluding purchased vehicles	**40.9%**	42.1%
Dealer consignment mix	**31%**	28%
Commercial mix	**69%**	72%

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $119.1 million, or 20%, to $464.2 million for the three months ended December 31, 2020, compared with $583.3 million for the three months ended December 31, 2019. The decrease in revenue was the result of a decrease in the number of vehicles sold, partially offset by an increase in purchase vehicle sales. Businesses acquired in 2020 accounted for an increase in revenue of $8.5 million. The change in revenue included the impact of an increase in revenue of $4.0 million due to fluctuations in the European exchange rate and $0.7 million due to fluctuations in the Canadian exchange rate.

On-premise marketplace sales are initiated online for vehicles at one of our locations across North America and include Simulcast, Simulcast+ and DealerBlock sales. Off-premise marketplace sales are initiated online and include Openlane, TradeRev, BacklotCars and ADESA Europe sales. The 23% decrease in the number of vehicles sold was primarily attributable to a 35% decrease in on-premise vehicles sold and an 8% decrease in off-premise vehicles sold. Volumes sold for the three months ended December 31, 2020 were materially impacted by the COVID-19 related restrictions placed on businesses. For the three months ended December 31, 2020 we held all sales through digital marketplaces to protect the health and well-being of our workforce and customers. All vehicles were offered online, cars were not driven through the auction lanes and we limited access to our physical locations to promote social distancing measures and help prevent the spread of COVID-19.

Service revenue for the quarter ended December 31, 2020 decreased $69.5 million, or 29%, primarily as a result of the decrease in vehicles sold. Typically consigned vehicles located at our facilities utilize our service offerings at a higher rate than off-premise vehicles.

Gross Profit

For the three months ended December 31, 2020, gross profit for ADESA decreased $56.6 million, or 27%, to $155.8 million, compared with $212.4 million for the three months ended December 31, 2019. Gross profit for ADESA was 33.6% of revenue for the three months ended December 31, 2020, compared with 36.4% of revenue for the three months ended December 31, 2019. Gross profit as a percentage of revenue decreased for the three months ended December 31, 2020 as compared with the three months ended December 31, 2019 primarily related to the increase in purchase vehicle sales and the impact of lower volumes. The entire selling and purchase price of the vehicle is recorded as revenue and cost of services for purchased vehicles sold. Excluding purchased vehicle sales, gross profit as a percentage of revenue was 40.9% and 42.1% for the three months ended December 31, 2020 and 2019, respectively. Businesses acquired in 2020 accounted for an increase in cost of services of $5.0 million for the quarter ended December 31, 2020. We have also taken measures to reduce expenses to help protect our business while our operations have been impacted by COVID-19.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment decreased $24.3 million, or 16%, to $130.6 million for the three months ended December 31, 2020, compared with $154.9 million for the three months ended December 31, 2019, primarily due to decreases in compensation expense of $12.4 million, severance of $8.5 million, marketing costs of $4.0 million, travel expenses of $3.1 million, bad debt expense of $2.2 million, stock-based compensation of $2.1 million, other employee related expenses of $1.3 million, telecom expenses of $1.2 million, supplies expense of $1.1 million and other miscellaneous expenses aggregating $4.5 million, partially offset by increases in incentive-based compensation of $7.8 million, costs associated with acquisitions of $5.0 million, professional fees of $2.2 million and information technology costs of $1.1 million.

AFC Results

	Three Months Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	**2020**	**2019**
Finance-related revenue		
Interest and fee income	**$ 61.4**	$ 86.0
Other revenue	**1.9**	2.8
Provision for credit losses	**(2.7)**	(9.8)
Warranty contract revenue	**4.8**	9.0
Total AFC revenue	**65.4**	88.0
Cost of services*	**17.0**	24.0
Gross profit*	**48.4**	64.0
Selling, general and administrative	**9.1**	9.8
Depreciation and amortization	**2.9**	3.5
Operating profit	**$ 36.4**	$ 50.7
Loan transactions	**327,000**	443,000
Revenue per loan transaction, excluding "Warranty contract revenue"	**$ 186**	$ 178

* Exclusive of depreciation and amortization

Revenue

For the three months ended December 31, 2020, AFC revenue decreased $22.6 million, or 26%, to $65.4 million, compared with $88.0 million for the three months ended December 31, 2019. The decrease in revenue was primarily the result of a 26% decrease in loan transactions, partially offset by a 4% increase in revenue per loan transaction. Warranty contract revenue decreased $4.2 million for the three months ended December 31, 2020, compared with the three months ended December 31, 2019, as PWI was sold in December 2020.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $8, or 4%, primarily as a result of an increase in loan values and a decrease in provision for credit losses for the three months ended December 31, 2020, partially offset by decreases in interest yield and average portfolio duration. Revenue per loan transaction excludes "Warranty contract revenue."

The provision for credit losses decreased to 0.6% of the average managed receivables for the three months ended December 31, 2020 from 1.9% for the three months ended December 31, 2019.

Gross Profit

For the three months ended December 31, 2020, gross profit for the AFC segment decreased $15.6 million, or 24%, to $48.4 million, or 74.0% of revenue, compared with $64.0 million, or 72.7% of revenue, for the three months ended December 31, 2019. The increase in gross profit as a percent of revenue was primarily the result of a 26% decrease in revenue and an 29% decrease in cost of services. The decrease in cost of services was primarily the result of decreases in PWI expenses of $3.0 million, compensation expense of $2.8 million, lot audits of $0.8 million and other miscellaneous expenses aggregating $0.4 million.

Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased $0.7 million, or 7%, to $9.1 million for the three months ended December 31, 2020, compared with $9.8 million for the three months ended December 31, 2019. The decrease in selling, general and administrative expenses was primarily attributable to decreases in compensation expense of $0.5 million, severance of $0.4 million, PWI expenses of $0.4 million and other miscellaneous expenses aggregating $0.4 million, partially offset by an increase in incentive-based compensation of $1.0 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)	**2020**	**2019**
Cash and cash equivalents	**$ 752.1**	$ 507.6
Restricted cash	**60.2**	53.3
Working capital	**924.6**	726.8
Amounts available under the Revolving Credit Facility*	**325.0**	325.0
Cash flow from operations for the year ended	**384.4**	380.8

* There were related outstanding letters of credit totaling approximately $28.5 million and $27.4 million at December 31, 2020 and 2019, respectively, which reduced the amount available for borrowings under the Revolving Credit Facility.

We regularly evaluate alternatives for our capital structure and liquidity given our expected cash flows, growth and operating capital requirements as well as capital market conditions. The COVID-19 pandemic has had, and is continuing to have, a significant impact on our business. As a result, we have implemented several measures that we believe will enhance liquidity for the foreseeable future. Some of these measures included reducing our compensation expense (including a reduction of base salaries across many levels of the organization, including the elimination of base salaries for our Chief Executive Officer, Chief Financial Officer and President and 50% reduction of base salaries for our other executive officers during the second quarter of 2020, furloughs and a reduction in force, among others), prohibiting non-essential business travel, suspending non-essential services provided by certain third parties at our locations, delaying or canceling capital projects at our on-premise marketplace locations and temporarily suspending the Company's quarterly dividend.

In addition, in June 2020 we issued and sold an aggregate of 550,000 shares Series A Preferred Stock of the Company in private placements for net proceeds of approximately $528.2 million, as described in Note 14, "Convertible Preferred Stock."

We have also taken advantage of legislation introduced to assist companies during this time. In the second, third and fourth quarters of 2020, we recorded a total of approximately $8.3 million of employee retention credits taken under the CARES Act and approximately $16.0 million under the Canada Emergency Wage Subsidy. These credits partially offset salaries and medical costs recorded in the U.S. and Canada. We will continue to monitor and assess the impact the CARES Act and similar legislation in other countries may have on our business and financial results. As the impact of the COVID-19 pandemic on the economy and our operations evolves, we will continue to assess our liquidity needs. A continued disruption could materially affect our liquidity.

Working Capital

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

Approximately $158.1 million of available cash was held by our foreign subsidiaries at December 31, 2020. If funds held by our foreign subsidiaries were to be repatriated, we expect any applicable taxes to be minimal.

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

Credit Facilities

On September 2, 2020, we entered into the Fifth Amendment Agreement (the "Fifth Amendment") to the Credit Agreement. The Fifth Amendment (1) eliminated the financial covenant “holiday” provided by the Fourth Amendment Agreement, dated as of May 29, 2020 (the “Fourth Amendment”); (2) eliminated the changes to the calculation of Consolidated EBITDA for the purposes of the financial covenant compliance for the fiscal quarters ending September 30, 2021 and December 31, 2021, as provided by the Fourth Amendment; (3) removed the monthly minimum liquidity covenant provided by the Fourth Amendment; and (4) eliminated the limitations imposed by the Fourth Amendment on the Company’s ability to make certain investments, junior debt repayments, acquisitions and restricted payments and to incur additional secured indebtedness.

On May 29, 2020, we entered into the Fourth Amendment to the Credit Agreement (the "Fourth Amendment"). The Fourth Amendment (1) provided a financial covenant “holiday” through and including June 30, 2021; (2) for purposes of determining compliance with the financial covenant for the fiscal quarters ending September 30, 2021 and December 31, 2021, permitted the Consolidated EBITDA for the applicable test period to be calculated on an annualized basis, excluding results prior to April 1, 2021; (3) established a monthly minimum liquidity covenant of $225.0 million through and including September 30, 2021; and (4) effectively placed certain limitations on the ability to make certain investments, junior debt repayments, acquisitions and restricted payments and to incur additional secured indebtedness until October 1, 2021.

On September 19, 2019, we entered into the Third Amendment Agreement (the "Third Amendment") to the Credit Agreement. The Third Amendment provided for, among other things, (1) the refinancing of the existing Term Loan B-4 and Term Loan B-5 with the new Term Loan B-6, (2) repayment of the 2017 Revolving Credit Facility and (3) the $325 million Revolving Credit Facility.

The Credit Facility is available for letters of credit, working capital, permitted acquisitions and general corporate purposes. The Revolving Credit Facility also includes a $50 million sub-limit for issuance of letters of credit and a $60 million sub-limit for swingline loans.

Term Loan B-6 was issued at a discount of $2.4 million and the discount is being amortized using the effective interest method to interest expense over the term of the loan. Term Loan B-6 is payable in quarterly installments equal to 0.25% of the original aggregate principal amount, with the balance payable at the maturity date.

As set forth in the Credit Agreement, Term Loan B-6 bears interest at an adjusted LIBOR rate plus 2.25% or at the Company’s election, Base Rate (as defined in the Credit Agreement) plus 1.25%. Loans under the Revolving Credit Facility will bear interest at a rate calculated based on the type of borrowing (either adjusted LIBOR or Base Rate) and the Company’s Consolidated Senior Secured Net Leverage Ratio (as defined in the Credit Agreement), with such rate ranging from 2.25% to 1.75% for adjusted LIBOR loans and from 1.25% to 0.75% for Base Rate loans. The Company also pays a commitment fee between 25 to 35 basis points, payable quarterly, on the average daily unused amount of the Revolving Facility based on the Company’s Consolidated Senior Secured Net Leverage Ratio, from time to time. The interest rate applicable to Term Loan B-6 was 2.44% at December 31, 2020.

On December 31, 2020, $938.1 million was outstanding on Term Loan B-6 and there were no borrowings on the Revolving Credit Facility. In addition, we had related outstanding letters of credit in the aggregate amount of $28.5 million and $27.4 million at December 31, 2020 and December 31, 2019, respectively, which reduce the amount available for borrowings under the Revolving Credit Facility. Our European operations have lines of credit aggregating $36.6 million (€30 million) of which $14.8 million was drawn at December 31, 2020.

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

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 the lenders under the Credit Agreement to declare all amounts borrowed immediately due and payable. The Credit Agreement contains a financial covenant requiring compliance with a Consolidated Senior Secured Net Leverage Ratio not to exceed 3.5 as of the last day of each fiscal quarter if revolving loans are outstanding. The Consolidated Senior Secured Net Leverage Ratio is calculated as consolidated total debt (as defined in the Credit Agreement) divided by the last four quarters consolidated Adjusted EBITDA. Consolidated total debt includes term loan borrowings, revolving loans, finance lease liabilities and other obligations for borrowed money less unrestriced cash as defined in the Credit Agreement. Consolidated Adjusted EBITDA is EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude among other things (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock-based compensation expense; (e) certain other non-cash amounts included in the determination of net income; (f) charges and revenue reductions resulting from purchase accounting; (g) minority interest; (h) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (i) 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; (j) expenses incurred in connection with permitted acquisitions; (k) any impairment charges or write-offs of intangibles; and (l) any extraordinary, unusual or non-recurring charges, expenses or losses. Our Consolidated Senior Secured Net Leverage Ratio was 0.7 at December 31, 2020.

In addition, the Credit Agreement and the indenture governing our senior notes (see Note 12, "Long-Term Debt" for additional information) contain certain limitations on our ability to pay dividends and other distributions, make certain acquisitions or investments, grant liens and sell assets, and the Credit Agreement contains certain limitations on our ability to incur indebtedness. The applicable 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 and the indenture governing our senior notes at December 31, 2020.

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 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 foreseeable future. A lack of recovery in market conditions, or further deterioration in market conditions, could materially affect the Company's liquidity.

Senior Notes

On May 31, 2017, we issued $950 million of 5.125% senior notes due June 1, 2025. The Company pays interest on the senior notes semi-annually in arrears on June 1 and December 1 of each year, which commenced on December 1, 2017. We may redeem the senior notes, in whole or in part, at a premium that declines ratably to par in 2023. The senior notes are guaranteed by the Subsidiary Guarantors.

Securitization Facilities

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to AFC Funding Corporation. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. The agreement expires on January 31, 2024. AFC Funding Corporation had committed liquidity of $1.60 billion for U.S. finance receivables at December 31, 2020.

In September 2020, AFC and AFC Funding Corporation entered into the Ninth Amended and Restated Receivables Purchase Agreement (the "Receivables Purchase Agreement"). The Receivables Purchase Agreement decreased AFC Funding's U.S. committed liquidity from $1.70 billion to $1.60 billion and extended the facility's maturity date from January 28, 2022 to January 31, 2024. In addition, provisions designed to provide additional credit enhancement to the purchasers upon the occurrence of the certain events related to the payment rate and net spread on the receivables portfolio were added, certain portfolio performance metrics that could result in a requirement to increase the cash reserve or constitute a termination event were amended to the benefit of AFC Funding and provisions providing for a mechanism for determining an alternative rate of interest were added. We capitalized approximately $12.3 million of costs in connection with the Receivables Purchase Agreement.

We also have an agreement for the securitization of AFCI's receivables. AFCI's committed facility is provided through a third-party conduit (separate from the U.S. facility) and was C$175 million at December 31, 2020. In September 2020, AFCI entered into the Fifth Amended and Restated Receivables Purchase Agreement (the "Canadian Receivable Purchase Agreement"). The Canadian Receivables Purchase Agreement extended the facility's maturity date from January 28, 2022 to January 31, 2024. In addition, provisions designed to provide additional credit enhancement to the purchasers upon the occurrence of the certain events related to the payment rate and net spread on the receivables portfolio were added, certain portfolio performance metrics that could result in a requirement to increase the cash reserve or constitute a termination event were amended to the benefit of AFC Funding and provisions providing for a mechanism for determining an alternative rate of interest were added. We capitalized approximately $1.0 million of costs in connection with the Canadian Receivables Purchase Agreement. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

AFC managed total finance receivables of $1,911.0 million and $2,115.2 million at December 31, 2020 and December 31, 2019, respectively. AFC's allowance for losses was $22.0 million and $15.0 million at December 31, 2020 and December 31, 2019, respectively.

As of December 31, 2020 and December 31, 2019, $1,865.3 million and $2,061.6 million, respectively, of finance receivables and a cash reserve of 1 or 3 percent of the obligations collateralized by finance receivables served as security for the $1,261.2 million and $1,461.2 million of obligations collateralized by finance receivables at December 31, 2020 and December 31, 2019, respectively. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreements. There were unamortized securitization issuance costs of approximately $21.6 million and $13.2 million at December 31, 2020 and December 31, 2019, 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, 2020, we were in compliance with the covenants in the securitization agreements.

In response to the COVID-19 pandemic and the related economic downturn, AFC amended its U.S. and Canadian securitization agreements in March and May 2020, in order to provide temporary cash relief to its customers by launching a Customer Relief Program. Under this program, eligible customers were able to choose to defer curtailment payments (principal, fees and interest) due through June 30, 2020, on eligible units. These transactions were permitted as eligible loans under the amended securitization agreements. The May 2020 amendments were also made to reflect the modifications to the Credit Facility.

On April 30, 2020, AFC amended its U.S. and Canadian securitization agreements to modify certain definitions and to reduce the minimum net spread for April, May and June 2020. In addition, the one-month minimum payment rate test decreased for April, May and June 2020. On June 25, 2020, AFC amended its U.S. and Canadian securitization agreements to extend the modification of certain definitions through the end of September and to increase the minimum net spread for July, August, and September 2020 above the April amendment requirement, but below the original agreement. An Over Collateralization floor was also implemented, and the restriction on payments being made to AFC from AFC Funding Corporation was removed, thereby reducing AFC's restricted cash requirements.

In September 2020, AFC amended its U.S. and Canadian securitization agreements to remove provisions made in previous amendments to provide relief for the economic impact of the COVID-19 pandemic and to permit the Customer Relief Program.

EBITDA and Adjusted EBITDA

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

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

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

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

	Three Months Ended December 31, 2020		
(Dollars in millions)	**ADESA**	**AFC**	**Consolidated**
Net income (loss) from continuing operations	$ (38.5)	$ 21.4	$ (17.1)
Add back:			
Income taxes	(9.7)	6.3	(3.4)
Interest expense, net of interest income	21.5	8.8	30.3
Depreciation and amortization	47.7	2.9	50.6
Intercompany interest	0.1	(0.1)	—
EBITDA	21.1	39.3	60.4
Non-cash stock-based compensation	2.5	0.5	3.0
Acquisition related costs	4.1	—	4.1
Securitization interest	—	(6.2)	(6.2)
Loss on asset sales	0.2	—	0.2
Severance	0.9	—	0.9
Foreign currency (gains)/losses	1.7	—	1.7
Contingent consideration adjustment	4.7	—	4.7
Other	(1.7)	0.4	(1.3)
Total addbacks	12.4	(5.3)	7.1
Adjusted EBITDA	$ 33.5	$ 34.0	$ 67.5

(Dollars in millions)	Three Months Ended December 31, 2019 ADESA	AFC	Consolidated
Net income (loss) from continuing operations	$ (12.6)	$ 27.9	$ 15.3
Add back:			
Income taxes	0.6	8.7	9.3
Interest expense, net of interest income	23.3	15.0	38.3
Depreciation and amortization	46.6	3.5	50.1
Intercompany interest	0.9	(0.9)	—
EBITDA	58.8	54.2	113.0
Non-cash stock-based compensation	4.6	0.6	5.2
Acquisition related costs	1.8	0.1	1.9
Securitization interest	—	(13.0)	(13.0)
Loss on asset sales	0.4	—	0.4
Severance	8.9	0.7	9.6
Foreign currency (gains)/losses	0.3	—	0.3
Other	4.6	—	4.6
Total addbacks	20.6	(11.6)	9.0
Adjusted EBITDA	$ 79.4	$ 42.6	$ 122.0

(Dollars in millions)	Year Ended December 31, 2020 ADESA	AFC	Consolidated
Net income (loss) from continuing operations	$ (79.1)	$ 79.6	$ 0.5
Add back:			
Income taxes	(17.0)	21.9	4.9
Interest expense, net of interest income	88.3	39.0	127.3
Depreciation and amortization	178.8	12.5	191.3
Intercompany interest	1.1	(1.1)	—
EBITDA	172.1	151.9	324.0
Non-cash stock-based compensation	12.8	2.3	15.1
Acquisition related costs	8.8	—	8.8
Securitization interest	—	(27.3)	(27.3)
Loss on asset sales	1.3	—	1.3
Severance	11.1	0.4	11.5
Foreign currency (gains)/losses	4.9	—	4.9
Goodwill and other intangibles impairment	29.8	—	29.8
Contingent consideration adjustment	4.7	—	4.7
Other	2.1	0.4	2.5
Total addbacks	75.5	(24.2)	51.3
Adjusted EBITDA	$ 247.6	$ 127.7	$ 375.3

(Dollars in millions)	Year Ended December 31, 2019 ADESA	AFC	Consolidated
Net income (loss) from continuing operations	$ (13.6)	$ 106.0	$ 92.4
Add back:			
Income taxes	(0.1)	37.8	37.7
Interest expense, net of interest income	122.9	63.5	186.4
Depreciation and amortization	175.5	13.2	188.7
Intercompany interest	5.0	(5.0)	—
EBITDA	289.7	215.5	505.2
Non-cash stock-based compensation	17.6	2.7	20.3
Loss on extinguishment of debt	2.2	—	2.2
Acquisition related costs	11.6	0.6	12.2
Securitization interest	—	(54.9)	(54.9)
Loss on asset sales	2.1	—	2.1
Severance	14.3	1.0	15.3
Foreign currency (gains)/losses	(0.7)	—	(0.7)
IAA allocated costs	2.1	0.2	2.3
Other	6.0	—	6.0
Total addbacks	55.2	(50.4)	4.8
Adjusted EBITDA	$ 344.9	$ 165.1	$ 510.0

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, 2020	June 30, 2020	September 30, 2020	December 31, 2020	December 31, 2020
Net income (loss)	$ 2.8	$ (32.3)	$ 47.1	$ (17.1)	$ 0.5
Add back:					
Income taxes	2.0	(4.6)	10.9	(3.4)	4.9
Interest expense, net of interest income	37.2	30.6	29.2	30.3	127.3
Depreciation and amortization	47.7	46.5	46.5	50.6	191.3
EBITDA	89.7	40.2	133.7	60.4	324.0
Non-cash stock-based compensation	5.3	2.9	3.9	3.0	15.1
Acquisition related costs	1.4	0.9	2.4	4.1	8.8
Securitization interest	(11.4)	(6.0)	(3.7)	(6.2)	(27.3)
Loss on asset sales	0.5	0.5	0.1	0.2	1.3
Severance	1.8	6.5	2.3	0.9	11.5
Foreign currency (gains)/losses	0.4	2.7	0.1	1.7	4.9
Goodwill and other intangibles impairment	—	29.8	—	—	29.8
Contingent consideration adjustment	—	—	—	4.7	4.7
Other	0.9	2.5	0.4	(1.3)	2.5
Total addbacks	(1.1)	39.8	5.5	7.1	51.3
Adjusted EBITDA	$ 88.6	$ 80.0	$ 139.2	$ 67.5	$ 375.3

Summary of Cash Flows

(Dollars in millions)	Year Ended December 31, 2020		Year Ended December 31, 2019	
Net cash provided by (used by):				
Operating activities - continuing operations	**$**	**384.4**	$	380.8
Operating activities - discontinued operations		**—**		161.2
Investing activities - continuing operations		**(326.6)**		(415.0)
Investing activities - discontinued operations		**—**		(37.4)
Financing activities - continuing operations		**194.8**		(1,163.8)
Financing activities - discontinued operations		**—**		1,317.6
Effect of exchange rate on cash		**(1.2)**		12.8
Net increase in cash, cash equivalents and restricted cash	**$**	**251.4**	$	256.2

Cash flow provided by operating activities (continuing operations) was $384.4 million for the year ended December 31, 2020, compared with $380.8 million for the year ended December 31, 2019. The increase in operating cash flow was primarily attributable to changes in operating assets and liabilities as a result of the timing of collections and the disbursement of funds to consignors for auctions held near period-ends, as well as a net increase in non-cash item adjustments, partially offset by decreased profitability attributable to reduced operations beginning March 20, 2020, resulting from COVID-19 restrictions on our business.

Net cash used by investing activities (continuing operations) was $326.6 million for the year ended December 31, 2020, compared with $415.0 million for the year ended December 31, 2019. The increase in net cash from investing activities was primarily attributable to:

- a net decrease in finance receivables held for investment of approximately $303.3 million;
- a reduction in capital expenditures of approximately $60.2 million; and
- net proceeds from the sale of PWI of approximately $24.3 million;

partially offset by:

- an increase in cash used for acquisitions of approximately $300.3 million.

Net cash provided by financing activities (continuing operations) was $194.8 million for the year ended December 31, 2020, compared with net cash used by financing activities of $1,163.8 million for the year ended December 31, 2019. The increase in net cash from financing activities was primarily attributable to:

- a decrease in net payments on long-term debt of $791.9 million. In the second quarter of 2019, the Company used net cash provided by financing activities from discontinued operations (cash received from IAA in the separation) to prepay its term loan debt. In addition, in the third quarter of 2019, the Company refinanced the outstanding Term Loan B-4 and Term Loan B-5 and repaid the remaining amount on the 2017 Revolving Credit Facility with the new Term Loan B-6;
- net proceeds of approximately $528.2 million received from the issuance of the Series A Preferred Stock in the second quarter of 2020;
- a decrease in dividends paid to stockholders of approximately $115.3 million;
- a decrease in the repurchase of common stock of $109.5 million; and
- a decrease in cash transferred to IAA of $50.9 million;

partially offset by:

- a net decrease in the obligations collateralized by finance receivables of approximately $194.9 million;
- a net decrease in borrowings on lines of credit of approximately $33.3 million; and
- an increase in cash used for payments of contingent consideration of approximately $21.8 million.

Capital Expenditures

Capital expenditures for the years ended December 31, 2020 and 2019 approximated $101.4 million and $161.6 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 $125 million for fiscal year 2021. Future capital expenditures could vary substantially based on capital project timing, the opening of new auction facilities, capital expenditures related to acquired businesses and the initiation of new information systems projects to support our business strategies.

Dividends

The Series A Preferred Stock ranks senior to the shares of the Company's common stock, par value $0.01 per share, with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company. The holders of the Series A Preferred Stock are entitled to a cumulative dividend at the rate of 7% per annum, payable quarterly in arrears. Dividends are payable in kind through the issuance of additional shares of Series A Preferred Stock for the first eight dividend payments, and thereafter, in cash or in kind, or in any combination of both, at the option of the Company. As of December 31, 2020 , the holders of the Series A Preferred Stock had received dividends in kind with a value in the aggregate of approximately $21.6 million. The holders of the Series A Preferred Stock are also entitled to participate in dividends declared or paid on our common stock on an as-converted basis.

The following common stock dividend information has been released for 2020:

- On February 18, 2020, the Company announced a cash dividend of $0.19 per share that was paid on April 3, 2020, to stockholders of record at the close of business on March 20, 2020.
- On November 5, 2019, the Company announced a cash dividend of $0.19 per share that was paid on January 3, 2020, to stockholders of record at the close of business on December 20, 2019.

The Company has temporarily suspended its quarterly common stock dividend in light of the impact of the COVID-19 pandemic on its operations. Future dividend decisions will be based on and affected by a variety of factors, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our Credit Agreement and AFC's securitization facilities and the indenture governing our senior notes, capital requirements and other factors that our board of directors deems relevant. No assurance can be given as to whether any future dividends may be declared by our board of directors or the amount thereof.

Acquisition

In November 2020, ADESA completed the acquisition of BacklotCars for approximately $421.0 million, net of cash acquired. BacklotCars is an app and web-based dealer-to-dealer wholesale platform featuring a 24/7 "bid-ask" marketplace offering vehicles with comprehensive inspections performed by automobile mechanics. The acquisition is expected to further diversify the Company's broad portfolio of digital capabilities and accelerate the Company's strategy to be a leading digital dealer-to-dealer marketplace provider.

The purchased assets included accounts receivable, property and equipment, software, customer relationships and tradenames. Financial results for BacklotCars have been included in our consolidated financial statements from the date of acquisition. In addition, as part of the acquisition of BacklotCars, we assumed line-of-credit debt of approximately $9.5 million which was paid off in the fourth quarter of 2020.

The acquired assets and assumed liabilities of BacklotCars were recorded at fair value, including $78.8 million to intangible assets, representing the fair value of acquired customer relationships of $66.4 million, software of $8.3 million and tradenames of $4.1 million, which are being amortized over their expected useful lives. The multi-period excess earnings method was used to value the customer relationships and the relief from royalty method was used to value the software and tradenames. Both of these methods require forward looking estimates to determine fair value, including among other assumptions, forecasted revenue growth and estimated royalty rates. The purchase accounting associated with this acquisition is preliminary, subject to obtaining information to determine the fair value of certain assets and liabilities. The acquisition resulted in a preliminary estimate of $354.8 million of goodwill. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of this acquisition, including pro forma financial results, was immaterial to the Company's consolidated results for the year ended December 31, 2020.

Contractual Obligations

The table below sets forth a summary of our contractual debt and lease obligations as of December 31, 2020. 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. This table does not include the obligations related to our Series A Preferred Stock discussed in Note 14 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. The following summarizes our contractual cash obligations as of December 31, 2020 *(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					
$325 million Revolving Credit Facility	$ —	$ —	$ —	$ —	$ —
Term Loan B-6 (a)	938.1	9.5	19.0	19.0	890.6
Senior notes (a)	950.0	—	—	950.0	—
European lines of credit	14.8	14.8	—	—	—
Finance lease obligations (b)	17.3	9.4	7.7	0.2	—
Interest payments relating to long-term debt (c)	345.8	72.4	143.8	113.4	16.2
Operating leases (d)	512.4	58.3	108.7	101.1	244.3
Other long-term liabilities	37.9	37.9	—	—	—
Total contractual cash obligations	$ 2,816.3	$ 202.3	$ 279.2	$ 1,183.7	$ 1,151.1

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

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

(c) Interest payments on long-term debt are projected based on the contractual rates of the debt securities. Interest rates for the variable rate term debt instruments were held constant at rates as of December 31, 2020.

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

Critical Accounting Estimates

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

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

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, 2020, which are included in this Annual Report on Form 10-K.

Allowance for Credit Losses

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

AFC controls credit risk through credit approvals, credit limits, underwriting and collateral management monitoring procedures, including approximately 55,000 lot audits and holding vehicle titles where permitted. The estimates are based on management's evaluation of many factors, including AFC's historical credit loss experience, the value of the underlying collateral, delinquency trends and economic conditions. The estimates are based on information available as of each reporting date and reflect the expected credit losses over the entire expected term of the receivables. Actual losses may differ from the original estimates due to actual results varying from those assumed in our estimates.

As a measure of sensitivity, if we had experienced a 10% increase in net charge-offs of finance receivables for the year ended December 31, 2020, our provision for credit losses would have increased by approximately $3.7 million in 2020.

Business Combinations

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

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

Goodwill and Other Intangible Assets

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

When assessing goodwill for impairment, our decision to perform a qualitative impairment assessment for a reporting unit in a given year is influenced by a number of factors, including the size of the reporting unit's goodwill, the significance of the excess of the reporting unit's estimated fair value over carrying value at the last quantitative assessment date, the amount of time in between quantitative fair value assessments and the date of acquisition. If we perform a quantitative assessment of a reporting unit's goodwill, our impairment calculations contain uncertainties because they require management to make assumptions and apply judgment when estimating future cash flows and earnings, including projected revenue growth and operating expenses related to existing businesses, as well as utilizing valuation multiples of similar publicly traded companies and selecting an appropriate discount rate based on the estimated cost of capital that reflects the risk profile of the related business. Estimates of revenue growth and operating expenses are based on internal projections considering the reporting unit's past performance and forecasted growth, strategic initiatives and changes in economic conditions. These estimates, as well as the selection of comparable companies and valuation multiples used in the market approach are highly subjective, and our ability to realize the future cash flows used in our fair value calculations is affected by factors such as the success of strategic initiatives, changes in economic conditions, changes in our operating performance and changes in our business strategies. In 2020, we performed a quantitative impairment assessment for our reporting units. This assessment resulted in the impairment of goodwill totaling $25.5 million in our ADESA Remarketing Limited reporting unit (doing business as ADESA U.K.). For additional information, see Note 9 of the Notes to Consolidated Financial Statements included in this Annual Report on Form

10-K. Based on our previous goodwill assessments, the Company did not identify a reporting unit for which the goodwill was impaired in 2019 or 2018.

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

We review other intangible assets for possible impairment whenever circumstances indicate that their carrying amount may not be recoverable. If it is determined that the carrying amount of an other intangible asset exceeds the total amount of the estimated undiscounted future cash flows from that asset, we would recognize a loss to the extent that the carrying amount exceeds the fair value of the asset. Management judgment is involved in both deciding if testing for recovery is necessary and in estimating undiscounted cash flows. Our impairment analysis is based on the current business strategy, expected growth rates and estimated future economic conditions. In 2020, this analysis resulted in the impairment of customer relationships of approximately $4.3 million in our ADESA Remarketing Limited reporting unit (doing business as ADESA U.K.). For additional information, see Note 9 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K.

Legal Proceedings and Other Loss Contingencies

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

Off-Balance Sheet Arrangements

As of December 31, 2020, we had no off-balance sheet arrangements pursuant to Item 303(a)(4) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

New Accounting Standards

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, United Kingdom, Continental Europe and Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. We have not entered into any foreign exchange contracts to hedge changes in the Canadian dollar, British pound, euro or Mexican peso. Foreign currency losses on intercompany loans were approximately $4.9 million for the year ended December 31, 2020 and foreign currency gains on intercompany loans were approximately $0.7 million for the year ended December 31, 2019. Canadian currency translation negatively affected net income by approximately $0.2 million and $0.6 million for the year ended December 31, 2020 and 2019, respectively. A 1% change in the month-end Canadian exchange rate for the year ended December 31, 2020 would have impacted foreign currency losses on intercompany loans by $0.9 million and net income by $0.6 million. A 1% change in the average Canadian exchange rate for the year ended December 31, 2020 would have impacted net income by approximately $0.5 million. Currency exposure of our U.K., Continental Europe and Mexican operations is not material to the results of operations.

Interest Rates

We are exposed to interest rate risk on our variable rate borrowings. Accordingly, interest rate fluctuations affect the amount of interest expense we are obligated to pay. We currently use interest rate swap agreements to manage our exposure to interest rate changes. We have designated the interest rate swaps as cash flow hedges for accounting purposes. Accordingly, the earnings impact of the derivatives designated as cash flow hedges are recorded upon the recognition of the interest related to the hedged debt. There was no significant ineffectiveness for the year ended December 31, 2020.

In January 2020, we entered into three pay-fixed interest rate swaps with an aggregate notional amount of $500 million to swap variable rate interest payments under our term loan for fixed interest payments bearing a weighted average interest rate of 1.44%. The interest rate swaps have a five-year term, each maturing on January 23, 2025.

Taking our interest rate swaps into account, a sensitivity analysis of the impact on our variable rate corporate debt instruments to a hypothetical 100 basis point increase in short-term rates (LIBOR) for the year ended December 31, 2020 would have resulted in an increase in interest expense of approximately $4.4 million.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

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, 2020, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on our assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2020. During our assessment, we did not identify any material weaknesses in our internal control over financial reporting.

We have excluded the BacklotCars acquisition from our assessment of internal control over financial reporting as of December 31, 2020 because we are continuing to integrate the acquisition into our corporate processes. The total assets of the 2020 acquisition represent 6.9% and the total revenues of the 2020 acquisition represent 0.4% of the related consolidated financial statement amounts as of and for the year ended December 31, 2020. No potential internal control changes due to the new acquisition would be considered material to, or are reasonably likely to materially affect, our internal control over financial reporting.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements for the year ended December 31, 2020, also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2020 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

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

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

We have audited the accompanying consolidated balance sheets of KAR Auction Services, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired BacklotCars, Inc. ("2020 acquisition") during 2020, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, internal control over financial reporting associated with the 2020 acquisition with total assets of 6.9% and total revenues of 0.4% of the related amounts included in the consolidated financial statements of the Company as of and for the year ended December 31, 2020. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the 2020 acquisition.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2020, the Company has changed its method of accounting for credit losses due to the adoption of Financial Accounting Standards Board Accounting Standard Codification Topic 326: Financial Instruments – Credit Losses.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2019, the Company has changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board Accounting Standard Codification Topic 842: Leases.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of qualitative risk factors in the allowance for credit losses

As discussed in Notes 2 and 7 to the consolidated financial statements, the Company's allowance for credit losses as of December 31, 2020 was $22 million (the ACL). The Company estimates the ACL using a methodology that first considers quantitative models that calculate historical loss rates using recorded charge-offs and recoveries over a historical period as well as identified potential loss events as the primary quantitative factors. The Company's methodology is also based on management's evaluation of the receivables portfolio under current economic conditions, the size of the portfolio, overall portfolio credit quality, review of specific collection matters and such other factors which, in management's judgment, deserve recognition in estimating losses (qualitative risk factors).

We identified the assessment of qualitative risk factors used in the ACL estimate as a critical audit matter. Due to significant measurement uncertainty, such assessment required complex and subjective auditor judgment, including specialized skill and knowledge. This assessment involved evaluating the qualitative framework and related risk factors, including the impacts of the coronavirus pandemic and governmental relief programs. These factors increase the likelihood that qualitative risk factors were necessary in order to capture estimated credit losses not captured through the quantitative models.

The following are the primary procedures we performed to address the critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the measurement of the ACL estimate, including controls over the (1) development and approval of the overall allowance for credit losses methodology, which includes the qualitative framework and related risk factors and (2) determination of the qualitative risk factors. We evaluated the Company's process to develop the qualitative framework and related risk factors including testing the sources of data, factors, and assumptions that the Company used and considering whether they are relevant and reliable. We evaluated credit metric trends impacting the ACL estimate, including the qualitative risk factors, for consistency with trends in the Company's historical loan portfolio growth and credit performance. We involved credit risk professionals with specialized skills and knowledge, who assisted in evaluating (1) the Company's ACL methodology, which included the qualitative framework and related risk factors, for compliance with U.S. generally accepted accounting principles and (2) the qualitative risk factors and their relationship to the quantitative models and whether additional or alternative sources of data, factors or assumptions should be used.

Fair value measurement of certain customer relationships and technology intangible assets in the acquisition of BacklotCars, Inc.

As discussed in Note 3 to the consolidated financial statements, the Company completed the acquisition of BacklotCars, Inc. in November for approximately $421.0 million, net of cash acquired. The acquisition was accounted for as a business combination. The consideration paid in the acquisition must be allocated to the acquired assets and liabilities assumed generally based on their fair value with the excess of the purchase price over those fair values allocated to goodwill. Of the total assets acquired, the fair value ascribed to customer relationships and technology intangible assets amounted to $66.4 million and $8.3 million, respectively.

We identified the assessment of the forecasted revenue growth rate and the estimated royalty rate assumptions used in estimating the fair values assigned to certain customer relationships and technology intangible assets as a critical audit matter. The forecasted revenue growth rate used to estimate the fair value of these intangible assets was based on Company developed data and sensitive to variation, such that minor changes in the assumption could cause significant changes in the estimated fair values. Additionally, the royalty rate used to estimate the fair value of the technology intangible asset was sensitive to variation, such that minor changes in the assumption could cause significant changes in the estimated fair value.

The following are the primary procedures we performed to address the critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the fair value measurements, including controls over the development of the valuation method and the judgments made to develop the assumptions of the forecasted revenue growth rate and estimated royalty rate. We evaluated the relevance and reliability of the underlying inputs and data used to develop the forecasted revenue growth rate and estimated royalty rate. We involved valuation professionals with specialized skills and knowledge who assisted in evaluating (1) the methodologies used to estimate the fair value of the intangible assets for compliance with U.S. generally accepted accounting principles, (2) the forecasted revenue growth rate by comparing the financial projections to current industry and economic trends, the historic financial performance of the acquired business, and the Company's history with other acquisitions, and (3) the royalty rate, which included an analysis and comparison of the selected royalty rate to ranges of royalty rates observed in comparable licensing agreements.

/s/ KPMG LLP

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

Indianapolis, Indiana
February 18, 2021

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Operating revenues			
Auction fees	**$ 887.7**	$ 1,115.3	$ 1,048.0
Service revenue	**737.4**	1,018.2	937.1
Purchased vehicle sales	**295.0**	295.5	116.8
Finance-related revenue	**267.6**	352.9	340.9
Total operating revenues	**2,187.7**	2,781.9	2,442.8
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	**1,284.8**	1,617.1	1,321.5
Selling, general and administrative	**545.4**	662.0	608.8
Depreciation and amortization	**191.3**	188.7	172.4
Goodwill and other intangibles impairment	**29.8**	—	—
Total operating expenses	**2,051.3**	2,467.8	2,102.7
Operating profit	**136.4**	314.1	340.1
Interest expense	**128.9**	189.5	191.2
Other (income) expense, net	**2.1**	(7.7)	(3.0)
Loss on extinguishment of debt	**—**	2.2	—
Income from continuing operations before income taxes	**5.4**	130.1	151.9
Income taxes	**4.9**	37.7	34.3
Income from continuing operations	**$ 0.5**	$ 92.4	$ 117.6
Income from discontinued operations, net of income taxes	**—**	96.1	210.4
Net income	**$ 0.5**	$ 188.5	$ 328.0
Net income (loss) per share - basic			
Income (loss) from continuing operations	**$ (0.16)**	$ 0.70	$ 0.88
Income from discontinued operations	**—**	0.73	1.56
Net income (loss) per share - basic	**$ (0.16)**	$ 1.43	$ 2.44
Net income (loss) per share - diluted			
Income (loss) from continuing operations	**$ (0.16)**	$ 0.70	$ 0.87
Income from discontinued operations	**—**	0.72	1.55
Net income (loss) per share - diluted	**$ (0.16)**	$ 1.42	$ 2.42
Dividends declared per common share	**$ 0.19**	$ 1.08	$ 1.40

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Net income	**$ 0.5**	$ 188.5	$ 328.0
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)	**17.8**	19.9	(36.1)
Unrealized loss on interest rate derivatives, net of tax	**(19.5)**	—	—
Total other comprehensive income (loss), net of tax	**(1.7)**	19.9	(36.1)
Comprehensive income (loss)	**$ (1.2)**	$ 208.4	$ 291.9

See accompanying notes to consolidated financial statements

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

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	**$ 752.1**	$ 507.6
Restricted cash	**60.2**	53.3
Trade receivables, net of allowances of $12.1 and $9.5	**367.2**	457.5
Finance receivables, net of allowances of $22.0 and $15.0	**1,889.0**	2,100.2
Other current assets	**106.7**	125.9
Total current assets	**3,175.2**	3,244.5
Other assets		
Goodwill	**2,140.2**	1,821.7
Customer relationships, net of accumulated amortization of $668.6 and $637.4	**211.3**	207.9
Other intangible assets, net of accumulated amortization of $362.0 and $292.4	**290.2**	298.5
Operating lease right-of-use assets	**350.6**	364.1
Property and equipment, net of accumulated depreciation of $596.4 and $534.3	**589.9**	609.0
Other assets	**40.8**	35.5
Total other assets	**3,623.0**	3,336.7
Total assets	**$ 6,798.2**	$ 6,581.2

See accompanying notes to consolidated financial statements

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

	December 31,	
	2020	**2019**
Liabilities, Temporary Equity and Stockholders' Equity		
Current liabilities		
Accounts payable	**$ 688.9**	$ 704.6
Accrued employee benefits and compensation expenses	**81.3**	72.7
Accrued interest	**6.5**	7.9
Other accrued expenses	**185.2**	216.9
Income taxes payable	**3.2**	1.1
Dividends payable	**—**	24.5
Obligations collateralized by finance receivables	**1,261.2**	1,461.2
Current maturities of long-term debt	**24.3**	28.8
Total current liabilities	**2,250.6**	2,517.7
Non-current liabilities		
Long-term debt	**1,853.8**	1,861.3
Deferred income tax liabilities	**128.6**	134.5
Operating lease liabilities	**344.2**	358.3
Other liabilities	**55.4**	59.2
Total non-current liabilities	**2,382.0**	2,413.3
Commitments and contingencies (Note 18)		
Temporary equity		
Series A convertible preferred stock (Note 14)	**549.8**	—
Stockholders' equity		
Common stock, $0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
129,700,156 (2020)		
128,833,452 (2019)	**1.3**	1.3
Additional paid-in capital	**1,046.5**	1,028.9
Retained earnings	**600.7**	651.0
Accumulated other comprehensive loss	**(32.7)**	(31.0)
Total stockholders' equity	**1,615.8**	1,650.2
Total liabilities, temporary equity and stockholders' equity	**$ 6,798.2**	$ 6,581.2

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2017	134.3	$ 1.3	$ 1,251.8	$ 257.0	$ (25.2)	$ 1,484.9
Cumulative effect adjustment for adoption of ASC Topic 606, net of tax				(3.0)		(3.0)
Net income				328.0		328.0
Other comprehensive loss					(36.1)	(36.1)
Issuance of common stock under stock plans	1.5		15.0			15.0
Surrender of RSUs for taxes	(0.2)		(10.2)			(10.2)
Stock-based compensation expense			23.4			23.4
Repurchase and retirement of common stock	(2.7)		(150.0)			(150.0)
Dividends earned under stock plans			1.9	(1.9)		—
Cash dividends declared to stockholders ($1.40 per share)				(187.8)		(187.8)
Balance at December 31, 2018	132.9	1.3	1,131.9	392.3	(61.3)	1,464.2
Cumulative effect adjustment for adoption of ASC Topic 842, net of tax				1.1		1.1
Net income				188.5		188.5
Other comprehensive income					19.9	19.9
Issuance of common stock under stock plans	0.9		4.3			4.3
Surrender of RSUs for taxes	(0.2)		(10.8)			(10.8)
Stock-based compensation expense			21.4			21.4
Repurchase and retirement of common stock	(4.8)		(119.7)			(119.7)
Distribution of IAA				213.2	10.4	223.6
Dividends earned under stock plans			1.8	(1.8)		—
Cash dividends declared to stockholders ($1.08 per share)				(142.3)		(142.3)
Balance at December 31, 2019	128.8	1.3	1,028.9	651.0	(31.0)	1,650.2
Cumulative effect adjustment for adoption of ASC Topic 326, net of tax				(3.8)		(3.8)
Net income				0.5		0.5
Other comprehensive loss					(1.7)	(1.7)
Issuance of common stock under stock plans	0.8		2.1			2.1
Issuance of common stock - private placement	0.9		15.0			15.0
Surrender of RSUs for taxes	(0.2)		(4.0)			(4.0)
Stock-based compensation expense			14.0			14.0
Repurchase and retirement of common stock	(0.6)		(10.2)			(10.2)
Dividends earned under stock plans			0.7	(0.9)		(0.2)
Cash dividends declared to stockholders ($0.19 per share)				(24.5)		(24.5)
Dividends on preferred stock				(21.6)		(21.6)
Balance at December 31, 2020	**129.7**	**$ 1.3**	**$ 1,046.5**	**$ 600.7**	**$ (32.7)**	**$ 1,615.8**

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Operating activities			
Net income	**$ 0.5**	$ 188.5	$ 328.0
Net income from discontinued operations	**—**	(96.1)	(210.4)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**191.3**	188.7	172.4
Provision for credit losses	**43.8**	40.1	36.9
Deferred income taxes	**(7.2)**	(3.3)	3.0
Amortization of debt issuance costs	**11.7**	12.2	10.6
Stock-based compensation	**14.0**	19.6	19.6
Goodwill and other intangibles impairment	**29.8**	—	—
Loss on extinguishment of debt	**—**	2.2	—
Other non-cash, net	**9.7**	12.1	(0.4)
Changes in operating assets and liabilities, net of acquisitions:			
Trade receivables and other assets	**117.9**	(3.0)	(49.0)
Accounts payable and accrued expenses	**(27.1)**	19.8	127.9
Net cash provided by operating activities - continuing operations	**384.4**	380.8	438.6
Net cash provided by operating activities - discontinued operations	**—**	161.2	284.3
Investing activities			
Net decrease (increase) in finance receivables held for investment	**170.6**	(132.7)	(138.6)
Acquisition of businesses (net of cash acquired)	**(421.0)**	(120.7)	(45.2)
Purchases of property, equipment and computer software	**(101.4)**	(161.6)	(131.3)
Proceeds from the sale of PWI	**24.3**	—	—
Proceeds from the sale of property and equipment	**0.9**	—	—
Net cash used by investing activities - continuing operations	**(326.6)**	(415.0)	(315.1)
Net cash used by investing activities - discontinued operations	**—**	(37.4)	(66.1)
Financing activities			
Net decrease in book overdrafts	**(6.9)**	(4.7)	(20.7)
Net (decrease) increase in borrowings from lines of credit	**(14.0)**	19.3	—
Net (decrease) increase in obligations collateralized by finance receivables	**(191.1)**	3.8	101.4
Proceeds from issuance of Series A Preferred Stock	**550.1**	—	—
Payments for issuance costs of Series A Preferred Stock	**(21.9)**	—	—
Proceeds from long-term debt	**—**	947.6	—
Payments for debt issuance costs/amendments	**(18.5)**	(14.1)	(12.5)
Payments on long-term debt	**(9.5)**	(1,749.0)	(17.0)
Payments on finance leases	**(16.1)**	(15.9)	(15.4)
Payments of contingent consideration and deferred acquisition costs	**(31.2)**	(9.4)	(18.1)
Issuance of common stock under stock plans	**2.1**	4.3	15.0
Issuance of common stock - private placement	**15.0**	—	—
Tax withholding payments for vested RSUs	**(4.0)**	(10.8)	(10.2)
Repurchase and retirement of common stock	**(10.2)**	(119.7)	(150.0)
Dividends paid to stockholders	**(49.0)**	(164.3)	(188.3)
Cash transferred to IAA	**—**	(50.9)	—
Net cash provided by (used by) financing activities - continuing operations	**194.8**	(1,163.8)	(315.8)
Net cash provided by (used by) financing activities - discontinued operations	**—**	1,317.6	(4.3)
Effect of exchange rate changes on cash	**(1.2)**	12.8	(20.4)
Net increase in cash, cash equivalents and restricted cash	**251.4**	256.2	1.2
Cash, cash equivalents and restricted cash at beginning of period	**560.9**	304.7	303.5
Cash, cash equivalents and restricted cash at end of period	**$ 812.3**	$ 560.9	$ 304.7
Cash paid for interest, net of proceeds from interest rate derivatives	**$ 116.6**	$ 170.0	$ 180.8
Cash paid for taxes, net of refunds - continuing operations	**$ 16.6**	$ 37.8	$ 57.9
Cash paid for taxes, net of refunds - discontinued operations	**$ —**	$ 41.4	$ 64.0

See accompanying notes to consolidated financial statements

Note 1—Organization and Other Matters

KAR Auction Services, Inc., doing business as KAR Global, was organized in the State of Delaware on November 9, 2006. The KAR group of companies is comprised of ADESA, Inc., Automotive Finance Corporation and additional business units.

Defined Terms

Unless otherwise indicated or unless the context otherwise requires, the following terms used herein shall have the following meanings:

- "we," "us," "our," "KAR" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries;
- "ADESA" or "ADESA Auctions" refer, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including Openlane, Inc. (together with Openlane, Inc.'s subsidiaries, "Openlane"), Nth Gen Software Inc. ("TradeRev"), BacklotCars, Inc. ("BacklotCars"), ADESA Remarketing Limited (formerly known as GRS Remarketing Limited ("GRS" or "ADESA Remarketing Limited")) and ADESA Europe (formerly known as CarsOnTheWeb ("COTW"));
- "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. PWI was sold on December 1, 2020;
- "Credit Agreement" refers to the Amended and Restated Credit Agreement, dated March 11, 2014 (as amended, amended and restated, modified or supplemented from time to time), among KAR Auction Services, Inc., as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and JPMorgan Chase Bank N.A., as administrative agent;
- "Credit Facility" refers to the $950 million, senior secured term loan B-6 facility due September 19, 2026 ("Term Loan B-6") and the $325 million, senior secured revolving credit facility due September 19, 2024 (the "Revolving Credit Facility"), the terms of which are set forth in the Credit Agreement;
- "IAA" refers, collectively, to Insurance Auto Auctions, Inc., formerly a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries and other related entities, including HBC Vehicle Services Limited ("HBC"). See Note 4;
- "KAR Auction Services" refers to KAR Auction Services, Inc. and not to its subsidiaries;
- "Senior notes" refers to the 5.125% senior notes due 2025 ($950 million aggregate principal outstanding at December 31, 2020);
- "Series A Preferred Stock" refers to the Series A Convertible Preferred Stock, par value $0.01 per share (571,606 shares of Series A Preferred Stock were outstanding at December 31, 2020);
- "Term Loan B-4" refers to the senior secured term loan B-4 facility, the terms of which are set forth in the Credit Agreement;
- "Term Loan B-5" refers to the senior secured term loan B-5 facility, the terms of which are set forth in the Credit Agreement; and
- "2017 Revolving Credit Facility" refers to the $350 million senior secured revolving credit facility existing under the Credit Agreement prior to September 19, 2019.

Business and Nature of Operations

ADESA is a leading provider of wholesale vehicle auctions and related vehicle remarketing services for the automotive industry. As of December 31, 2020, we have a North American network of 74 facilities and we also offer online auctions. ADESA also includes TradeRev, an online automotive remarketing platform where dealers can launch and participate in real-time vehicle auctions at any time, BacklotCars, an app and web-based dealer-to-dealer wholesale vehicle platform, ADESA Remarketing Limited, an online whole car vehicle remarketing business in the United Kingdom and ADESA Europe (formerly known as CarsOnTheWeb), an online wholesale vehicle auction marketplace in Continental Europe. Our auctions facilitate the sale of used vehicles through on-premise and off-premise marketplaces. ADESA's online service offerings include customized private label solutions powered with software developed by its wholly-owned subsidiary, Openlane, that allow our commercial consignors (automobile manufacturers, captive finance companies and other institutions) to offer vehicles via the Internet prior to arrival at on-premise marketplaces. Remarketing services include a variety of activities designed to transfer used vehicles between sellers and buyers throughout the vehicle life cycle. ADESA facilitates the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership of vehicles sold at the auctions. Generally, fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.

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

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing is provided through 115 locations throughout the United States and Canada as of December 31, 2020. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, TradeRev, other used vehicle and salvage auctions and non-auction purchases.

Prior to December 2020, in addition to floorplan financing, AFC also provided independent used vehicle dealers with vehicle service contracts. In October 2020, a subsidiary of ADESA signed a definitive agreement to sell all of the issued and outstanding shares of capital stock of PWI Holdings, Inc., the Company's extended vehicle service contract business ("PWI"), to certain subsidiaries of Kingsway Financial Services Inc. for a purchase price of approximately $24.3 million in cash and a deferred payment of approximately $1.1 million (subject to customary adjustments). The closing of the transaction was completed on December 1, 2020.

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.

Reclassifications

ADESA's "Auction fees and services revenue" reported in the consolidated statements of income for the years ended December 31, 2019 and 2018 have been broken out between "Auction fees" and "Service revenue" in the consolidated statement of income to conform with the presentation for the year ended December 31, 2020.

Historically, the costs and expenses of the holding company were reported separately from the reportable segments and included expenses associated with the corporate offices, such as salaries, benefits and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense included the interest expense incurred on finance leases and the corporate debt structure. Intercompany charges related primarily to interest on intercompany debt or receivables and certain administrative costs allocated by the holding company. Due to the spin-off of IAA in 2019 and the Company's transition from physical marketplaces to digital marketplaces, the Company has simplified its business and operations. Corporate expenses, previously reported as holding company expenses, are now included the segments. Certain known expenses (e.g., information technology costs) were recorded directly to the ADESA and AFC segments. Interest expense previously reported by the holding company has been recorded in the ADESA segment. The residual shared services expenses were recorded at ADESA and allocated to AFC based on revenue and employee headcount. Holding company amounts reported in the segment results in the consolidated financial statements prior to December 31, 2020 have been reclassified to conform to the current presentation.

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 litigation and other loss contingencies.

Business Segments

Our operations are grouped into two operating segments: ADESA Auctions and AFC. The two 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 interest rate swaps that are designated and qualify as cash flow hedges 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 liabilities" on the consolidated balance sheet. Changes in the fair value of the interest rate derivatives designated as cash flow hedges are recorded as a component of "Accumulated other comprehensive income." The earnings impact of the interest rate derivatives designated as cash flow hedges is recorded upon the recognition of the interest related to the hedged debt.

Foreign Currency Translation

The local currency is the functional currency for each of our foreign entities. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at average exchange rates in effect during the year. Assets and liabilities of foreign operations are translated using the exchange rates in effect at year end. Foreign currency transaction gains and losses are included in the consolidated statements of income within "Other (income) expense, net" and resulted in a loss of $4.9 million for the year ended December 31, 2020, a gain of $0.7 million for the year ended December 31, 2019 and a loss of $3.7 million for the year ended December 31, 2018. Adjustments arising from the translation of net assets located outside the U.S. (gains and losses) are shown as a component of "Accumulated other comprehensive income."

Cash Equivalents

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

Restricted Cash

AFC Funding Corporation, a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary of AFC, is required to maintain a minimum cash reserve of 1 or 3 percent of total receivables sold to the group of bank purchasers as security for the receivables sold. Automotive Finance Canada Inc. ("AFCI") is also required to maintain a minimum cash reserve of 1 or 3 percent of total receivables sold to its securitization facilities. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreements. Such reserves are presented as "Restricted cash" on the consolidated balance sheets.

Receivables

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

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

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

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

We also maintain an allowance for credit losses for estimated losses resulting from the inability of customers to make required payments. AFC’s finance receivables represent revolving line of credit arrangements extended to used car dealers and are secured by collateral which is a key credit quality indicator monitored by the Company. Delinquencies and losses are monitored on an ongoing basis and this historical experience provides the primary basis for estimating the allowance which is estimated using a loss-rate method. We estimate the allowance for credit losses using a methodology that first considers historical loss rates calculated using recorded charge-offs and recoveries over a historical period as well as identified potential loss events as the primary quantitative factors. The allowance for credit losses is also based on management's evaluation of the receivables portfolio under current economic conditions, the size of the portfolio, overall portfolio credit quality, review of specific collection matters and such other factors which, in management's judgment, deserve recognition in estimating losses. Specific collection matters can be impacted by the outcome of negotiations, litigation and bankruptcy proceedings with individual customers.

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

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The update changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. We adopted Topic 326 in the first quarter of 2020 and the change in methodology for measuring credit losses resulted in an increase in the allowance for credit losses of approximately $5.0 million. The cumulative effect of this change was recognized, net of tax, as a $3.8 million adjustment to retained earnings on January 1, 2020.

Other Current Assets

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

Goodwill

Goodwill represents the excess of cost over fair value of identifiable net assets of businesses acquired. Goodwill is tested for impairment annually in the second quarter, or more frequently as impairment indicators arise. ASC 350, *Intangibles—Goodwill and Other*, permits an entity to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the 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. Under the quantitative assessment for goodwill impairment, 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 impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the fair value of that goodwill, not to exceed the carrying amount of goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis.

Customer Relationships and Other Intangible Assets

Customer relationships are amortized on a straight-line basis over the life determined at the time of acquisition. Other intangible assets generally consist of tradenames, computer software and non-compete agreements, which if amortized, are amortized using the straight-line method over their estimated useful lives. Tradenames with indefinite lives are not amortized. 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 amortization periods of finite-lived intangible assets are re-evaluated periodically when facts and circumstances indicate that revised estimates of useful lives may be warranted. Indefinite-lived tradenames are assessed for impairment, in accordance with ASC 350, annually in the second quarter or more frequently as impairment indicators arise. At the end of each assessment, a determination is made as to whether the tradenames still have an indefinite life.

Property and Equipment

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

Unamortized Debt Issuance Costs

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

Other Assets

Other assets consist of equity and cost method investments, deposits, notes receivable, foreign deferred taxes and other long-term assets.

Long-Lived Assets

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

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)*, which replaces the existing lease guidance in Topic 840. The ASU is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use ("ROU") assets and corresponding lease liabilities on the balance sheet, with an exception for leases that meet the definition of a short-term lease. The new guidance continues to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income.

We adopted Topic 842 in the first quarter of 2019 and as permitted by ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, we applied the new standard at the adoption date and recognized the cumulative-effect of initially applying the new standard as an increase of $1.1 million to the opening balance of retained earnings. The cumulative-effect adjustment related to the derecognition of existing fixed assets for which we were determined to be the accounting owner under Topic 840 and related liabilities associated with certain sale leaseback transactions in build-to-suit arrangements that did not qualify for sale accounting under Topic 840. Depreciation related to these fixed assets was recorded consistently with owned property and equipment in depreciation expense. In accordance with Topic 842, the lease agreements associated with the derecognized fixed assets and related liabilities generated ROU assets and lease liabilities that will be amortized to lease expense over the lease term. In addition, we recognized additional operating liabilities for continuing operations of approximately $342 million with related ROU assets of approximately $314 million based on the present value of the remaining minimum rental payments for existing operating leases.

We determine if an arrangement is a lease at inception. Operating leases are included in "Operating lease right-of-use assets," "Other accrued expenses" and "Operating lease liabilities" in our consolidated balance sheets. Finance leases are included in "Property and equipment, net," "Other accrued expenses" and "Other liabilities" in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of the lease payments over the lease term. We use the implicit rate when readily determinable. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU assets also include any lease payments made and exclude lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, we account for the lease and non-lease components as a single lease component.

Accounts Payable

Accounts payable include amounts due sellers from the proceeds of the sale of their consigned vehicles less any fees, as well as trade payables and 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 $81.8 million and $88.7 million at December 31, 2020 and 2019, respectively.

Self-Insurance Reserves

We self-insure our employee medical benefits, as well as a portion of our automobile, general liability and workers' compensation claims. We have insurance coverage that limits the exposure on individual claims. The cost of the insurance is expensed over the contract periods. We record an accrual for the claims related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims. Accrued medical benefits and workers' compensation expenses are included in "Accrued employee benefits and compensation expenses" while accrued automobile and general liability expenses are included in "Other accrued expenses."

Environmental Liabilities

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

Temporary Equity

The Company records shares of convertible preferred stock at their respective fair values on the date of issuance, net of issuance costs. The convertible preferred stock is recorded outside of stockholders' equity on the consolidated balance sheet because the shares contain liquidation features that are not solely within the Company's control. The Company has elected not to adjust the carrying values of the convertible preferred stock to the liquidation preferences of such shares because of the uncertainty of whether or when such an event would occur. Subsequent adjustments to increase the carrying value to the liquidation preferences will be made only when it becomes probable that such a liquidation event will occur. See Note 14 for a discussion of the convertible preferred stock.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded the revenue recognition requirements in ASC 605, *Revenue Recognition*. The new guidance provides clarification on the recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires additional disclosures to help financial statement users better understand the nature, amount, timing and uncertainty of revenue that is recognized. In preparation for the adoption of Topic 606, we assessed our contracts with customers, evaluated our revenue streams and compared current accounting practices to those required under the new standard. As a result of these efforts, we identified certain impacts to the presentation and timing of revenue recognition for a contract liability (deferred revenue) related to a material right associated with certain volume-related rebates.

We adopted Topic 606 in the first quarter of 2018 using the modified retrospective transition method and recognized the cumulative effect of initially applying the new standard as a decrease of $3.0 million to the opening balance of retained earnings. Prior periods have not been retrospectively adjusted.

There were no material contract assets, contract liabilities or deferred contract costs recorded on the consolidated balance sheet as of December 31, 2020. For each of our primary revenue streams, cash flows are consistent with the timing of revenue recognition.

For the year ended December 31, 2020, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less and contracts where revenue is recognized as invoiced, is not material, except for warranty contract revenue, which is described under AFC below.

Revenue is recognized when control of the promised goods or services are transferred to customers in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company generates its revenues from contracts with customers. In contracts with multiple performance obligations, the Company identifies each performance obligation and evaluates whether the performance obligations are distinct within the context of the contract at contract inception. Performance obligations that are not distinct at contract inception are combined. The Company allocates the transaction price to each distinct performance obligation proportionately based on the estimated standalone selling price for each performance obligation. The Company then determines how the goods or services are transferred to the customer in order to determine the timing of revenue recognition.

ADESA

The performance obligation contained within the ADESA auction contracts for sellers is facilitating the remarketing of vehicles, including titling, administration and sale at auction. The remarketing performance obligation is satisfied at the point in time the vehicle is sold through the auction process. The ADESA ancillary services contracts include services such as inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification and collateral recovery services. The performance obligations related to these services are subject to separate contracts and are satisfied at the point in time the services are completed.

Contracts with buyers are generally established via purchase at auction, subject to standard terms and conditions. These contracts contain a single performance obligation, which is satisfied at a point in time when the vehicle is purchased 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 records only its auction fees as revenue ("Auction fees" in the consolidated statement of income) because it has no influence on the vehicle auction selling price agreed to by the seller and the buyer at the auction. ADESA does not record the gross selling price of the consigned vehicles sold at auction as revenue. Our buyer fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while seller fees are typically fixed. ADESA generally enforces its rights to payment for seller transactions through net settlement provisions following the sale of a vehicle. ADESA services such as inbound and outbound transportation logistics, reconditioning, vehicle inspection and certification and collateral recovery services are generally recognized at the time of service ("Service revenue" in the consolidated statement of income). ADESA also sells vehicles that have been purchased, which represent approximately 1% of total vehicles sold. For these types of sales, ADESA does record the gross selling price of purchased vehicles sold at auction as revenue ("Purchased vehicle sales" in the consolidated statement of income) and the gross purchase price of the vehicles as cost of services.

AFC

AFC's revenue ("Finance-related revenue" in the consolidated statement of income) is comprised of interest and fee income, provision for credit losses and other revenues associated with our finance receivables, as well as warranty contract revenue. The following table summarizes the primary components of AFC's finance-related revenue:

	Year Ended December 31,		
AFC Revenue (in millions)	**2020**	**2019**	**2018**
Interest and fee income	**$ 266.1**	$ 342.1	$ 327.3
Other revenue	**8.7**	10.9	13.1
Provision for credit losses	**(38.6)**	(35.3)	(32.9)
Warranty contract revenue	**31.4**	35.2	33.4
	$ 267.6	$ 352.9	$ 340.9

Interest and fee income

Revenues associated with interest and fee income are accounted for in accordance with ASC 310-20, *Nonrefundable Fees and Other Costs,* and therefore are not subject to evaluation under Topic 606. Interest on finance receivables is recognized based on the number of days the vehicle remains financed. AFC ceases recognition of interest on finance receivables when the loans become delinquent, which is generally 31 days past due. Dealers are also charged a fee to floorplan a vehicle ("floorplan fee"), to extend the terms of the receivable ("curtailment fee") and a document processing fee. AFC fee income including floorplan and curtailment fees is recognized over the estimated life of the finance receivable.

Other revenue

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

Warranty contract revenue

Warranty contract revenue represents the revenue generated by Preferred Warranties, Inc. ("PWI"). PWI receives advance payments for vehicle service contracts and unearned revenue is deferred and recognized over the terms of the contracts utilizing a historical earnings curve. PWI was sold on December 1, 2020

Income Taxes

We file federal, state and foreign income tax returns in accordance with the applicable rules of each jurisdiction. We account for income taxes under the asset and liability method in accordance with ASC 740, *Income Taxes*. The provision for income taxes includes federal, foreign, state and local income taxes payable, as well as deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable amounts in periods 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.

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 (Loss) from Continuing Operations per Share

Prior to 2020, basic net income from continuing operations per share was computed by dividing net income from continuing operations by the weighted average common shares outstanding during the year. Diluted net income from continuing operations per share represents net income from continuing operations divided by the sum of the weighted average common shares outstanding plus potential dilutive instruments related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income from continuing operations 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 from continuing operations per diluted share and performance-based restricted stock units ("PRSUs") subject to performance conditions which have not yet been satisfied are excluded from the calculations.

Beginning in 2020, the Company also includes participating securities (Series A Preferred Stock) in the computation of net income (loss) from continuing operations per share pursuant to the two-class method. The two-class method of calculating net income (loss) from continuing operations per share is an allocation method that calculates earnings per share for common stock and participating securities. Under the two-class method, total dividends provided to the holders of the Series A Preferred Stock and undistributed earnings allocated to participating securities are subtracted from net income from continuing operations in determining net income (loss) attributable to common stockholders.

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 over the vesting period and that cost is measured as the fair value of the award at the grant date for equity-classified awards. We also recognize the impact of forfeitures as they occur and excess tax benefits and tax deficiencies related to employee stock-based compensation within income tax expense.

New Accounting Standards

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity,* which simplifies the accounting for convertible debt instruments and convertible preferred stock by reducing the number of accounting models and the number of embedded conversion features that could be recognized separately from the primary contract. The update also requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. The new guidance is effective for annual periods beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. This update can be adopted on either a fully retrospective or a modified retrospective basis. The Company is currently evaluating the impact the adoption of ASU 2020-06 will have on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which simplifies the accounting for income taxes, eliminates certain exceptions within Topic 740 and clarifies certain aspects of the current guidance to promote consistency among reporting entities. The new guidance is effective for annual periods beginning after December 15, 2020, including interim periods within those fiscal years. We do not expect the adoption of ASU 2019-12 will have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new guidance was effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of ASU 2018-15 did not have a material impact on the consolidated financial statements.

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

Note 3—Acquisitions

2020 Acquisition

In November 2020, ADESA completed the acquisition of BacklotCars for approximately $421.0 million, net of cash acquired. BacklotCars is an app and web-based dealer-to-dealer wholesale platform featuring a 24/7 “bid-ask” marketplace offering vehicles with comprehensive inspections performed by automobile mechanics. The acquisition is expected to further diversify the Company's broad portfolio of digital capabilities and accelerate the Company’s strategy to be a leading digital dealer-to-dealer marketplace provider.

The purchased assets included accounts receivable, property and equipment, software, customer relationships and tradenames. Financial results for BacklotCars have been included in our consolidated financial statements from the date of acquisition. In addition, as part of the acquisition of BacklotCars, we assumed line-of-credit debt of approximately $9.5 million which was paid off in the fourth quarter of 2020.

The acquired assets and assumed liabilities of BacklotCars were recorded at fair value, including $78.8 million to intangible assets, representing the fair value of acquired customer relationships of $66.4 million, software of $8.3 million and tradenames of $4.1 million, which are being amortized over their expected useful lives. The multi-period excess earnings method was used to value the customer relationships and the relief from royalty method was used to value the software and tradenames. Both of these methods require forward looking estimates to determine fair value, including among other assumptions, forecasted revenue growth and estimated royalty rates. The purchase accounting associated with this acquisition is preliminary, subject to obtaining information to determine the fair value of certain assets and liabilities. The acquisition resulted in a preliminary estimate of $354.8 million of goodwill. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of this acquisition, including pro forma financial results, was immaterial to the Company's consolidated results for the year ended December 31, 2020.

Deferred and Contingent Payments Related to Prior Year Acquisitions

Some of the purchase agreements related to prior year acquisitions included additional payments over a specified period, including deferred and contingent payments based on certain conditions and performance. At December 31, 2020, we had deferred and estimated contingent consideration with a fair value of approximately $1.8 million and $42.1 million, respectively. At December 31, 2020, the aggregate maximum potential payment remaining for undiscounted deferred payments and undiscounted contingent payments related to these acquisitions could approximate $97.9 million. For the year ended December 31, 2020, we made contingent consideration and deferred acquisition payments related to the CarsOnTheWeb and TradeRev acquisitions of $31.2 million. Adjustments to estimated contingent consideration associated with the CarsOnTheWeb and Dent-ology acquisitions increased, on a net basis, contingent consideration and "Other expense, net" by approximately $4.7 million in the aggregate.

2019 Acquisitions

In January 2019, the Company completed the acquisition of Dent-ology. Dent-ology enhances our mobile reconditioning capabilities and bolsters our offerings to include wheel repair and hail catastrophe response services.

In January 2019, the Company completed the acquisition of CarsOnTheWeb. COTW is an online auction company serving the wholesale vehicle sector in Continental Europe that seamlessly connects OEMs, fleet owners, wholesalers and dealers. The acquisition advances KAR's international strategy and extends its strong North American and U.K.-based portfolio of on-premise, online and digital auction marketplaces.

Certain of the purchase agreements included additional payments over a specified period contingent on certain terms, conditions and performance. The purchased assets included accounts receivable, inventory, property and equipment, customer relationships, tradenames and software. 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 2019, net of cash acquired, was approximately $169.2 million, which included net cash payments of $120.7 million, deferred payments with a fair value of $19.2 million and estimated contingent payments with a fair value of $29.3 million based on an option pricing valuation model. The maximum amount of undiscounted deferred payments and undiscounted contingent payments related to these acquisitions could approximate $77.0 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $32.7 million to intangible assets, representing the fair value of acquired customer relationships of $26.4 million, software of $4.3 million and tradenames of $2.0 million, which are being amortized over their expected useful lives. The acquisitions resulted in aggregate goodwill of $142.6 million. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company's consolidated results for the year ended December 31, 2019.

2018 Acquisitions

In February 2018, the Company completed the acquisition of STRATIM Systems Inc. ("STRATIM"). STRATIM is a mobility and fleet management software company based in San Francisco, California that uses data analytics to help fleet owners manage, maintain and service their fleets. The addition of STRATIM supplements KAR’s broad portfolio of wholesale used vehicle on-premise, online and digital auction marketplaces and ancillary service providers.

In November 2018, the Company completed the acquisition of Clearplan. Clearplan’s digital platform provides recovery agents, drivers, forwarders and automotive lenders a centralized, mobile, cloud-based hub for repossession workflow and logistics management. The acquisition brings innovative new mobile technology and real-time data analytics to KAR’s portfolio of software as a service capabilities including Recovery Database Network (RDN).

The purchased assets included accounts receivable, computer equipment and software. 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 2018, net of cash acquired, was approximately $45.2 million. The purchase price for the acquired businesses was allocated to acquired assets and liabilities based upon fair values, including $10.5 million to intangible assets, representing the fair value of acquired customer relationships of $6.3 million, software of $4.0 million and tradenames of $0.2 million, which are being amortized over their expected useful lives. The acquisitions resulted in goodwill of $32.1 million. The goodwill is recorded in the ADESA Auctions reportable segment. The financial impact of these acquisitions, including pro forma financial results, was immaterial to the Company’s consolidated results for the year ended December 31, 2018.

Note 4—IAA Separation and Discontinued Operations

In February 2018, the Company announced that its board of directors had approved a plan to pursue the separation ("Separation") of its salvage auction business, IAA, through a spin-off. On June 28, 2019, the Company completed the spin-off, creating a new independent publicly traded company, IAA, Inc. ("IAA"). The Separation provided KAR stockholders with equity ownership in both KAR and IAA. On June 28, 2019, the Company's stockholders received one share of IAA common stock for every share of Company common stock they held as of the close of business on June 18, 2019, the record date for the distribution. In addition to the shares of IAA common stock, KAR received a cash distribution of approximately $1,278.0 million from IAA, which was used to prepay a portion of KAR's term loans. In connection with the spin-off, the Company and IAA entered into various agreements to effect the Separation and provide a framework for their relationship after the Separation, including a separation and distribution agreement, a transition services agreement, an employee matters agreement and a tax matters agreement. These agreements provide for the allocation between the Company and IAA of assets, employees, liabilities and obligations (including investments, property, environmental and tax-related assets and liabilities) attributable to periods prior to, at and after IAA's Separation from the Company and will govern certain relationships between IAA and the Company after the Separation.

The financial results of IAA have been accounted for as discontinued operations in the comparable 2019 and 2018 results presented. IAA was formerly presented as one of the Company's reportable segments. Discontinued operations included one-time transaction costs in "Selling, general and administrative" of approximately $31.3 million and $8.1 million for the year ended December 31, 2019 and 2018, respectively, in connection with the Separation of the two companies. These costs consisted of consulting and professional fees associated with preparing for and executing the spin-off.

The following table presents the results of operations for IAA that have been reclassified to discontinued operations for all periods presented:

	Year Ended December 31,		
	2020	2019	2018
Operating revenues	$ —	$ 723.6	$ 1,326.8
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	—	446.1	821.2
Selling, general and administrative	—	94.5	124.0
Depreciation and amortization	—	43.9	97.4
Total operating expenses	—	584.5	1,042.6
Operating profit	—	139.1	284.2
Interest expense	—	2.7	0.8
Other income, net	—	—	(0.5)
Income from discontinued operations before income taxes	—	136.4	283.9
Income taxes	—	40.3	73.5
Income from discontinued operations	$ —	$ 96.1	$ 210.4

The following table summarizes the major classes of assets and liabilities immediately preceding the spin-off on June 28, 2019:

	June 28, 2019
Assets	
Cash and cash equivalents	$ 50.9
Trade receivables, net	284.7
Other current assets	83.6
Goodwill	536.8
Customer relationships, net	62.2
Other intangible assets, net	87.5
Operating lease right-of-use assets	655.2
Other assets	13.3
Property and equipment, net	241.4
Total assets, discontinued operations	$ 2,015.6
Liabilities	
Accounts payable	$ 115.8
Accrued employee benefits and compensation expenses	19.0
Other accrued expenses	120.9
Income taxes payable	—
Long-term debt	1,274.8
Deferred income tax liabilities	63.7
Operating lease liabilities	633.0
Other liabilities	12.0
Total liabilities, discontinued operations	$ 2,239.2

Note 5—Stock and Stock-Based Compensation Plans

Our stock-based compensation expense has included expense associated with KAR Auction Services, Inc. PRSUs, service-based restricted stock units ("RSUs"), service options and exit options. We have determined that the KAR Auction Services, Inc. PRSUs, RSUs, service options and exit options should be classified as equity awards. In addition, as further discussed below, holders of these awards received an equivalent number of PRSUs, RSUs and options in IAA as they had in KAR at June 28, 2019. These awards are scheduled to vest over the period from February 2020 to February/March 2022.

In connection with the spin-off of IAA, the Company modified its stock-based compensation awards under the "equitable adjustments" clause in the Omnibus Plan, which provides anti-dilution protection. Generally, the award adjustments were intended to maintain the economic value of the awards before and after the Separation date. The post-spin KAR awards and post-spin IAA awards are generally subject to the same terms and conditions, and will continue to vest on the same schedule as the pre-spin KAR awards, except as noted in the equity-conversion related provisions of the employee matters agreement. There was no incremental compensation expense recorded as a result of these modifications. The post-spin expense is comprised of the combined KAR and IAA awards held by KAR employees and did not change as a result of the spin-off.

The compensation cost that was charged against income for all stock-based compensation plans was $14.0 million, $19.6 million and $19.6 million for the years ended December 31, 2020, 2019 and 2018, respectively, and the total income tax benefit recognized in the consolidated statement of income for options, PRSUs and RSUs was approximately $2.0 million, $2.9 million and $3.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. We did not capitalize any stock-based compensation cost in the years ended December 31, 2020, 2019 or 2018. As of December 31, 2020, an estimated $1.9 million of unrecognized compensation expense related to non-vested PRSUs is expected to be recognized over a weighted average term of approximately 1.0 year. As of December 31, 2020, there was approximately $7.3 million of unrecognized compensation expense related to non-vested RSUs which is expected to be recognized over a weighted average term of 1.7 years.

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

	Year Ended December 31,		
	2020	2019	2018
PRSUs	**$ 4.8**	$ 10.0	$ 10.8
RSUs	**9.2**	9.6	8.7
Service options	**—**	—	0.1
Total stock-based compensation expense	**$ 14.0**	$ 19.6	$ 19.6

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

We adopted the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan ("Omnibus Plan") in December 2009. The Omnibus Plan, which was approved by shareholders and amended and restated in June 2014, is intended to provide equity and/or cash-based awards to our executive officers and key employees. The maximum number of shares that may be issued pursuant to awards under the Omnibus Plan is 12.5 million, of which approximately 4.1 million shares remained available for future grants as of December 31, 2020. The Omnibus Plan provides for the grant of stock options, restricted stock, stock appreciation rights, other stock-based awards and cash-based awards. The PRSU and RSU grants described below were made pursuant to the Company's Policy on Granting Equity Awards.

PRSUs

In the years ended December 31, 2020, 2019 and 2018 we granted a target amount of approximately 0.4 million, 0.3 million and 0.2 million, respectively, PRSUs to certain executive officers and management of the Company. The PRSUs granted in 2020 vest if and to the extent that the Company's three-year cumulative operating adjusted net income per share attains certain specified goals. The weighted average grant date fair value of the PRSUs was $22.24 per share, $47.09 per share and $54.32 per share in 2020, 2019 and 2018, respectively, which was determined using the closing price of the Company's common stock on the dates of grant. Dividend equivalents accrue on the PRSUs, as applicable, and are subject to the same vesting and forfeiture terms as the PRSUs.

The following table summarizes PRSU activity (held by KAR and IAA employees), including dividend equivalents, under the Omnibus Plan for the year ended December 31, 2020:

Performance Restricted Stock Units	Number	Weighted Average Grant Date Fair Value
PRSUs at January 1, 2020	697,918	$ 18.52
Granted	383,974	22.24
Vested	(255,658)	17.59
Forfeited	(35,076)	19.68
PRSUs at December 31, 2020	791,158	$ 20.97

KAR employees hold 750,014 of the non-vested PRSUs at December 31, 2020 and IAA employees hold 41,144 of the non-vested PRSUs at December 31, 2020. KAR employees also hold 385,615 of non-vested PRSUs in IAA at December 31, 2020. The fair value of shares that vested during the years ended December 31, 2020 and 2019 was $5.1 million and $17.4 million, respectively.

RSUs

In the years ended December 31, 2020, 2019 and 2018, approximately 0.4 million, 0.3 million and 0.3 million RSUs were granted to certain executive officers and management of the Company. The RSUs are contingent upon continued employment and generally vest in three equal annual installments. The fair value of RSUs is the value of the Company's common stock at the date of grant and the weighted average grant date fair value of the RSUs was $22.24 per share, $46.95 per share and $54.28 per share in 2020, 2019 and 2018, respectively. Dividend equivalents accrue on the RSUs, as applicable, and are subject to the same vesting and forfeiture terms as the RSUs.

The following table summarizes RSU activity (held by KAR and IAA employees), including dividend equivalents, under the Omnibus Plan for the year ended December 31, 2020:

Restricted Stock Units	Number	Weighted Average Grant Date Fair Value
RSUs at January 1, 2020	550,767	$ 22.71
Granted	402,445	22.24
Vested	(306,950)	18.58
Forfeited	(67,920)	20.41
RSUs at December 31, 2020	578,342	$ 21.73

KAR employees hold 514,552 of the non-vested RSUs at December 31, 2020 and IAA employees hold 63,790 of the non-vested RSUs at December 31, 2020. KAR employees also hold 147,696 of non-vested RSUs in IAA at December 31, 2020. The fair value of shares that vested during the years ended December 31, 2020, 2019 and 2018 was $6.0 million, $11.8 million and $29.7 million, respectively.

Service Options

The outstanding service options granted under the Omnibus Plan have a ten year life and are fully vested and exercisable. The following table summarizes service option activity under the Omnibus Plan for the year ended December 31, 2020:

Service Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2020	707,847	$ 9.08		
Granted	—	N/A		
Exercised	(218,441)	5.50		
Forfeited	—	N/A		
Canceled	(2,250)	11.57		
Outstanding at December 31, 2020	487,156	$ 10.66	2.8 years	$ 3.9
Exercisable at December 31, 2020	487,156	$ 10.66	2.8 years	$ 3.9

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, 2020. 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 $18.61 on December 31, 2020. The total intrinsic value of service options exercised during the years ended December 31, 2020, 2019 and 2018 was $2.8 million, $7.1 million and $13.1 million, respectively. The fair market value of all vested and exercisable service options at December 31, 2020 and 2019 was $9.1 million and $15.4 million, respectively. All compensation expense related to the service options has been recognized.

Exit Options

The exit options granted in 2010 under the Omnibus Plan had a ten year life. The following table summarizes exit option activity under the Omnibus Plan for the year ended December 31, 2020:

Exit Options	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2020	3,553	$ 5.12		
Granted	—	N/A		
Exercised	(3,553)	5.12		
Forfeited	—	N/A		
Canceled	—	N/A		
Outstanding at December 31, 2020	—	N/A	N/A	N/A
Exercisable at December 31, 2020	—	N/A	N/A	N/A

The total intrinsic value of exit options exercised during the years ended December 31, 2020, 2019 and 2018 was $0.1 million, $0.4 million and $23.9 million, respectively. The fair market value of all vested and exercisable exit options at December 31, 2019 was $0.1 million. All compensation expense related to the exit options has been recognized.

KAR Auction Services, Inc. Employee Stock Purchase Plan

We adopted the KAR Auction Services, Inc. Employee Stock Purchase Plan ("ESPP") in December 2009. The ESPP, which was approved by shareholders, is designed to provide an incentive to attract, retain and reward eligible employees and is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended. At the Company's annual meeting of stockholders in June 2020, the stockholders approved an amendment to the ESPP. As a result, the maximum number of shares reserved for issuance under the ESPP was increased from 1,000,000 shares to 2,500,000 shares, of which 1,473,527 shares remained available for future ESPP purchases as of December 31, 2020. 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. A participant's annual contribution to the ESPP may not exceed $25,000 per year. Unless terminated earlier, the ESPP will terminate on December 31, 2028. In accordance with ASC 718, *Compensation—Stock Compensation*, the entire 15% purchase discount is recorded as compensation expense.

Share Repurchase Programs

In October 2019, the board of directors authorized a repurchase of up to $300 million of the Company's outstanding common stock, par value $0.01 per share, through October 30, 2021. Repurchases may be made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions. This program does not oblige the Company to repurchase any dollar amount or any number of shares under the authorization, and the program may be suspended, discontinued or modified at any time, for any reason and without notice. In 2020, we repurchased and retired 585,086 shares of common stock in the open market at a weighted average price of $17.50 per share, under the October 2019 authorization. No shares of common stock were repurchased in 2019 under the October 2019 authorization.

In October 2016, the board of directors authorized a repurchase of up to $500 million of the Company’s outstanding common stock, par value $0.01 per share, through October 26, 2019. Repurchases were made in the open market or through privately negotiated transactions, in accordance with applicable securities laws and regulations, including pursuant to repurchase plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The timing and amount of any repurchases is subject to market and other conditions. In 2019 and 2018, we repurchased and retired 4,753,300 and 2,695,978 shares of common stock, respectively, in the open market at a weighted average price of $25.18 and $55.64 per share, respectively, under the October 2016 authorization.

Note 6—Net Income (Loss) from Continuing Operations Per Share

The following table sets forth the computation of net income (loss) from continuing operations per share *(in millions except per share amounts)*:

	Year Ended December 31,		
	2020	**2019**	**2018**
Net income from continuing operations	**$ 0.5**	$ 92.4	$ 117.6
Series A Preferred Stock dividends	**(21.6)**	—	—
Net income attributable to participating securities	**—**	—	—
Net income (loss) attributable to common stockholders	**$ (21.1)**	$ 92.4	$ 117.6
Weighted average common shares outstanding	**129.3**	131.6	134.3
Effect of dilutive stock options and restricted stock awards	**—**	1.3	1.4
Weighted average common shares outstanding and potential common shares	**129.3**	132.9	135.7
Net income (loss) from continuing operations per share			
Basic	**$ (0.16)**	$ 0.70	$ 0.88
Diluted	**$ (0.16)**	$ 0.70	$ 0.87

Prior to 2020, basic net income from continuing operations per share was calculated by dividing net income from continuing operations by the weighted average number of outstanding common shares for the period. Diluted net income from continuing operations per share was calculated consistent with basic net income from continuing operations per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options and restricted stock on net income from continuing operations 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. As a result of the spin-off, there are IAA employees who hold KAR equity awards included in the calculation. Stock options that would have an anti-dilutive effect on net income from continuing operations per diluted share and PRSUs subject to performance conditions which have not yet been satisfied are excluded from the calculations. No options were excluded from the calculation of diluted net income from continuing operations per share for the years ended December 31, 2020, 2019 and 2018. In addition, approximately 0.4 million PRSUs, no PRSUs and approximately 0.5 million PRSUs were excluded from the calculation of diluted net income per share for the years ended December 31, 2020, 2019 and 2018, respectively. Total options outstanding at December 31, 2020, 2019 and 2018 were 0.5 million, 0.7 million and 1.0 million, respectively.

Beginning in 2020, the Company also includes participating securities (Series A Preferred Stock) in the computation of net income (loss) from continuing operations per share pursuant to the two-class method. The two-class method of calculating net income (loss) from continuing operations per share is an allocation method that calculates earnings per share for common stock and participating securities. Under the two-class method, total dividends provided to the holders of the Series A Preferred Stock and undistributed earnings allocated to participating securities are subtracted from net income from continuing operations in determining net income (loss) attributable to common stockholders. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

Note 7—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,		
	2020	**2019**	**2018**
Allowance for Credit Losses			
Balance at beginning of period	**$ 15.0**	$ 14.0	$ 13.0
Opening balance adjustment for adoption of ASC Topic 326	**5.0**	—	—
Provision for credit losses	**38.6**	35.3	32.9
Recoveries	**10.0**	7.7	6.9
Less charge-offs	**(46.6)**	(42.0)	(38.8)
Balance at end of period	**$ 22.0**	$ 15.0	$ 14.0

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

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Allowance for Doubtful Accounts			
Balance at beginning of period	**$ 9.5**	$ 8.7	$ 9.1
Provision for credit losses	**5.2**	4.8	4.0
Less net charge-offs	**(2.6)**	(4.0)	(4.4)
Balance at end of period	**$ 12.1**	$ 9.5	$ 8.7

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 8—Finance Receivables and Obligations Collateralized by Finance Receivables

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly-owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a group of bank purchasers of undivided interests in certain finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of $1.60 billion for U.S. finance receivables at December 31, 2020.

In September 2020, AFC and AFC Funding Corporation entered into the Ninth Amended and Restated Receivables Purchase Agreement (the "Receivables Purchase Agreement"). The Receivables Purchase Agreement decreased AFC Funding's U.S. committed liquidity from $1.70 billion to $1.60 billion and extended the facility's maturity date from January 28, 2022 to January 31, 2024. In addition, provisions designed to provide additional credit enhancement to the purchasers upon the occurrence of the certain events related to the payment rate and net spread on the receivables portfolio were added, certain portfolio performance metrics that could result in a requirement to increase the cash reserve or constitute a termination event were amended to the benefit of AFC Funding and provisions providing for a mechanism for determining an alternative rate of interest were added. We capitalized approximately $12.3 million of costs in connection with the Receivables Purchase Agreement.

In December 2018, AFC and AFC Funding Corporation entered into the Eighth Amended and Restated Receivables Purchase Agreement (the "Eighth Receivables Purchase Agreement"). The Eighth Receivables Purchase Agreement increased AFC Funding's U.S. committed liquidity from $1.50 billion to $1.70 billion and extended the facility's maturity date. In addition, the definition of eligible receivables was expanded. We capitalized approximately $11.6 million of costs in connection with the Eighth Receivables Purchase Agreement.

We also have an agreement for the securitization of AFCI's receivables. AFCI's committed facility is provided through a third-party conduit (separate from the U.S. facility) and was C$175 million at December 31, 2020. In September 2020, AFCI entered into the Fifth Amended and Restated Receivables Purchase Agreement (the "Canadian Receivable Purchase Agreement"). The Canadian Receivables Purchase Agreement extended the facility's maturity date from January 28, 2022 to January 31, 2024. In addition, provisions designed to provide additional credit enhancement to the purchasers upon the occurrence of the certain events related to the payment rate and net spread on the receivables portfolio were added, certain portfolio performance metrics that could result in a requirement to increase the cash reserve or constitute a termination event were amended to the benefit of AFC Funding and provisions providing for a mechanism for determining an alternative rate of interest were added. We capitalized approximately $1.0 million of costs in connection with the Canadian Receivables Purchase Agreement. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

In December 2018, AFCI entered into Amending Agreement No. 2 to the Fourth Amended and Restated Receivables Purchase Agreement (the "Canadian Fourth Receivables Purchase Agreement"). The Canadian Fourth Receivables Purchase Agreement increased AFCI's committed liquidity from C$125 million to C$175 million and extended the facility's maturity date. In addition, the definition of eligible receivables was expanded. We capitalized approximately $0.9 million of costs in connection with the Canadian Fourth Receivables Purchase Agreement.

The following tables present quantitative information about delinquencies, credit loss charge-offs 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, 2020		
	Total Amount of:		
(in millions)	**Receivables**	**Receivables Delinquent**	**Net Credit Losses During 2020**
Floorplan receivables	**$ 1,892.1**	**$ 22.9**	**$ 36.6**
Other loans	**18.9**	**—**	**—**
Total receivables managed	**$ 1,911.0**	**$ 22.9**	**$ 36.6**

	December 31, 2019		
	Total Amount of:		
(in millions)	**Receivables**	**Receivables Delinquent**	**Net Credit Losses During 2019**
Floorplan receivables	$ 2,099.4	$ 28.8	$ 34.3
Other loans	15.8	—	—
Total receivables managed	$ 2,115.2	$ 28.8	$ 34.3

AFC's allowance for losses was $22.0 million and $15.0 million at December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, $1,865.3 million and $2,061.6 million, respectively, of finance receivables and a cash reserve of 1 or 3 percent of the obligations collateralized by finance receivables served as security for the obligations collateralized by finance receivables. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreements. Obligations collateralized by finance receivables consisted of the following:

	December 31, 2020	**December 31, 2019**
Obligations collateralized by finance receivables, gross	**$ 1,282.8**	$ 1,474.4
Unamortized securitization issuance costs	**(21.6)**	(13.2)
Obligations collateralized by finance receivables	**$ 1,261.2**	$ 1,461.2

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, 2020, we were in compliance with the covenants in the securitization agreements.

Note 9—Goodwill and Other Intangible Assets

Goodwill consisted of the following (*in millions*):

	ADESA Auctions	AFC	Total
Balance at December 31, 2018	$ 1,413.2	$ 263.7	$ 1,676.9
Increase for acquisition activity	142.6	—	142.6
Foreign currency	2.2	—	2.2
Balance at December 31, 2019	$ 1,558.0	$ 263.7	$ 1,821.7
Increase for acquisition activity	354.8	—	354.8
Decrease for disposition activity	—	(22.8)	(22.8)
Impairment	(25.5)	—	(25.5)
Foreign currency	12.0	—	12.0
Balance at December 31, 2020	**$ 1,899.3**	**$ 240.9**	**$ 2,140.2**

Goodwill represents the excess cost over fair value of identifiable net assets of businesses acquired. Goodwill increased in 2020 and 2019 primarily as a result of acquisitions. Goodwill decreased in the AFC segment in 2020 as a result of the sale of PWI. A portion of the goodwill resulting from the businesses acquired in 2019 is expected to be deductible for tax purposes and none of the goodwill resulting from the business acquired in 2020 is expected to be deductible for tax purposes.

The Company tests goodwill for impairment at the reporting unit level annually in the second quarter, or more frequently as impairment indicators arise. In light of the impact that the COVID-19 pandemic has had on the economy, forecasts for all reporting units were revised. These economic circumstances contributed to lower sales, operating profits and cash flows at ADESA Remarketing Limited (doing business as ADESA U.K.) through the first part of 2020 as compared to 2019, and the outlook for the business was significantly reduced. As a result of the updated forecasts, an impairment analysis of goodwill and intangibles was conducted. The change in circumstances resulted in the impairment of the goodwill balance totaling $25.5 million in our ADESA Remarketing Limited reporting unit and a non-cash goodwill impairment charge was recorded for this amount in the second quarter of 2020. The fair value of that reporting unit was estimated using the expected present value of future cash flows.

Goodwill was tested for impairment in all of the Company's reporting units in the second quarter of 2020 and no impairment was identified, other than the impairment previously discussed in the ADESA Remarketing Limited reporting unit. Future events and changing market conditions, including the impact of COVID-19, may require us to re-evaluate the estimates used in our fair value measurements, which could result in additional impairment of goodwill and other intangible assets in future periods and could have a material effect on our operating results.

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

		December 31, 2020			December 31, 2019		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Customer relationships	5 - 19	**$ 879.9**	**$ (668.6)**	**$ 211.3**	$ 845.3	$ (637.4)	$ 207.9

The increase in customer relationships in 2020 and 2019 was primarily related to customer relationships acquired, partially offset by the amortization of existing customer relationships and impairment charges recognized.

As discussed above, ADESA Remarketing Limited has been negatively impacted in light of the COVID-19 pandemic and the economy. As a result, in the second quarter of 2020, a non-cash customer relationship impairment charge of approximately $4.3 million was also recorded in the ADESA Remarketing Limited reporting unit, representing the impairment in the value of this reporting unit's customer relationships. The fair value of the customer relationships was estimated using the expected present value of future cash flows.

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

		December 31, 2020			December 31, 2019		
	Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Carrying Value	Gross Carrying Amount	Accumulated Amortization	Carrying Value
Tradenames	2 - Indefinite	**$ 150.8**	**$ (12.2)**	**$ 138.6**	$ 147.6	$ (10.7)	$ 136.9
Computer software & technology	3 - 13	**501.1**	**(349.5)**	**151.6**	443.0	(281.5)	161.5
Covenants not to compete	5	**0.3**	**(0.3)**	**—**	0.3	(0.2)	0.1
Total		**$ 652.2**	**$ (362.0)**	**$ 290.2**	$ 590.9	$ (292.4)	$ 298.5

Other intangibles increased in 2020 and 2019 primarily as a result of computer software additions and acquisitions, partially offset by the amortization of existing intangibles. The carrying amount of tradenames with an indefinite life was approximately $131.5 million at December 31, 2020 and 2019.

Amortization expense for customer relationships and other intangibles was $128.2 million, $122.9 million and $111.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. Estimated amortization expense on existing intangible assets for the next five years is $108.2 million for 2021, $73.1 million for 2022, $44.5 million for 2023, $23.6 million for 2024 and $18.3 million for 2025.

Note 10—Property and Equipment

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

	Useful Lives (in years)	December 31, 2020	December 31, 2019
Land		**$ 205.6**	$ 205.5
Buildings	5 - 40	**248.3**	247.3
Land improvements	5 - 20	**191.3**	183.7
Building and leasehold improvements	3 - 33	**146.4**	133.6
Furniture, fixtures and equipment	1 - 15	**358.9**	344.0
Vehicles	3 - 10	**16.8**	16.5
Construction in progress		**19.0**	12.7
		1,186.3	1,143.3
Accumulated depreciation		**(596.4)**	(534.3)
Property and equipment, net		**$ 589.9**	$ 609.0

Depreciation expense for the years ended December 31, 2020, 2019 and 2018 was $63.1 million, $65.8 million and $60.7 million, respectively.

Note 11—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. The cost of the insurance is expensed over the contract periods. Utilizing historical claims experience, we record an accrual for the claims based upon the expected amount of all such claims, which includes the cost of claims that have been incurred but not reported. Accrued medical benefits and workers' compensation expenses are included in "Accrued employee benefits and compensation expenses" while accrued automobile and general liability expenses are included in "Other accrued expenses."

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

	Year Ended December 31,		
	2020	**2019**	**2018**
Balance at beginning of period	**$ 36.7**	$ 35.8	$ 37.7
Net payments	**(79.4)**	(66.2)	(57.8)
Expense	**77.7**	67.1	55.9
Balance at end of period	**$ 35.0**	$ 36.7	$ 35.8

Individual stop-loss coverage for medical benefits was $0.5 million in 2020, 2019 and 2018. There was no aggregate policy limit for medical benefits for the Company in the last three years. The retention for automobile and general liability claims was $1.0 million per occurrence and the retention for workers' compensation claims was $0.5 million per occurrence with a $1.0 million corridor deductible in the 2020, 2019 and 2018 policy years. Once the $1.0 million corridor deductible is met for workers' compensation claims, the deductible reverts back to $0.5 million per occurrence. These retentions are aggregated for workers' compensation, automobile and general liability claims at approximately $35.9 million in 2020, $35.9 million in 2019 and $31.5 million in 2018. If these aggregates are met, the insurance company would pay the next $7.5 million.

Note 12—Long-Term Debt

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

	Interest Rate*		Maturity	December 31, 2020	December 31, 2019
Term Loan B-6	Adjusted LIBOR	+ 2.25%	September 19, 2026	**$ 938.1**	$ 947.6
Revolving Credit Facility	Adjusted LIBOR	+ 1.75%	September 19, 2024	**—**	—
Senior notes		5.125%	June 1, 2025	**950.0**	950.0
European lines of credit	Euribor	+ 1.25%	Repayable upon demand	**14.8**	19.3
Total debt				**1,902.9**	1,916.9
Unamortized debt issuance costs/discounts				**(24.8)**	(26.8)
Current portion of long-term debt				**(24.3)**	(28.8)
Long-term debt				**$ 1,853.8**	$ 1,861.3

*The interest rates presented in the table above represent the rates in place at December 31, 2020. The weighted average interest rate on our variable rate debt was 2.42% and 4.01% at December 31, 2020 and 2019, respectively.

Credit Facilities

On September 2, 2020, we entered into the Fifth Amendment Agreement (the "Fifth Amendment") to the Credit Agreement. The Fifth Amendment (1) eliminated the financial covenant “holiday” provided by the Fourth Amendment Agreement, dated as of May 29, 2020 (the “Fourth Amendment”); (2) eliminated the changes to the calculation of Consolidated EBITDA for the purposes of the financial covenant compliance for the fiscal quarters ending September 30, 2021 and December 31, 2021, as provided by the Fourth Amendment; (3) removed the monthly minimum liquidity covenant provided by the Fourth Amendment; and (4) eliminated the limitations imposed by the Fourth Amendment on the Company’s ability to make certain investments, junior debt repayments, acquisitions and restricted payments and to incur additional secured indebtedness.

On May 29, 2020, we entered into the Fourth Amendment to the Credit Agreement (the "Fourth Amendment"). The Fourth Amendment (1) provided a financial covenant “holiday” through and including June 30, 2021; (2) for purposes of determining compliance with the financial covenant for the fiscal quarters ending September 30, 2021 and December 31, 2021, permitted the Consolidated EBITDA for the applicable test period to be calculated on an annualized basis, excluding results prior to April 1, 2021; (3) established a monthly minimum liquidity covenant of $225.0 million through and including September 30, 2021; and (4) effectively placed certain limitations on the ability to make certain investments, junior debt repayments, acquisitions and restricted payments and to incur additional secured indebtedness until October 1, 2021.

On September 19, 2019, we entered into the Third Amendment Agreement (the "Third Amendment") to the Credit Agreement. The Third Amendment provided for, among other things, (1) the refinancing of the existing Term Loan B-4 and Term Loan B-5 with the new seven-year, $950 million Term Loan B-6, (2) repayment of the 2017 Revolving Credit Facility and (3) the $325 million, five-year Revolving Credit Facility. No early termination penalties were incurred by the Company; however, we incurred a non-cash loss on the extinguishment of debt of $2.2 million in the third quarter of 2019. The loss was primarily a result of the write-off of unamortized debt issue costs associated with Term Loan B-4 and Term Loan B-5. We capitalized approximately $14.1 million of debt issuance costs in connection with the Third Amendment.

In June 2019, the Company prepaid approximately $518.6 million and $759.4 million of Term Loan B-4 and Term Loan B-5, respectively, with cash received from IAA in connection with the Separation. As a result of the term loan prepayments in the second quarter of 2019, the Company recorded additional interest expense of approximately $1.8 million related to the acceleration of amortization on debt issuance costs.

The Credit Facility is available for letters of credit, working capital, permitted acquisitions and general corporate purposes. The Revolving Credit Facility also includes a $50 million sub-limit for issuance of letters of credit and a $60 million sub-limit for swingline loans.

Term Loan B-6 was issued at a discount of $2.4 million and the discount is being amortized using the effective interest method to interest expense over the term of the loan. Term Loan B-6 is payable in quarterly installments equal to 0.25% of the original aggregate principal amount. Such payments commenced on December 31, 2019, with the balance payable at the maturity date.

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and first priority perfected security interests in 100% of the equity interests of certain of the Company's and the Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the Company's and the Subsidiary Guarantors' first tier foreign subsidiaries and (b) perfected first priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions. The Credit Agreement contains affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with our affiliates. The Credit Agreement also requires us to maintain a Consolidated Senior Secured Net Leverage Ratio (as defined in the Credit Agreement), not to exceed 3.5 as of the last day of each fiscal quarter, if there are revolving loans outstanding. We were in compliance with the applicable covenants in the Credit Agreement at December 31, 2020.

As set forth in the Credit Agreement, Term Loan B-6 bears interest at an adjusted LIBOR rate plus 2.25% or at the Company’s election, Base Rate (as defined in the Credit Agreement) plus 1.25%. Loans under the Revolving Credit Facility will bear interest at a rate calculated based on the type of borrowing (either adjusted LIBOR or Base Rate) and the Company’s Consolidated Senior Secured Net Leverage Ratio, with such rate ranging from 2.25% to 1.75% for adjusted LIBOR loans and from 1.25% to 0.75% for Base Rate loans. The Company also pays a commitment fee between 25 to 35 basis points, payable quarterly, on the average daily unused amount of the Revolving Facility based on the Company’s Consolidated Senior Secured Net Leverage Ratio, from time to time. The interest rate applicable to Term Loan B-6 was 2.44% at December 31, 2020.

There were no borrowings on the Revolving Credit Facility at December 31, 2020 or 2019. In addition, we had related outstanding letters of credit in the aggregate amount of $28.5 million and $27.4 million at December 31, 2020 and 2019, respectively, which reduce the amount available for borrowings under the Revolving Credit Facility.

Senior Notes

On May 31, 2017, we issued $950 million of 5.125% senior notes due June 1, 2025. The Company pays interest on the senior notes semi-annually in arrears on June 1 and December 1 of each year, which commenced on December 1, 2017. We may redeem the senior notes, in whole or in part, at a premium that declines ratably to par in 2023. The senior notes are guaranteed by the Subsidiary Guarantors.

European Lines of Credit

COTW has lines of credit aggregating $36.6 million (€30 million). The lines of credit have an interest rate of Euribor plus 1.25% and had an aggregate $14.8 million and $19.3 million of borrowings outstanding at December 31, 2020 and 2019, respectively. The lines of credit are secured by certain inventory and receivables at COTW subsidiaries. In addition, as part of the acquisition of COTW, we assumed debt of approximately $10.7 million which was paid off in the first quarter of 2019.

Future Principal Payments

At December 31, 2020, aggregate future principal payments on long-term debt are as follows (*in millions*):

2021	$ 24.3
2022	9.5
2023	9.5
2024	9.5
2025	959.5
Thereafter	890.6
	$ 1,902.9

Note 13—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 have used 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 swap agreements are used to accomplish this objective, and we have used interest rate cap agreements to accomplish this objective in prior years.

- In January 2020, we entered into three pay-fixed interest rate swaps with an aggregate notional amount of $500 million to swap variable rate interest payments under our term loan for fixed interest payments bearing a weighted average interest rate of 1.44%, for a total interest rate of 3.69%. The interest rate swaps have a five-year term, each maturing on January 23, 2025.
- In August 2017, we entered into two interest rate caps with an aggregate notional amount of $800 million to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR exceeded 2.0%. The interest rate cap agreements each had an effective date of September 30, 2017 and each matured on September 30, 2019.
- In March 2017, we entered into two interest rate caps with an aggregate notional amount of $400 million to manage our exposure to interest rate movements on our variable rate Credit Facility when three-month LIBOR exceeded 2.0%. The interest rate cap agreements each had an effective date of March 31, 2017 and each matured on March 31, 2019.

We have designated the interest rate swaps as cash flow hedges. The effective portion of changes in the fair value of the interest rate swaps (unrealized gains/losses) are recorded as a component of "Accumulated other comprehensive income." For the year ended December 31, 2020, the Company recorded an unrealized loss on the interest rate swaps of $19.5 million, net of tax of $6.4 million. The Company does not expect any gains/losses currently recorded in accumulated other comprehensive income to be recognized in earnings over the next 12 months. The earnings impact of the interest rate derivatives designated as cash flow hedges is recorded upon the recognition of the interest related to the hedged debt. No amount of ineffectiveness was included in net income (loss) for the year ended December 31, 2020.

When derivatives are used, we are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. ASC 815, *Derivatives and Hedging*, requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks (based on significant observable inputs - Level 2 inputs). The following table presents the fair value of our interest rate derivatives included in the consolidated balance sheets for the periods presented (*in millions*):

	Liability Derivatives			
	December 31, 2020		December 31, 2019	
Derivatives Designated as Hedging Instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
2020 Interest rate swaps	Other liabilities	**$ 25.9**	N/A	N/A

We did not designate any of the 2017 interest rate caps as hedges for accounting purposes. Accordingly, changes in the fair value of the interest rate caps were 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):

		Amount of Gain / (Loss) Recognized in Income on Derivatives		
		Year Ended December 31,		
	Location of Gain / (Loss) Recognized in Income on Derivatives	**2020**	**2019**	**2018**
Derivatives Designated as Hedging Instruments				
2020 Interest rate swaps	Interest expense	**$ —**	N/A	N/A
Derivatives Not Designated as Hedging Instruments				
2017 Interest rate caps	Interest expense	N/A	$ (0.9)	$ 5.8

Concentrations of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of interest-bearing investments, finance receivables, trade receivables and interest rate derivatives. We maintain cash and cash equivalents, short-term investments, and certain other financial instruments with various major financial institutions. We perform periodic evaluations of the relative credit standing of these financial institutions and companies and limit the amount of credit exposure with any one institution. Cash and cash equivalents include interest-bearing investments with maturities of three months or less. Due to the nature of our business, substantially all trade and finance receivables are due from vehicle dealers and commercial sellers. 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 non-performance 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, 2020 and 2019, the estimated fair value of our long-term debt amounted to $1,914.1 million and $1,958.5 million, respectively. The estimates of fair value were based on broker-dealer quotes for our debt as of December 31, 2020 and 2019. 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 14—Convertible Preferred Stock

In June 2020, KAR completed the issuance and sale of an aggregate of 550,000 shares of the Company's Series A Convertible Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock"), in two closings at a purchase price of $1,000 per share (for the second closing, plus accumulated dividends from and including the first closing date to but excluding June 29, 2020) for an aggregate purchase price of approximately $550 million to an affiliate of Ignition Parent LP ("Apax") and an affiliate of Periphas Capital GP, LLC ("Periphas").

The Company has authorized 1,500,000 shares of Series A Preferred Stock. The Series A Preferred Stock ranks senior to the shares of the Company's common stock, par value $0.01 per share, with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company. The Series A Preferred Stock has a liquidation preference of $1,000 per share. The holders of the Series A Preferred Stock are entitled to a cumulative dividend at the rate of 7% per annum, payable quarterly in arrears. Dividends are payable in kind through the issuance of additional shares of Series A Preferred Stock for the first eight dividend payments, and thereafter, in cash or in kind, or in any combination of both, at the option of the Company. As of December 31, 2020, the holders of the Series A Preferred Stock had received dividends in kind with a value in the aggregate of approximately $21.6 million. The holders of the Series A Preferred Stock are also entitled to participate in dividends declared or paid on our common stock on an as-converted basis.

The Series A Preferred Stock will be convertible at the option of the holders thereof at any time after one year into shares of common stock at a conversion price of $17.75 per share of Series A Preferred Stock and a conversion rate of 56.3380 shares of common stock per share of Series A Preferred Stock, subject to certain anti-dilution adjustments. At any time after three years, if the closing price of the common stock exceeds $31.0625 per share, as may be adjusted pursuant to the Certificate of Designations, for at least 20 trading days in any period of 30 consecutive trading days, at the election of the Company, all or any portion of the Series A Preferred Stock will be convertible into the relevant number of shares of common stock.

The holders of the Series A Preferred Stock are entitled to vote with the holders of the Company's common stock as a single class on all matters submitted to a vote of the holders of the Company's common stock.

At any time after six years, the Company may redeem some or all of the Series A Preferred Stock for a per share amount in cash equal to: (i) the sum of (x) the liquidation preference thereof, *plus* (y) all accrued and unpaid dividends, *multiplied by* (ii) (A) 105% if the redemption occurs at any time after the six-year anniversary of June 10, 2020 (the "Initial Closing Date") and prior to the seven-year anniversary of the Initial Closing Date or (B) 100% if the redemption occurs after the seven-year anniversary of the Initial Closing Date.

Upon certain change of control events involving the Company, and subject to certain limitations set forth in the Certificate of Designations, each holder of the Series A Preferred Stock will either (i) receive such number of shares of common stock into which such holder is entitled to convert all or a portion of such holder's shares of Series A Preferred Stock at the then current conversion price, (ii) receive, in respect of all or a portion of such holder's shares of Series A Preferred Stock, the greater of (x) the amount per share of Series A Preferred Stock that such holder would have received had such holder, immediately prior to such change of control, converted such share of Series A Preferred Stock into common stock and (y) a purchase price per share of Series A Preferred Stock, payable in cash, equal to the product of (A) 105% *multiplied by* (B) the sum of the liquidation preference and accrued dividends with respect to such share of Series A Preferred Stock, or (iii) unless the consideration in such change of control event is payable entirely in cash, retain all or a portion of such holder's shares of Series A Preferred Stock.

For so long as Apax or its affiliates beneficially own a certain percentage of the shares of Series A Preferred Stock purchased in the Apax issuance on an as-converted basis, Apax will continue to have the right to appoint one individual to the board of directors. Additionally, so long as Apax or its affiliates beneficially own a certain percentage of the shares of Series A Preferred Stock purchased in the Apax issuance on an as-converted basis, Apax will have the right to appoint one non-voting observer to the board of directors. Likewise, so long as Periphas beneficially owns a certain percentage of the shares of Series A Preferred Stock purchased in the Periphas issuance on an as-converted basis, Periphas will have the right to appoint one non-voting observer to the board of directors.

Apax is subject to certain standstill restrictions, until the later of three years and the date on which Apax no longer owns 25% of the shares of Series A Preferred Stock purchased in the Apax issuance on an as-converted basis. Periphas is also subject to certain standstill restrictions, until the later of three years and the date on which Periphas no longer owns 50% of the shares of Series A Preferred Stock purchased in the Periphas issuance on an as-converted basis. Subject to certain customary exceptions, Apax and Periphas are restricted from transferring the Series A Preferred Stock for one year.

Apax, its affiliates and Periphas have certain customary registration rights with respect to shares of the Series A Preferred Stock and the shares of the common stock held by it issued upon any future conversion of the Series A Preferred Stock.

Note 15—Leases

We lease property, software, automobiles, trucks and trailers pursuant to operating lease agreements. We also lease furniture, fixtures and equipment under finance leases. Our leases have varying remaining lease terms with leases expiring through 2038, some of which include options to extend the leases.

The components of lease expense were as follows (*in millions*):

	Year Ended December 31,	
	2020	**2019**
Operating lease cost	**$ 60.5**	$ 60.2
Finance lease cost:		
Amortization of right-of-use assets	**$ 14.3**	$ 14.7
Interest on lease liabilities	**1.4**	1.3
Total finance lease cost	**$ 15.7**	$ 16.0

Supplemental cash flow information related to leases was as follows (*in millions*):

	Year Ended December 31,	
	2020	**2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows related to operating leases	**$ 59.1**	$ 58.8
Operating cash flows related to finance leases	**1.4**	1.3
Financing cash flows related to finance leases	**16.1**	15.9
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**21.7**	85.9
Finance leases	**5.3**	18.1

Supplemental balance sheet information related to leases was as follows (*in millions, except lease term and discount rate*):

	December 31, 2020	December 31, 2019
Operating Leases		
Operating lease right-of-use assets	**$ 350.6**	$ 364.1
Other accrued expenses	**$ 37.1**	$ 34.5
Operating lease liabilities	**344.2**	358.3
Total operating lease liabilities	**$ 381.3**	$ 392.8
Finance Leases		
Property and equipment, gross	**$ 107.0**	$ 102.2
Accumulated depreciation	**(88.6)**	(74.3)
Property and equipment, net	**$ 18.4**	$ 27.9
Other accrued expenses	**$ 9.0**	$ 13.3
Other liabilities	**7.5**	14.0
Total finance lease liabilities	**$ 16.5**	$ 27.3
Weighted Average Remaining Lease Term		
Operating leases	**9.9 years**	10.8 years
Finance leases	**2.1 years**	2.3 years
Weighted Average Discount Rate		
Operating leases	**5.9 %**	6.1 %
Finance leases	**5.1 %**	4.9 %

Maturities of lease liabilities as of December 31, 2020 were as follows (*in millions*):

	Operating Leases	Finance Leases
2021	$ 58.3	$ 9.4
2022	55.6	6.3
2023	53.1	1.4
2024	51.7	0.1
2025	49.4	0.1
Thereafter	244.3	—
Total lease payments	512.4	17.3
Less imputed interest	(131.1)	(0.8)
Total	$ 381.3	$ 16.5

Total lease expense accounted for under ASC 840, *Leases,* was $61.1 million for the year ended December 31, 2018.

Note 16—Income Taxes

The components of our income (loss) from continuing operations before income taxes and the provision for income taxes are as follows (*in millions*):

	Year Ended December 31,		
	2020	**2019**	**2018**
Income (loss) from continuing operations before income taxes:			
Domestic	**$ (9.0)**	$ 100.0	$ 85.6
Foreign	**14.4**	30.1	66.3
Total	**$ 5.4**	$ 130.1	$ 151.9
Income tax expense (benefit):			
Current:			
Federal	**$ (10.6)**	$ 18.4	$ 5.0
Foreign	**20.5**	17.4	23.7
State	**2.2**	5.2	2.6
Total current provision	**12.1**	41.0	31.3
Deferred:			
Federal	**0.8**	3.8	10.4
Foreign	**(4.9)**	(7.4)	(6.2)
State	**(3.1)**	0.3	(1.2)
Total deferred provision	**(7.2)**	(3.3)	3.0
Income tax expense	**$ 4.9**	$ 37.7	$ 34.3

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,		
	2020	**2019**	**2018**
Statutory rate	**21.0 %**	21.0 %	21.0 %
State and local income taxes, net	**(2.3)%**	3.6 %	1.9 %
Reserves for tax exposures	**(4.1)%**	(0.5)%	(0.6)%
Change in valuation allowance	**22.7 %**	0.9 %	0.4 %
International operations	**78.0 %**	3.1 %	4.7 %
Stock-based compensation	**(93.7)%**	(2.5)%	(5.0)%
Impact of law and rate change	**(53.6)%**	(0.2)%	(1.7)%
Excess officer's compensation	**20.2 %**	1.5 %	0.9 %
Transaction costs	**9.7 %**	0.6 %	0.3 %
Goodwill and other intangibles impairment	**116.4 %**	— %	— %
Impact of acquisition and divestiture adjustments	**(27.1)%**	— %	— %
Other, net	**3.5 %**	1.5 %	0.7 %
Effective rate	**90.7 %**	29.0 %	22.6 %

Substantially reduced income from continuing operations before income taxes in 2020 resulted in our effective tax rate being more significantly impacted by both recurring and non-recurring items than in prior years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets. The valuation allowance as of December 31, 2020 primarily relates to net operating losses, tax credits and capital loss carryforwards that are not more likely than not to be utilized prior to their expiration.

We offset all deferred tax assets and liabilities by jurisdiction, as well as any related valuation allowance, and present them as a non-current deferred income tax asset or liability (as applicable). Deferred tax assets (liabilities) are comprised of the following (*in millions*):

	December 31,	
	2020	**2019**
Gross deferred tax assets:		
Allowances for trade and finance receivables	**$ 8.6**	$ 6.0
Accruals and liabilities	**6.9**	6.2
Employee benefits and compensation	**16.4**	14.0
Net operating loss carryforwards	**61.5**	48.8
Right of use lease liability	**94.3**	97.0
Other	**12.2**	4.1
Total deferred tax assets	**199.9**	176.1
Deferred tax asset valuation allowance	**(42.2)**	(31.1)
Total	**157.7**	145.0
Gross deferred tax liabilities:		
Property and equipment	**(79.8)**	(76.4)
Goodwill and intangible assets	**(107.3)**	(100.5)
Right of use lease asset	**(86.7)**	(89.8)
Other	**(2.5)**	(6.9)
Total	**(276.3)**	(273.6)
Net deferred tax liabilities	**$ (118.6)**	$ (128.6)

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

2021	$ 0.6
2022	0.5
2023	0.4
2024	0.3
2025	0.5
2026 to 2040	59.2
	$ 61.5

Permanently reinvested undistributed earnings of our foreign subsidiaries were approximately $408.1 million at December 31, 2020. Because these amounts have been or will be permanently reinvested in properties and working capital, we have not recorded the deferred taxes associated with these earnings. If the undistributed earnings of foreign subsidiaries were to be remitted, state and local income tax expense and withholding tax expense would need to be recognized, net of any applicable foreign tax credits. It is not practical for us to determine the additional tax that would be incurred upon remittance of these earnings.

We made federal income tax payments, net of federal income tax refunds, of $0.0 million, $9.9 million and $20.5 million in 2020, 2019 and 2018, respectively. State and foreign income taxes paid by us, net of refunds, totaled $16.6 million, $27.9 million and $37.4 million in 2020, 2019 and 2018, 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,	
	2020	**2019**
Balance at beginning of period	**$ 6.1**	$ 7.4
Increase in prior year tax positions	**—**	—
Decrease in prior year tax positions	**(0.3)**	(0.2)
Increase in current year tax positions	**0.3**	0.7
Lapse in statute of limitations	**(0.7)**	(1.8)
Balance at end of period	**$ 5.4**	$ 6.1

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $4.2 million and $4.4 million at December 31, 2020 and 2019, 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 $0.5 million at both December 31, 2020 and December 31, 2019 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, Western Europe, United Kingdom and Mexico. In general, the examination of our material tax returns is completed for the years prior to 2017.

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 $0.5 million to $1.0 million decrease.

Note 17—Employee Benefit Plans

401(k) Plan

We maintain a defined contribution 401(k) plan that covers substantially all U.S. employees. Participants are generally allowed to make non-forfeitable contributions up to the annual IRS limits. The Company matches 100 percent of the amounts contributed by each individual participant up to 4 percent of the participant's compensation. Participants are 100 percent vested in the Company's contributions. For the years ended December 31, 2020, 2019 and 2018 we contributed $11.5 million, $16.3 million and $16.9 million, respectively.

Note 18—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. There were no liabilities for environmental matters included in "Other accrued expenses" at December 31, 2020 or 2019.

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

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

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

Note 19—Accumulated Other Comprehensive Loss

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

	December 31,	
	2020	**2019**
Foreign currency translation loss	**$ (13.2)**	$ (31.0)
Unrealized loss on interest rate derivatives, net of tax	**(19.5)**	—
Accumulated other comprehensive loss	**$ (32.7)**	$ (31.0)

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. Prior to the spin-off of IAA, our operations were grouped into three operating segments: ADESA Auctions, IAA and AFC, which also served as our reportable business segments. Beginning in the second quarter of 2019, after the completion of the spin-off, the Company began operating under two reportable business segments: ADESA Auctions and AFC. These reportable business segments offer different services and have fundamental differences in their operations. Results of the former IAA segment and spin-related costs are now reported as discontinued operations (see Note 4).

ADESA Auctions encompasses all on-premise and off-premise wholesale marketplaces throughout North America (U.S., Canada and Mexico) and Europe. Beginning in November 2020, the ADESA Auctions segment includes BacklotCars, an app and web-based dealer-to-dealer wholesale vehicle platform. Beginning in 2019, the ADESA Auctions segment includes COTW, an online auction company serving the wholesale vehicle sector in Continental Europe. 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.

AFC is primarily engaged in the business of providing short-term, inventory-secured financing to independent, used vehicle dealers. Prior to December 2020, AFC also included providing independent used vehicle dealer customers with vehicle service contracts. AFC conducts business primarily at or near wholesale used vehicle auctions in the U.S. and Canada.

Historically, the costs and expenses of the holding company were reported separately from the reportable segments and included expenses associated with the corporate offices, such as salaries, benefits and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and certain insurance, treasury, legal and risk management costs. Holding company interest expense included the interest expense incurred on finance leases and the corporate debt structure. Intercompany charges related primarily to interest on intercompany debt or receivables and certain administrative costs allocated by the holding company. Due to the spin-off of IAA in 2019 and the Company's transition from physical marketplaces to digital marketplaces, the Company has simplified its business and operations. Corporate expenses, previously reported as holding company expenses, are now included in the segments. Certain known expenses (e.g., information technology costs) were recorded directly to the ADESA and AFC segments. Interest expense previously reported by the holding company has been recorded in the ADESA segment. The residual shared services expenses were recorded at ADESA and allocated to AFC based on revenue and employee headcount. Holding company amounts reported in the segment results in the consolidated financial statements prior to December 31, 2020 have been reclassified to conform to the current presentation.

Financial information regarding our reportable segments is set forth below as of and for the year ended December 31, 2020 *(in millions)*:

	ADESA Auctions	AFC	Consolidated
Operating revenues	$ 1,920.1	$ 267.6	$ 2,187.7
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	1,205.7	79.1	1,284.8
Selling, general and administrative	508.8	36.6	545.4
Depreciation and amortization	178.8	12.5	191.3
Goodwill and other intangibles impairment	29.8	—	29.8
Total operating expenses	1,923.1	128.2	2,051.3
Operating profit (loss)	(3.0)	139.4	136.4
Interest expense	89.8	39.1	128.9
Other (income) expense, net	2.2	(0.1)	2.1
Intercompany expense (income)	1.1	(1.1)	—
Income (loss) from continuing operations before income taxes	(96.1)	101.5	5.4
Income taxes	(17.0)	21.9	4.9
Net income (loss) from continuing operations	$ (79.1)	$ 79.6	$ 0.5
Total assets	$ 4,515.3	$ 2,282.9	$ 6,798.2
Capital expenditures	$ 95.5	$ 5.9	$ 101.4

KAR Auction Services, Inc.
Notes to Consolidated Financial Statements (Continued)
December 31, 2020, 2019 and 2018

Financial information regarding our reportable segments is set forth below as of and for the year ended December 31, 2019 *(in millions)*:

	ADESA Auctions	AFC	Consolidated
Operating revenues	$ 2,429.0	$ 352.9	$ 2,781.9
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	1,520.7	96.4	1,617.1
Selling, general and administrative	621.1	40.9	662.0
Depreciation and amortization	175.5	13.2	188.7
Total operating expenses	2,317.3	150.5	2,467.8
Operating profit (loss)	111.7	202.4	314.1
Interest expense	125.5	64.0	189.5
Other (income) expense, net	(7.3)	(0.4)	(7.7)
Loss on extinguishment of debt	2.2	—	2.2
Intercompany expense (income)	5.0	(5.0)	—
Income (loss) from continuing operations before income taxes	(13.7)	143.8	130.1
Income taxes	(0.1)	37.8	37.7
Net income (loss) from continuing operations	$ (13.6)	$ 106.0	$ 92.4
Total assets	$ 4,014.2	$ 2,567.0	$ 6,581.2
Capital expenditures	$ 150.2	$ 11.4	$ 161.6

Financial information regarding our reportable segments is set forth below as of and for the year ended December 31, 2018 *(in millions)*:

	ADESA Auctions	AFC	Consolidated
Operating revenues	$ 2,101.9	$ 340.9	$ 2,442.8
Operating expenses			
Cost of services (exclusive of depreciation and amortization)	1,230.8	90.7	1,321.5
Selling, general and administrative	563.0	45.8	608.8
Depreciation and amortization	153.6	18.8	172.4
Total operating expenses	1,947.4	155.3	2,102.7
Operating profit (loss)	154.5	185.6	340.1
Interest expense	131.7	59.5	191.2
Other (income) expense, net	(2.7)	(0.3)	(3.0)
Intercompany expense (income)	3.1	(3.1)	—
Income (loss) from continuing operations before income taxes	22.4	129.5	151.9
Income taxes	2.9	31.4	34.3
Net income (loss) from continuing operations	$ 19.5	$ 98.1	$ 117.6
Total assets	$ 3,250.9	$ 2,448.5	$ 5,699.4
Capital expenditures	$ 121.9	$ 9.4	$ 131.3

Geographic Information

Our foreign operations include Canada, Mexico, Continental Europe and the U.K. Most of our operations outside the U.S. are in Canada. Approximately 58%, 62% and 96% of our foreign operating revenues were from Canada for the year ended December 31, 2020, 2019 and 2018, respectively. Information regarding the geographic areas of our operations is set forth below *(in millions)*:

	Year Ended December 31,		
	2020	**2019**	**2018**
Operating revenues			
U.S.	**$ 1,719.2**	$ 2,267.5	$ 2,078.2
Foreign	**468.5**	514.4	364.6
	$ 2,187.7	$ 2,781.9	$ 2,442.8

	December 31,	
	2020	**2019**
Long-lived assets		
U.S.	**$ 3,198.6**	$ 2,877.8
Foreign	**424.4**	458.9
	$ 3,623.0	$ 3,336.7

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

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.

2020 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$ 645.5	$ 419.0	$ 593.6	$ 529.6
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	394.6	235.1	329.7	325.4
Selling, general, and administrative	162.4	112.3	131.0	139.7
Depreciation and amortization	47.7	46.5	46.5	50.6
Goodwill and other intangibles impairment	—	29.8	—	—
Total operating expenses	604.7	423.7	507.2	515.7
Operating profit (loss)	40.8	(4.7)	86.4	13.9
Interest expense	38.0	30.9	29.5	30.5
Other (income) expense, net	(2.0)	1.3	(1.1)	3.9
Income (loss) from continuing operations before income taxes	4.8	(36.9)	58.0	(20.5)
Income taxes	2.0	(4.6)	10.9	(3.4)
Net income (loss) from continuing operations	$ 2.8	$ (32.3)	$ 47.1	$ (17.1)
Net income (loss) from continuing operations per share				
Basic	$ 0.02	$ (0.27)	$ 0.23	$ (0.21)
Diluted	$ 0.02	$ (0.27)	$ 0.23	$ (0.21)

2019 Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
Operating revenues	$ 689.6	$ 719.1	$ 701.9	$ 671.3
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	393.9	417.4	410.9	394.9
Selling, general, and administrative	175.2	163.2	158.9	164.7
Depreciation and amortization	44.3	47.9	46.4	50.1
Total operating expenses	613.4	628.5	616.2	609.7
Operating profit	76.2	90.6	85.7	61.6
Interest expense	56.5	55.6	37.9	39.5
Other (income) expense, net	(2.1)	(1.1)	(2.0)	(2.5)
Loss on extinguishment of debt	—	—	2.2	—
Income from continuing operations before income taxes	21.8	36.1	47.6	24.6
Income taxes	6.5	8.7	13.2	9.3
Net income from continuing operations	$ 15.3	$ 27.4	$ 34.4	$ 15.3
Net income from continuing operations per share				
Basic	$ 0.11	$ 0.21	$ 0.26	$ 0.12
Diluted	$ 0.11	$ 0.20	$ 0.26	$ 0.12

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, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information relating to our directors and nominees will be included in our Definitive Proxy Statement for our 2021 Annual Meeting of Stockholders and such information will be incorporated by reference herein. Our executive officers are as follows:

Name	Age	Position
James P. Hallett	67	Chief Executive Officer and Chairman of the Board of Directors
Charles S. Coleman	49	Executive Vice President, Chief Legal Officer and Secretary
Thomas J. Fisher	46	Executive Vice President and Chief Digital Officer
John C. Hammer	50	Chief Commercial Officer for KAR and President of ADESA
Peter J. Kelly	52	President
Eric M. Loughmiller	61	Executive Vice President and Chief Financial Officer
James E. Money	58	President of AFC
Lisa A. Price	46	Executive Vice President, Chief People Officer
Benjamin Skuy	58	Executive Vice President of International Markets and Strategic Initiatives

James P. Hallett, 67, Chief Executive Officer and Chairman of the Board of Directors. Mr. Hallett has served as the Chief Executive Officer since September 2009 and the Chairman of the Board of Directors since December 2014. Mr. Hallett served as President and Chief Executive Officer of ADESA from April 2007 to September 2009. Mr. Hallett served as: Executive Vice President of ADESA, Inc. from May 2004 to May 2005; President of ADESA Corporation, LLC from March 2004 to May 2005; President of ADESA Corporation between August 1996 and October 2001 and again between January 2003 and March 2004; Chief Executive Officer of ADESA Corporation from August 1996 to July 2003; ADESA Corporation's Chairman from October 2001 to July 2003; Chairman, President and Chief Executive Officer of ALLETE Automotive Services, Inc. from January 2001 to January 2003 and Executive Vice President from August 1996 to May 2004. Mr. Hallett left ADESA in May 2005 and thereafter served as President of the Columbus Fair Auto Auction until April 2007.

Charles S. Coleman, 49, Executive Vice President, Chief Legal Officer and Secretary. Mr. Coleman has served as the Company's Executive Vice President and Chief Legal Officer since November 2020, and as Secretary since October 2019. Mr. Coleman previously served as Senior Vice President and General Counsel from October 2017 to October 2020, Assistant Secretary from April 2015 to October 2019, and as Vice President and Assistant General Counsel from April 2015 to October 2017. Prior to joining the Company, Mr. Coleman practiced corporate law as an associate attorney and then partner with Krieg DeVault in Indianapolis from 1999 to March 2015 and as an associate attorney with Baker Donelson (formerly Berkowitz, Lefkovits, Isom & Kushner) in Birmingham from 1996 to 1999.

Thomas J. Fisher, 46, Executive Vice President and Chief Digital Officer. Mr. Fisher has served as the Company's Executive Vice President and Chief Digital Officer since March 2020. Mr. Fisher previously served as Executive Vice President and Chief Information Officer from April 2017 to March 2020. Mr. Fisher was the Senior Vice President of Cloud Operations and General Manager, Indianapolis, of Genesys Telecommunications Laboratories, Inc. ("Genesys") from December 2016 to March 2017. Mr. Fisher was the Chief Services Officer at Interactive Intelligence Group, Inc. (which was acquired by Genesys) from January 2014 to December 2016 and also held other roles including Vice President of Global Sales Operations from May 2012 to January 2014.

John C. Hammer, 50, Chief Commercial Officer for KAR and President of ADESA. Mr. Hammer has been Chief Commercial Officer for KAR since March 2020 and the President of ADESA since February 2018. Prior to ADESA, Mr. Hammer was Chief Executive Officer of U.S. Auto Sales, Inc. and U.S. Auto Finance, Inc. from June 2016 to February 2018, and Chief Executive Officer of Cruz Auto, LLC from June 2017 to February 2018. Mr. Hammer previously served as Chief Executive Officer and President of AFC from March 2014 to June 2016. Mr. Hammer joined AFC in April 2009 as Chief Operating Officer, and assumed the role of President of AFC in May 2013. Prior to AFC, Mr. Hammer held senior management roles for more than a decade at various subsidiaries of GMAC Financial Services. He has also served as a general manager at AutoNation and held management roles at Mercedes Benz Credit Corp. Mr. Hammer has 28 years of experience in the automotive industry.

Peter J. Kelly, 52, President. Mr. Kelly has been President since January 2019. Previously, Mr. Kelly served as the President of Digital Services from December 2014 to January 2019 and the Chief Technology Officer from June 2013 to January 2019. Mr. Kelly was the President and Chief Executive Officer of Openlane from February 2011 to June 2013. Prior to that, Mr. Kelly was President and Chief Financial Officer of Openlane from February 2010 to February 2011. Mr. Kelly was a co-founder of Openlane in 1999 and served in a number of executive roles at Openlane from 1999 to 2010.

Eric M. Loughmiller, 61, Executive Vice President and Chief Financial Officer. Mr. Loughmiller has been Executive Vice President and Chief Financial Officer since April 2007. Previously, from 2001 to 2006, Mr. Loughmiller was the Vice President and Chief Financial Officer of ThoughtWorks, Inc., an information technology consulting firm. Prior to that, Mr. Loughmiller served as Executive Vice President and Chief Financial Officer of May & Speh, Inc. from 1996 to 1998 until May & Speh was acquired by Acxiom Corporation. Mr. Loughmiller was the finance leader of the Outsourcing Division of Acxiom Corporation from 1998 to 2000. Prior to joining May & Speh, Mr. Loughmiller was an audit partner with PricewaterhouseCoopers LLP, an independent registered public accounting firm. Mr. Loughmiller is a certified public accountant.

James E. Money, 58, President of AFC. Mr. Money has been President of AFC since June 2016. Mr. Money joined AFC in 1999 as Controller and was later promoted to Vice President of Finance in 2006 and to Chief Financial Officer in 2009. Prior to joining AFC, Mr. Money served as Chief Financial Officer of Fundex Games, LTD from 1998 to 1999. Mr. Money is a certified public accountant.

Lisa A. Price, 46, Executive Vice President, Chief People Officer. Ms. Price has served as the Company's Executive Vice President, Chief People Officer since January 2020. Ms. Price previously served as the Executive Vice President of Human Resources from June 2013 to January 2020. Prior to that, Ms. Price served as the Vice President of Employment and Litigation Counsel of the Company from January 2008 to June 2013 and Senior Corporate Counsel from November 2005 to January 2008. Prior to joining ADESA, Ms. Price practiced employment law with Stewart & Irwin in Indianapolis from November 2000 to November 2005.

Benjamin Skuy, 58, 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.

Delinquent Section 16(a) Reports

The information required by this item is incorporated by reference herein from our Definitive Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Code of Business Conduct and Ethics

We have adopted the Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. In addition, we have adopted the Code of Ethics for Principal Executive and Senior Financial Officers that applies to the Company's principal executive officer, principal financial and accounting officer and such other persons who are designated by our board of directors. Both codes are available on our website at www.karglobal.com and available in print to any stockholder who requests it. Information on, or accessible through, our website is not part of this Form 10-K. We expect that any amendments to these codes, or any waivers of their requirements, will be disclosed on our website.

Item 11. Executive Compensation

The information required by this Item 11 is incorporated by reference herein from our Definitive Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 403 of Regulation S-K will be included in our Definitive Proxy Statement for our 2021 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, 2020.

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)	1,974,378	$ 10.66	5,538,059
Equity compensation plans not approved by security holders	—	—	—
Total	1,974,378	$ 10.66	5,538,059

(1) Includes service options, performance-based restricted stock units ("PRSUs") and restricted stock units ("RSUs") issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan (excluding dividend equivalents). The amount of PRSUs outstanding at target of 438,397 (excluding dividend equivalents) have been included.

(2) Awards issued by KAR Auction Services, Inc. have exercise prices ranging from $5.17 to $11.74. The weighted-average price in the table above only reflects the weighted-average exercise price of outstanding options. The weighted-average exercise price does not include the PRSUs or RSUs.

(3) The number of securities available for future issuance includes (a) 4,064,532 shares of common stock that may be issued under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan; and (b) 1,473,527 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 2021 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

Item 14. Principal Accountant Fees and Services

The information required by this Item 14 is incorporated by reference herein from our Definitive Proxy Statement for our 2021 Annual Meeting of Stockholders to be filed with the SEC as set forth under the caption "Documents Incorporated by Reference."

PART IV

Item 15. Exhibits, Financial Statement Schedules

a) The following documents have been filed as part of this report or, where noted, incorporated by reference:

1) Financial Statements—the consolidated financial statements of KAR Auction Services, Inc. and its consolidated subsidiaries are filed as part of this report under Item 8.

2) Financial Statement Schedules—all schedules have been omitted because the matter or conditions are not present or the information required to be set forth therein is included in the consolidated financial statements and related notes thereto.

3) Exhibits—the exhibit index below 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, AFC or other parties to the agreements.

The agreements included or incorporated by reference as exhibits to this Annual Report on Form 10-K contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Annual Report not misleading. Additional information about KAR Auction Services may be found elsewhere in this Annual Report on Form 10-K and KAR Auction Services, Inc.'s other public filings, which are available without charge through the SEC's website at http://www.sec.gov. See Item 1, "Business—Available Information."

EXHIBIT INDEX

		Incorporated by Reference				
Exhibit No.	**Exhibit Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
2.1+	Separation and Distribution Agreement, dated as of June 27, 2019, by and between KAR Auction Services, Inc. and IAA, Inc.	8-K	001-34568	2.1	6/28/2019	
2.2	Agreement and Plan of Merger dated as of September 4, 2020 by and among ADESA, Inc., Showroom Merger Sub, Inc., KAR Auction Services, Inc., BacklotCars, Inc. and Shareholder Representative Services LLC, as the securityholders representative	8-K	001-34568	2.1	9/8/2020	
3.1	Amended and Restated Certificate of Incorporation of KAR Auction Services, Inc.	10-Q	001-34568	3.1	8/3/2016	
3.2	Second Amended and Restated By-Laws of KAR Auction Services, Inc.	8-K	001-34568	3.1	11/4/2014	
3.3	Certificate of Designations Designating the Series A Convertible Preferred Stock	8-K	001-34568	3.1	6/10/2020	
4.1	Indenture, dated as of May 31, 2017, among KAR Auction Services, Inc., the guarantors party thereto and U.S. Bank National Association, as trustee, including the form of the Notes	8-K	001-34568	4.1	5/31/2017	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.2	Form of common stock certificate	S-1/A	333-161907	4.15	12/10/2009	
4.3	Description of the Company's securities	10-K	001-34568	4.3	2/19/2020	
10.1a	Amendment and Restatement Agreement, dated March 11, 2014, among KAR Auction Services, Inc. and certain of its subsidiaries and JPMorgan Chase Bank, N.A., as administrative agent, swingline lender and issuing lender (the Amended and Restated Credit Agreement and the Amended and Restated Guarantee and Collateral Agreement are included as Exhibits A and B thereto, respectively)	8-K	001-34568	10.1	3/12/2014	
10.1b	Incremental Commitment Agreement and First Amendment, dated as of March 9, 2016, among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, certain subsidiaries of the Company party thereto and the several lenders party thereto	8-K	001-34568	10.1	3/9/2016	
10.1c	Incremental Commitment Agreement and Second Amendment, dated as of May 31, 2017, among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, the guarantors party thereto and the several lenders party thereto	8-K	001-34568	10.1	5/31/2017	
10.1d	Third Amendment Agreement, dated as of September 19, 2019, by and among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, certain subsidiaries of KAR Auction Services, Inc. party thereto and the several lenders party thereto	8-K	001-34568	10.1	9/20/2019	
10.1e	Technical Amendment, dated as of May 28, 2020, by and between KAR Auction Services, Inc., and JPMorgan Chase Bank, N.A., as administrative agent					X
10.1f	Fourth Amendment Agreement, dated as of May 29, 2020, by and among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, certain subsidiaries of the Company party thereto and the certain revolving lenders party thereto	8-K	001-34568	10.1	6/1/2020	
10.1g	Fifth Amendment Agreement, dated September 2, 2020, by and among KAR Auction Services, Inc., JPMorgan Chase Bank, N.A., as administrative agent, certain subsidiaries of KAR Auction Services, Inc. party thereto and the certain revolving lenders party thereto	8-K	001-34568	10.1	9/8/2020	
10.2 *	Employment Agreement, dated February 27, 2012, between KAR Auction Services, Inc. and James P. Hallett	10-K	001-34568	10.15	2/28/2012	
10.3 *	Employment Agreement, dated March 9, 2020, between KAR Auction Services, Inc. and Eric M. Loughmiller	8-K	001-34568	10.2	3/13/2020	
10.4 *	Employment Agreement, dated March 9, 2020, between KAR Auction Services, Inc. and John C. Hammer	8-K	001-34568	10.1	3/13/2020	
10.5 *	Employment Agreement, dated March 9, 2020, between KAR Auction Services, Inc. and Peter J. Kelly	10-Q	001-34568	10.9	5/7/2020	
10.6 *	Employment Agreement, dated March 9, 2020, between KAR Auction Services, Inc. and Thomas J. Fisher					X

Table of Contents

		Incorporated by Reference				
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.7 *	KAR Auction Services, Inc. Annual Incentive Program Summary of Terms 2020	10-K	001-34568	10.13	2/19/2020	
10.8 *	KAR Auction Services, Inc. Annual Incentive Program Summary of Terms 2021					X
10.9a ^	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	
10.9b	Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004	S-4	333-148847	10.33	1/25/2008	
10.9c	Amendment No. 2 to Amended and Restated Purchase and Sale Agreement, dated January 18, 2007	S-4	333-148847	10.34	1/25/2008	
10.9d ^	Amendment No. 3 to Amended and Restated Purchase and Sale Agreement, dated April 20, 2007	S-4	333-148847	10.35	1/25/2008	
10.9e	Amendment No. 4 to Amended and Restated Purchase and Sale Agreement, dated January 30, 2009	10-K	001-34568	10.19e	2/28/2012	
10.9f	Amendment No. 5 to Amended and Restated Purchase and Sale Agreement, dated April 25, 2011	10-K	001-34568	10.19f	2/28/2012	
10.10 ^	Ninth Amended and Restated Receivables Purchase Agreement, dated September 29, 2020, by and among Automotive Finance Corporation, AFC Funding Corporation, Fairway Finance Company, LLC, Fifth Third Bank, National Association, Chariot Funding LLC, PNC Bank, National Association, Thunder Bay Funding, LLC, Truist Bank, BMO Capital Markets Corp., JPMorgan Chase Bank, N.A., Royal Bank of Canada and Bank of Montreal	10-Q	001-34568	10.15	11/4/2020	
10.11 ^	Fifth Amended and Restated Receivables Purchase Agreement, dated September 30, 2020, between Automotive Finance Canada Inc., KAR Auction Services, Inc. and BNY Trust Company of Canada	10-Q	001-34568	10.16	11/4/2020	
10.12a	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	
10.12b	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	
10.13a	Ground Lease, dated September 4, 2008, between ADESA San Diego, LLC and First Industrial L.P. (West 39 Acres at Otay Mesa, California)	8-K	333-148847	10.4	9/9/2008	
10.13b	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	
10.14a	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	
10.14b	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	

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.15a	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	
10.15b	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	
10.16a	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	
10.16b	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	
10.17a	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	
10.17b	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	
10.18a	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	
10.18b	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	
10.19a	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	
10.19b	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	
10.20	Form of Indemnification Agreement	8-K	001-34568	10.1	12/17/2013	
10.21a *	KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, as Amended June 10, 2014	DEF 14A	001-34568	Appendix A	4/29/2014	
10.21b *	First Amendment to the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan	10-K	001-34568	10.24b	2/18/2016	
10.22 *	KAR Auction Services, Inc. Amended and Restated Employee Stock Purchase Plan	10-Q	001-34568	10.27	8/5/2020	
10.23a *	KAR Auction Services, Inc. Directors Deferred Compensation Plan, effective December 10, 2009	10-Q	001-34568	10.62	8/4/2010	
10.23b *	Amendment No. 1 to the KAR Auction Services, Inc. Directors Deferred Compensation Plan, dated as of June 28, 2019	10-Q	001-34568	10.28b	11/6/2019	
10.24 *	Director Restricted Share Agreement	10-Q	001-34568	10.29	8/7/2019	
10.25 *	Form of Nonqualified Stock Option Agreement	S-1/A	333-161907	10.65	12/4/2009	
10.26 *	Form of 2017 Restricted Stock Unit Award Agreement for Section 16 Officers	10-K	001-34568	10.33	2/24/2017	

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
10.27 *	Form of 2018 Restricted Stock Unit Award Agreement for Section 16 Officers	10-K	001-34568	10.33	2/21/2018	
10.28 *	Form of 2019 Restricted Stock Unit Award Agreement for Section 16 Officers	10-K	001-34568	10.35	2/21/2019	
10.29 *	Form of 2020 Restricted Stock Unit Award Agreement for Section 16 Officers	10-K	001-34568	10.35	2/19/2020	
10.30 *	Form of Non-Qualified Stock Option Award Agreement					X
10.31 *	Form of 2017, 2018 and 2019 Performance-Based Restricted Stock Unit Agreement (Cumulative Operating Adjusted Net Income Per Share)	10-K	001-34568	10.38	2/24/2017	
10.32 *	Form of 2020 and 2021 Performance-Based Restricted Stock Unit Agreement (Cumulative Operating Adjusted Net Income Per Share)	10-K	001-34568	10.38	2/19/2020	
10.33	Transition Services Agreement, dated as of June 27, 2019, by and between KAR Auction Services, Inc. and IAA, Inc.	8-K	001-34568	10.1	6/28/2019	
10.34	Tax Matters Agreement, dated as of June 27, 2019, by and between KAR Auction Services, Inc. and IAA, Inc.	8-K	001-34568	10.2	6/28/2019	
10.35	Employee Matters Agreement, dated as of June 27, 2019, by and between KAR Auction Services, Inc. and IAA, Inc.	8-K	001-34568	10.3	6/28/2019	
10.36	Investment Agreement, dated as of May 26, 2020, by and between KAR Auction Services, Inc. and Ignition Parent LP	8-K	001-34568	10.1	5/27/2020	
10.37a	Investment Agreement, dated as of May 26, 2020, by and between KAR Auction Services, Inc. and Periphas Capital GP, LLC	8-K	001-34568	10.2	5/27/2020	
10.37b	Assignment and Assumption Agreement, dated as of June 9, 2020, by and between Periphas Capital GP, LLC and Periphas Kanga Holdings, L.P.					X
10.38	Registration Rights Agreement, dated as of June 10, 2020, by and among KAR Auction Services, Inc. and Ignition Parent LP	8-K	001-34568	10.1	6/10/2020	
10.39	Registration Rights Agreement, dated as of June 29, 2020, by and between KAR Auction Services, Inc. and Periphas Kanga Holdings, LP	8-K	001-34568	10.1	6/29/2020	
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

		Incorporated by Reference				
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
101	The following materials from KAR Auction Services, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020 formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of Income for the year ended December 31, 2020, 2019 and 2018; (ii) the Consolidated Balance Sheets as of December 31, 2020 and 2019; (iii) the Consolidated Statements of Stockholders' Equity for the year ended December 31, 2020, 2019 and 2018; (iv) the Consolidated Statements of Cash Flows for the year ended December 31, 2020, 2019 and 2018; and (v) the Notes to Consolidated Financial Statements.					X
104	Cover page Interactive Data File, formatted in iXBRL (contained in Exhibit 101).					X

+ Certain information has been excluded from this exhibit because it is not material and would likely cause competitive harm to the registrant if publicly disclosed.

^ 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.

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 18, 2021

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 Chairman of the Board (Principal Executive Officer)	February 18, 2021
/s/ ERIC M. LOUGHMILLER Eric M. Loughmiller	Chief Financial Officer (Principal Financial and Accounting Officer)	February 18, 2021
/s/ DAVID DIDOMENICO David DiDomenico	Director	February 18, 2021
/s/ CARMEL GALVIN Carmel Galvin	Director	February 18, 2021
/s/ MARK E. HILL Mark E. Hill	Director	February 18, 2021
/s/ J. MARK HOWELL J. Mark Howell	Director	February 18, 2021
/s/ STEFAN JACOBY Stefan Jacoby	Director	February 18, 2021
/s/ MICHAEL T. KESTNER Michael T. Kestner	Lead Independent Director	February 18, 2021
/s/ ROY MACKENZIE Roy Mackenzie	Director	February 18, 2021
/s/ MARY ELLEN SMITH Mary Ellen Smith	Director	February 18, 2021
/s/ STEPHEN E. SMITH Stephen E. Smith	Director	February 18, 2021

Exhibit 10.1e

TECHNICAL AMENDMENT

This TECHNICAL AMENDMENT, dated as of May 28, 2020 (this "Agreement"), is entered into by and between KAR AUCTION SERVICES, INC., a Delaware corporation (the "Borrower") and JPMORGAN CHASE BANK, N.A., as administrative agent (the "Administrative Agent").

PRELIMINARY STATEMENTS

WHEREAS, reference is made to the Amended and Restated Credit Agreement, dated as of March 11, 2014 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Existing Credit Agreement"; the Existing Credit Agreement as amended hereby, the "Credit Agreement"; capitalized terms used but not otherwise defined herein are used with the meanings given in the Credit Agreement), among the Borrower, the lenders and issuing banks party thereto from time to time and the Administrative Agent;

WHEREAS, pursuant to the final paragraph of Section 11.1 of the Existing Credit Agreement, the Administrative Agent may, with the consent of the Borrower only, amend, modify or supplement any Loan Document to cure any technical ambiguity, omission, mistake, defect or inconsistency; and

WHEREAS, in accordance with the final paragraph of Section 11.1 of the Existing Credit Agreement, the Borrower and the Administrative Agent have agreed to amend the Existing Credit Agreement to correct certain technical mistakes, defects or inconstancies as provided in Section 1 hereof on the Technical Amendment Effective Date (as defined below).

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. **Amendments to Existing Credit Agreement.** Effective as of the Technical Amendment Effective Date, the Existing Credit Agreement shall be amended, in accordance with the final paragraph of Section 11.1 of the Existing Credit Agreement, as follows:

(a) Section 4.17(c)(v) of the Existing Credit Agreement is hereby amended and restated in its entirety as follows:

> "(v) the final maturity date of any Incremental Term Loans or Incremental Term Loan Commitments shall be no earlier than the Latest Maturity Date and the Weighted Average Life to Maturity of any Incremental Term Loans shall be no shorter than the remaining Weighted Average Life to Maturity of the Term Loans;"; and

(b) Section 8.3(aa) of the Existing Credit Agreement is hereby amended by deleting the phrase "Section 8.2(v)" and adding in lieu thereof the phrase "Section 8.2(w)".

SECTION 2. **Conditions to the Technical Amendment Effective Date.** This Agreement shall become effective upon execution by the Administrative Agent and the Borrower without any further action or consent of any other party to any Loan Document (the date such condition is satisfied, the "Technical Amendment Effective Date").

SECTION 3. **Reference to and Effect on the Loan Documents.**

(a) On and after the Technical Amendment Effective Date, each reference in the Existing Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Credit Agreement and each reference in the other Loan Documents to "the Credit

Agreement", "thereunder", "thereof" or words of like import referring to the Existing Credit Agreement, shall mean and be a reference to the Credit Agreement.

(b) The Credit Agreement and the other Loan Documents are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. Without limiting the generality of the foregoing, the Security Documents and all of the Collateral described therein do and shall continue to secure the payment of all Obligations under and as defined in the Credit Agreement.

(c) The execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under any of the Loan Documents or constitute a waiver or amendment of any provision of any of the Loan Documents. This Agreement shall not constitute a novation of the Existing Credit Agreement or any other Loan Document.

(d) The Borrower and the other parties hereto acknowledge and agree that, on and after the Technical Amendment Effective Date, this Agreement shall constitute a Loan Document for all purposes of the Credit Agreement.

(e) The provisions of Sections 11.12 and 11.16 of the Credit Agreement shall apply with like effect to this Agreement.

SECTION 4. **Counterparts.** This Agreement (including all consents and authorizations relating hereto) may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement (or any consent or authorization relating hereto) by electronic transmission or facsimile shall be effective and enforceable as delivery of a manually executed counterpart thereof. The Administrative Agent will not have any responsibility for determining whether (and makes no representation as to whether) any such counterpart has been duly authorized, executed or delivered or is enforceable against any party hereto. The words "execution," "signed," "signature," and words of like import in this Agreement shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

SECTION 5. **GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first written above.

BORROWER:

KAR AUCTION SERVICES, INC.

By: /s/ James P. Hallett
Name: James P. Hallett
Title: Chief Executive Officer

[*Signature Page to KAR Technical Amendment*]

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

By: /s/ Brendan Korb

Name: Brendan Korb
Title: Vice President

[*Signature Page to KAR Technical Amendment*]

Exhibit 10.6

EMPLOYMENT AGREEMENT

This Employment Agreement (this "*Agreement*"), dated and effective March 9, 2020 (the "*Effective Date*"), is entered into by and between KAR Auction Services, Inc. ("*Employer*") and Thomas J. Fisher ("*Employee*").

RECITALS

A. Employer desires to continue to employ Employee, and Employee desires to accept such continued employment, on the terms and conditions set forth in this Agreement.

B. This Agreement shall be effective immediately and shall govern the employment relationship between Employee and Employer from and after the Effective Date, and, as of the Effective Date, supersedes and negates all previous agreements and understandings with respect to such relationship (including, without limitation, the Employment Agreement by and between Employer and Employee dated April 1, 2017 (the "*Prior Employment Agreement*")).

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment Period. The period of employment of Employee by Employer hereunder shall commence on the Effective Date and continue thereafter until terminated pursuant to Section 4 of this Agreement (the "*Employment Period*").

2. Title and Duties. During the Employment Period, Employee shall serve as the Executive Vice President and Chief Digital Officer of Employer and shall perform the duties and responsibilities inherent in such position and any other duties consistent with such position as may be reasonably assigned to Employee from time to time by Employer's Chief Executive Officer, President or Board of Directors of Employer ("*Board*"). Employee shall perform the duties of this position in a diligent and competent manner and on a full-time basis during the Employment Period.

3. Compensation and Benefits.

(a) Base Salary. During the Employment Period, Employee shall be paid an annual base salary of $450,000 ("*Base Salary*"), less withholdings and deductions required by law or requested by Employee. Employee's Base Salary may be adjusted but may not be adjusted downward except in connection with across-the-board base salary reductions, by the Board from time to time.

(b) Business Expenses. Employer shall reimburse Employee for all reasonable business expenses incurred in performing services pursuant to this Agreement upon Employee's presentation to Employer, on a timely basis, of satisfactory documentation of such expenditures. Such expenses shall be reimbursed as soon as administratively feasible, but in no event later than the end of the calendar year following the calendar year in which the applicable expense was incurred. Notwithstanding the foregoing, all such expenses shall be reimbursed upon any termination of Employee's employment under this Agreement, including without limitation a termination for Cause.

(c) Annual Bonuses. In addition to Base Salary, Employee shall be eligible to participate in the KAR Auction Services, Inc. Annual Incentive Plan (the "*Bonus Plan*") (as in effect from time to time). Except as provided in Section 4 and Section 5 below, payment to Employee of any amounts under the Bonus Plan shall be subject to Employee's continued employment with Employer through December 31 of the calendar year to which such bonus relates. Payment of any bonus pursuant to the Bonus Plan shall be made as soon as practicable but in no event later than March 15 of the year following the calendar year to which such bonus relates.

(d) Equity. Employee shall be eligible to participate in all Employer incentive programs extended to executive-level employees of Employer generally at levels commensurate with Employee's position, including without limitation the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan.

(e) Employee Benefits. Employee shall be eligible to participate in Employer's health and welfare benefit programs, 401(k) benefit program, life and disability insurance programs, and any other employee benefits, benefit plans, policies or programs Employer provides to its executive-level employees, in each case, as they may exist from time to time and subject to the terms and conditions thereof. Nothing in this Agreement shall require Employer to maintain any benefit plan, or shall preclude Employer from terminating or amending any benefit plan from time to time.

(f) Vacation and Holidays. During the Employment Period, Employee shall be entitled to annual paid vacation in accordance with Employer's policy applicable to executive-level employees, but in no event less than four (4) weeks of paid vacation during each full calendar year of employment. Employee shall receive a pro-rated portion of such vacation during Employee's initial and final partial calendar years of employment under this Agreement. Unused, earned vacation shall not carry over from one calendar year to the next, unless Employer's written policies otherwise provide for such carry over. Upon termination of Employee's employment for any reason, Employer shall pay Employee for any unused, earned vacation days based upon Employee's then current Base Salary. Employee shall also be entitled to all of the paid holidays recognized by Employer generally.

(g) Automobile Allowance. During the Employment Period, Employer shall pay Employee an annual automobile allowance of at least Eighteen Thousand Dollars ($18,000). Such allowance shall be paid in accordance with Employer's regular payroll practices, as may be in effect from time to time, but in no event less frequently than monthly.

4. Termination.

(a) Termination by Employer for Cause. Employer may terminate Employee's employment under this Agreement at any time for Cause after the Board, by the majority vote of its members (excluding, for this purpose, any employee member of the Board, if applicable) determines that the actions or inactions of Employee constitute Cause, and Employee's employment should accordingly be terminated for Cause. In the event of a termination of Employee by Employer for Cause, Employee or Employee's estate, if applicable, shall be entitled to receive: (i) Employee's accrued Base Salary through the termination date, paid within 30 days of the termination date or such earlier date as is required by applicable law; (ii) an amount for reimbursement, paid within 30 days following submission by Employee to Employer of appropriate supporting documentation for any unreimbursed business expenses properly incurred prior to the termination date by Employee pursuant to Section 3(b) and in accordance with Employer's policy; (iii) any accrued and unpaid vacation pay, paid within 30 days of the termination date or such earlier date as is required by applicable law; and (iv) such employee benefits, if any, to which Employee or Employee's dependents may be entitled under the employee benefit plans or programs of Employer, paid in accordance with the terms of the applicable plans or programs (the amounts described in clauses (i) through (iv) hereof being referred to as "*Employee's Accrued Obligations*").

For purposes of this Agreement, "*Cause*" means (A) Employee's willful, continued and uncured failure to perform substantially Employee's duties under this Agreement (other than any such failure resulting from incapacity due to medically documented illness or injury) for a period of fourteen (14) days following written notice by Employer to Employee of such failure, (B) Employee engaging in illegal conduct or gross misconduct that is demonstrably likely to lead to material injury to Employer, monetarily or otherwise, (C) Employee's indictment or conviction of, or plea of *nolo contendere* to, a crime constituting a felony or any other crime involving moral turpitude, (D) Employee's material breach of Employer's Code of Business Conduct and Ethics, as amended by Employer from time to time, or (E) Employee's violation of Section 7 of this Agreement or any other covenants owed to Employer by Employee.

(b) Termination by Employer without Cause. Employer may terminate Employee's employment under this Agreement without Cause at any time upon thirty (30) days' prior written notice to Employee. In addition to the severance benefits provided in Section 5, in the event of Employee's termination by Employer without Cause, Employer shall pay to Employee all of Employee's Accrued Obligations.

(c) Termination by Employee for Good Reason. Employee may terminate Employee's employment under this Agreement for Good Reason. For purposes of this Agreement, "*Good Reason*" means the occurrence of any of the following:

(i) Any material reduction of Employee's authority, duties and responsibilities;

(ii) Any material failure by Employer to comply with any of the terms and conditions of this Agreement;

(iii) Any failure to timely pay or provide Employee's Base Salary, or any reduction in Employee's Base Salary, excluding any Base Salary reduction made in connection with across the board salary reductions;

(iv) The requirement by Employer that Employee relocate Employee's principal business location to a location more than fifty (50) miles from Employee's principal base of operation as of the Effective Date; or

(v) A Change of Control occurs and, if applicable, Employer fails to cause its successor (whether by purchase, merger, consolidation or otherwise) to assume or reaffirm Employer's obligations under this Agreement without change. For purposes of this Agreement, "*Change of Control*" shall have the meaning assigned to such term under the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan.

Within ninety (90) days of the occurrence of a Good Reason event, Employee may provide Employer with written notice of Employee's termination of employment to be effective thirty (30) days after delivery of such notice, during which Employer shall have the opportunity to cure such Good Reason event. In the event of a termination for Good Reason, in addition to the severance benefits provided in Section 5, Employer shall pay to Employee all of Employee's Accrued Obligations.

(d) Termination by Employee without Good Reason. Employee may terminate Employee's employment under this Agreement at any time without Good Reason, upon thirty (30) days' prior written notice to Employer. In the event of a termination described in this Section 4(d), Employer shall pay to Employee all of Employee's Accrued Obligations.

(e) Termination due to Employee's death or Disability. Employee's employment under this Agreement shall terminate upon Employee's (i) death, or (ii) "*Disability*," which for purposes of this Agreement means a "Total Disability" (or equivalent) as defined under Employer's Long Term Disability Plan in effect at the time of the Disability. In the event of a termination described in this Section 4(e), Employer shall pay to Employee all of Employee's Accrued Obligations. In addition, (i) Employer shall provide Employee with the Continued Benefits (as defined below), (ii) Employer shall pay to Employee (or Employee's estate and/or beneficiaries), in a lump sum following effectiveness of the release described in Section 6 and at the same time Employer pays annual bonuses for such calendar year to its other executives, an amount equal to (x) the actual bonus Employee would have received under the Bonus Plan had Employee remained employed by Employer through the remainder of the calendar year in which termination occurred, multiplied by (y) a fraction, the numerator of which is the number of days Employee was employed in the calendar year in which termination occurred and the denominator of which is 365 (the "*Pro Rata Bonus*") and (iii) Employer shall pay to Employee (or Employee's estate and/or beneficiaries) an amount equal to any annual bonus for a prior completed calendar year that is yet to be calculated and/or paid to Employee, paid as soon as practicable following effectiveness of the release described in Section 6 but in no event later than March 15 of the year following the calendar year to which such bonus relates (the "*Earned But Unpaid Bonus*").

For purposes of this Agreement, "*Continued Benefits*" means continued coverage for Employee (and Employee's qualified beneficiaries'), at no cost to Employee, under any medical plan or policy in which Employee was participating as of the time of Employee's termination of employment (as may be amended by Employer from time to time in the ordinary course), to the extent that Employee timely elects such continued coverage, until the earlier of: (A) eighteen (18) months following the date of termination and (B) the date Employee is or becomes eligible for comparable coverage under health plans of another employer, which period shall run concurrently with the continuation period required to be provided under the Consolidated Omnibus Budget Reconciliation Act; provided, however, to the extent that Employer determines that such the provision of the Continued Benefits would result in adverse tax consequences to Employer, Employer may instead, in its discretion, provide substantially similar benefits or payment outside of Employer's benefit plans if Employer reasonably determines that providing such alternative benefits or payment is appropriate to minimize such potential adverse tax consequences and penalties.

(f) Resignation as Officer or Director. Upon a termination of Employee's employment hereunder for any reason, unless requested otherwise by Employer, Employee shall resign each position (if any) that Employee then holds as an officer or director of Employer or any of its Affiliates. For purposes of this Agreement, "Affiliate" means an Affiliate of Employer within the meaning of Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended.

5. Severance Benefits.

(a) Qualifying Termination. In the event of a termination of Employee's employment under Section 4(b) or 4(c) of this Agreement that is not a COC Qualifying Termination (as defined below), Employer shall provide Employee with the following severance benefits:

(i) Employer shall pay to Employee an amount equal to one and a half (1.5) times the sum of (x) Employee's annual Base Salary and (y) Employee's bonus at target for the year in which termination occurs, which shall be paid by Employer to Employee in a lump sum as soon as practicable following (and subject to) effectiveness of the release described in Section 6 but in no event later than sixty (60) days following the date of termination, provided that if such sixty (60) day period covers two taxable years, payment shall be made in the second taxable year.

(ii) The Continued Benefits;

(iii) The Pro Rata Bonus; and

(iv) The Earned But Unpaid Bonus.

(b) COC Qualifying Termination. In the event of a termination of Employee's employment under Section 4(b) or 4(c) of this Agreement that occurs within two (2) years following a Change of Control (a "COC Qualifying Termination"), Employer shall provide Employee with the following severance benefits:

(i) Employer shall pay to Employee an amount equal to two (2) times the sum of (x) Employee's annual Base Salary and (y) Employee's bonus at target for the year in which termination occurs, which shall be paid by Employer to Employee in a lump sum as soon as practicable following (and subject to) effectiveness of the release described in Section 6 but in no event later than sixty (60) days following the date of termination, provided that if such sixty (60) day period covers two taxable years, payment shall be made in the second taxable year.

(ii) The Continued Benefits;

(iii) The Pro Rata Bonus; and

(iv) The Earned But Unpaid Bonus.

6. Release of Claims. As a condition to the receipt of any payments or benefits described in Section 5 of this Agreement, subsequent to the termination of the employment of Employee (other than any Accrued Benefits or any payment or benefits payable on account of Employee's death), Employee shall be required to execute, and not subsequently revoke, within fifty-five (55) days following the termination of Employee's employment a release and separation agreement, in a form reasonably satisfactory to Employer, of all claims arising out of or related to Employee's employment or the termination thereof.

7. Restricted Activities.

(a) Acknowledgements. Employee understands and acknowledges that Employer has invested, and continues to invest, substantial time, money and specialized knowledge into developing its resources, creating a customer base, generating customer and potential customer lists, training its employees, and improving its offerings in the vehicle remarketing industry and other applicable industries. Employee understands and acknowledges that as a result of these efforts, Employer has created, and continues to use and create, Confidential Information (as defined below) and that such Confidential Information is integral to providing Employer with a competitive advantage over others in the marketplace. Employee further understands and acknowledges that the nature of Employee's position gives him access to and knowledge of Confidential Information and places him in a position of trust and confidence with Employer.

(b) Confidential Information. Employee acknowledges and agrees that Confidential Information is the property of Employer, and that Employee shall not acquire any ownership rights in Confidential Information. Employee (i) shall use

Confidential Information solely in connection with Employee's employment with Employer; (ii) shall not directly or indirectly disclose, use or exploit any Confidential Information for Employee's own benefit or for the benefit of any person or entity, other than Employer, both during and after Employee's employment with Employer; and (iii) shall hold Confidential Information in trust and confidence, and use all reasonable means to assure that it is not directly or indirectly disclosed to or copied by unauthorized persons or used in an unauthorized manner, both during and after Employee's employment with Employer. To the extent that Employee creates or develops any Confidential Information during the course of Employee's employment with Employer, it shall be the sole and exclusive property of Employer. For purposes of this Agreement, "*Confidential Information*" shall mean any proprietary, confidential and competitively-sensitive information and materials which are the property of Employer or its Affiliates, excluding information and materials generally known or available to the public, other than as a result of Employee's breach of this Section 7, and including without limitation (A) trade secrets, inventions, ideas, innovations, developments, methods, processes, systems and technologies, (B) business and technical information that gives Employer or its Affiliates a competitive advantage, and (C) information concerning Employer's or any of its Affiliates' customers, suppliers, vendors, licensors, affiliates, financing sources, profits, revenues, financial condition, pricing, training programs, service techniques, service processes, business processes, marketing plans, and business strategies.

(c) Defend Trade Secrets Act. Pursuant to 18 U.S.C. § 1833(b), Employee will not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret of Employer that (i) is made (A) in confidence to a Federal, State, or local government official, either directly or indirectly, or to Employee's attorney and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Employee files a lawsuit for retaliation by Employer for reporting a suspected violation of law, Employee may disclose the trade secret to Employee's attorney and use the trade secret information in the court proceeding, if Employee (i) files any document containing the trade secret under seal, and (ii) does not disclose the trade secret, except pursuant to court order. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by such section. Further, nothing in any agreement Employee has with Employer shall prohibit or restrict Employee from making any voluntary disclosure of information or documents to any governmental agency or legislative body, or any self-regulatory organization, in each case, without advance notice to Employer. Nothing in this Agreement shall prohibit or restrict Employee from (i) making any disclosure of information required by law or (ii) providing information to, testifying or otherwise assisting in any investigation or proceeding brought by any Federal or State regulatory or law enforcement agency or legislative body, or any self-regulatory organization.

(d) Intellectual Property. Employee agrees to promptly disclose to Employer and hereby assigns and agrees to assign, without further compensation, to Employer, Employee's entire right, title and interest in each and every invention (whether or not patentable), innovation, technical information and copyrightable work, in which Employee participates during Employee's employment with Employer whether or not during working hours, that pertains to Employer's or any of its Affiliates' business or is aided by the use of time, material, or facilities of Employer or its Affiliates. Employee further agrees to perform all reasonable acts, including executing necessary documents, requested by Employer to assist it, without further compensation, in obtaining and enforcing its property rights in the above.

(e) Non-Competition. During Employee's employment with Employer and for a period of one (1) year immediately following the termination of Employee's employment for any reason, Employee shall not, directly or indirectly, on his or her behalf or on behalf of any other person or entity, provide any labor, work, services, assistance or advice for or on behalf of any Competitor (as defined below), in any geographic market in which Employer or any of its Affiliates conduct business (the "*Territory*"). In addition, Employee shall not, during Employee's employment with Employer and for a period of one (1) year immediately following the termination of Employee's employment for any reason, directly or indirectly, either alone or in conjunction with any other person, engage or invest in, own, manage, operate, finance, control or participate in the ownership, management, operation, financing or control of any Competitor within the Territory. Nothing herein shall prohibit Employee from purchasing or owning less than five percent (5%) of the publicly traded securities of any corporation, provided that such ownership represents a passive investment and that Employee is not a controlling person of, or a member of a group that controls, such corporation. For purposes of this Agreement, "*Competitor*" means any person or entity engaged in the business of wholesale, retail or consumer vehicle remarketing activities, including but not limited to vehicle auctions (including physical, electronic, mobile app and/or digital auctions), dealer floor plan financing and other products, services and technologies relating to vehicle remarketing within the Territory, provided that Employer or any of its Affiliates is engaged in such businesses.

(f) Non-Solicitation/Non-Interference. During Employee's employment with Employer and for a period of one (1) year immediately following the termination of Employee's employment for any reason, Employee shall not (i) induce or attempt to induce any employee of Employer or any of its Affiliates to leave the employ of Employer or its Affiliates, or in any way interfere with the relationship between Employer and its Affiliates and any of their respective employees, or (ii) induce or attempt to induce any customer, client, member, supplier, licensee, licensor or other business relation of Employer or its Affiliates to cease doing business with Employer or its Affiliates, or otherwise interfere with the business relationship between Employer or its Affiliates and any such customer, client, member, supplier, licensee, licensor or business relation.

(g) Cooperation. Employee agrees that at all times following the termination of Employee's employment for any reason, Employee will cooperate in all reasonable respects (after taking into account Employee's personal and professional schedule) with Employer and in connection with any and all existing or future litigation, actions or proceedings arising with respect to the period of Employee's employment with Employer (whether civil, criminal, administrative, regulatory or otherwise) brought by or against Employer, to the extent Employer reasonably deems Employee's cooperation necessary, provided that Employer shall use reasonable efforts to limit Employee's need to travel in connection with providing such cooperation. Employee shall be reimbursed for all reasonable out-of-pocket expenses incurred by Employee as a result of such cooperation. With respect to any and all existing or future litigation, actions or proceedings (whether civil, criminal, administrative, regulatory or otherwise) brought against Employee in connection with Employee's employment by Employer, Employer will honor, and proceed in accordance with, its bylaws as in effect from time to time and any indemnification agreement, plan or policy in effect and applicable to Employee as of the date of Employee's termination of employment with Employer.

8. Section 409A. The payments and benefits under this Agreement and the terms of any release agreement are intended to be exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("*Code*"), and the regulations promulgated thereunder ("*Section 409A*") and, accordingly, to the maximum extent permitted, this Agreement and any release agreement shall be interpreted and administered consistent with such intent. If under this Agreement, an amount is to be paid in two or more installments, for purposes of Section 409A, each installment shall be treated as a separate payments. Without limiting the foregoing, solely to the extent required to avoid the imposition of any additional tax or interest to Employee under Section 409A, any payments, benefits and other obligations under this Agreement that arise in connection with Employee's "termination of employment," "termination" or similar reference in this Agreement shall be triggered only if such termination of employment qualifies as a "separation from service" within the meaning under Section 409A. Notwithstanding any other provision of this Agreement, if at the time of the termination of Employee's employment, Employee is a "specified employee," for purposes of Section 409A, and any payments or benefits upon such termination including but not limited to payments or benefits under this Agreement would otherwise result in additional tax or interest to Employee under Section 409A, Employee will not be entitled to receive such payments or benefits until the date that is six (6) months after the termination of Employee's employment for any reason, subject to earlier immediate payment if Employee dies during such six (6) month period. To the extent required to avoid the imposition of any additional tax or interest under Section 409A, amounts reimbursable to under this Agreement shall be paid to Employee on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in-kind benefits provided to Employee) during any one year may not affect amounts reimbursable or provided in any subsequent year. If any provision of this Agreement would subject Employee to any additional tax or interest under Section 409A, then Employer shall use its best efforts to amend such provision; provided that Employer shall not incur any additional expense as a result of such amendment. Notwithstanding any other provision hereof, in no event shall Employer be liable for, or be required to indemnify Employee for, any liability of Employee for taxes or penalties under Section 409A.

9. Section 280G.

(a) Notwithstanding anything in this Agreement to the contrary, in the event that any payment or benefit received or to be received by Employee (including any payment or benefit received in connection with a Change of Control or the termination of Employee's employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits being hereinafter referred to as the "Total Payments") would not be deductible (in whole or part) by Employer or any of its Affiliates making such payment or providing such benefit as a result of Section 280G of the Code ("*Section 280G*"), then, to the extent necessary to make such portion of the Total Payments deductible (and after taking into account any reduction in the Total Payments provided by reason of Section 280G in such other plan, arrangement or agreement), the Total Payments shall be reduced (if necessary, to zero) in the manner specified in Section 9(b) hereof; provided, however, that such reduction shall only be made if (i) the amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments) is greater than or equal to (ii) the amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of the excise tax imposed under Section 4999 of the Code (the "*Excise Tax*") on such unreduced Total Payments).

(b) If it is determined that the Total Payments should be reduced in accordance with the Section 9(a) hereof, then such reduction shall be applied in the following order: (i) payments that are payable in cash that are valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced (if necessary, to zero), with amounts that are payable last reduced first; (ii) payments due in respect of any equity valued at full value under Treasury Regulation Section 1.280G-1, Q&A 24(a) will be reduced next (if necessary, to zero), with amounts that are payable or deliverable last reduced first; (iii) payments that are payable in cash that are valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24 will be reduced next (if necessary, to zero), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24); (iv) payments due in respect of any equity valued at less than full value under Treasury Regulation Section 1.280G-1, Q&A 24 will be reduced next (if necessary, to zero), with the highest values reduced first (as such values are determined under Treasury Regulation Section 1.280G-1, Q&A 24); and (v) all other non-cash benefits not otherwise described in clauses (ii) or (iv) of this Section 9(b) will be next reduced pro-rata.

(c) It is possible that, after the determinations and selections made pursuant to Section 9(a) hereof, Employee will receive Total Payments that are, in the aggregate, either more or less than the amount determined under Section 9(a) hereof (hereafter referred to as an "Excess Payment" or "Underpayment", as applicable). If it is established, pursuant to a final determination of a court or an Internal Revenue Service proceeding that has been finally and conclusively resolved, that an Excess Payment has been made, then Employee shall, except to the extent that it would cause a violation of the Sarbanes-Oxley Act of 2002, promptly repay the Excess Payment to Employer, together with interest on the Excess Payment at the applicable federal rate (as defined in Section 1274(d) of the Code) from the date of Employee's receipt of such Excess

Payment until the date of such repayment. In the event that it is determined (i) by arbitration pursuant to Section 10 hereof, (ii) by a court or (iii) by the accounting firm which was, immediately prior to a Change of Control, Employer's independent auditor, upon request of either party, that an Underpayment has occurred, Employer shall promptly pay an amount equal to the Underpayment to Employee (but in any event within ten (10) days of such determination), together with interest on such amount at the applicable federal rate from the date such amount would have been paid to Employee had the provisions of Section 9(a) hereof not been applied until the date of payment.

10. Arbitration. Any dispute, controversy or claim arising out of or relating to this Agreement, the breach, termination, enforcement, interpretation, or validity thereof (including the determination of the scope or applicability of this arbitration agreement), or its subject matter shall be subject and resolved by binding arbitration administered by a single arbitrator from the American Arbitration Association. The parties acknowledge and agree that Employer is involved in transactions involving interstate commerce and that the Federal Arbitration Act shall govern any arbitration pursuant to this Agreement. Such arbitration shall be conducted in accordance with the commercial rules and regulations promulgated by the American Arbitration Association applying the laws of the State of Indiana. The arbitration shall be conducted in Indianapolis, Indiana. Discovery shall be completed within ninety (90) days of the filing of the complaint and the arbitration shall be held no later than one hundred twenty (120) days after the filing of the complaint. A record of the proceedings shall be kept by a qualified court reporter. The decision of the arbitrator shall contain findings of fact and conclusions of law, and shall be made within thirty (30) days of the arbitration and shall be final and binding on the parties, and shall be unappealable. The decision may be enforced in any court having jurisdiction over the parties and the subject matter. Costs of the arbitrator shall be split equally between Employer and Employee.

11. Miscellaneous Provisions.

(a) Notices. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or by email or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below:

To Employer: KAR Auction Services, Inc.
11299 North Illinois Street
Carmel, IN 46032
Attention: James P. Hallett
Email: jim.hallett@karglobal.com

To Employee: At Employee's address on file with Employer

(b) Entire Agreement. This Agreement sets forth the entire agreement between Employer and Employee with respect to the subject matter of this Agreement and fully supersedes all prior negotiations, representations and agreements, whether written or oral, between Employer and Employee with respect to the subject matter of this Agreement (including, without limitation, the Prior Employment Agreement).

(c) Severability. The provisions of this Agreement are severable and shall be separately construed. If any of them is determined to be unenforceable by any court, that determination shall not invalidate any other provision of this Agreement.

(d) Amendment and Waiver. This Agreement may not be modified, amended or waived in any manner except by a written document executed by Employer and Employee. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement (whether or not similar), or a continuing waiver or a waiver of any subsequent breach by such party of a provision of this Agreement.

(e) No Mitigation. In no event shall Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Employee under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Employee obtains other employment.

(f) Successors and Assigns. This Agreement and the covenants herein shall extend to and inure to the benefit of the successors and assigns of Employer. Employer shall require any successor (whether by purchase, merger, consolidation or otherwise) to assume or reaffirm, as applicable, Employer's obligations under this Agreement without change. Failure of Employer to obtain such an assumption shall entitle Employee to terminate Employee's employment under this Agreement for Good Reason.

(g) Headings. Numbers and titles to Sections hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

(h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which when taken together, shall be and constitute one and the same instrument.

(i) Governing Law and Forum. This Agreement shall be governed by and construed according to the internal laws of the State of Indiana, without regard to conflict of law principles.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first set forth above.

"Employer"	"Employee"
KAR AUCTION SERVICES, INC.	
By: /s/ James P. Hallett	/s/ Tom Fisher
Printed: James P. Hallett	
Title: Chief Executive Officer	

Exhibit 10.8

KAR Auction Services, Inc.

Annual Incentive Program

Summary of Terms

2021

KAR Auction Services, Inc. Annual Incentive Program

Summary of Terms

The following is a summary of the 2021 KAR Auction Services, Inc. Annual Incentive Program (the "Program") which is part of the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan, as amended and restated on June 10, 2014 (the "Omnibus Plan"). Any awards under the Program are subject to the approval of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of KAR Auction Services, Inc. (the "Company"). The Committee has all final authority with respect to administration and interpretation of the Program. All capitalized terms herein that are not otherwise defined shall have the meanings given to such terms in the Omnibus Plan.

Purpose of the Program

The purpose of the Program is to reward eligible employees of the Company with incentive compensation based on their contributions toward meeting and exceeding overall Company goals.

Eligibility

Key employees of the Company may participate in the Program as determined by the Committee.

Effective Date

The Program is effective January 1, 2021. The Company reserves the right to revise or terminate the Program at any time, with or without advance notice, in accordance with applicable law.

Performance Period

Each performance period under the Program will be one year in duration and will coincide with the Company's fiscal year (January 1 – December 31).

Awards

The award is tied to the performance of the Company and/or particular business unit, division, region or individual site during the performance period. The award opportunity is expressed as a percentage of base salary, which typically will be determined at the end of the performance period. The award is conditioned on satisfactory performance of job responsibilities.

Performance Goals and Targets

Through the annual planning process, performance goals and targets are established. The performance goals and targets chosen for the Company, each business unit, division, region and site reflect the Company's strategy, competitive situation and market potential. The award may be weighted on a combination of the performance of the Company, business unit, division, region or site. Actual performance goals and goal definitions are determined by the Committee and communicated to each participant.

The award is tied to specific "threshold," "target" and "superior" performance goals. The "threshold" is the minimum performance goal that must be met before any award is earned. The "target" opportunity represents the award amount received if the Company meets its targeted financial and, if applicable, non-financial goals. The "superior" opportunity represents the maximum performance goal that must be met for a maximum payout. The actual performance goals, goal definitions and award opportunities at threshold, target and superior levels of performance are determined by the Committee and communicated to each participant.

Calculation of Awards

In calculating your award, base salary as of the first full pay cycle in July during the Program year will be utilized. Please note that if your bonus opportunity changes during the Program year, your award will be prorated as explained in the examples below.

Example One: Employee is bonus eligible with a base salary of $40,000 with a target opportunity of 20% and receives a promotion on 8/1/2021 with a base salary of $45,000 and a target opportunity of 25%.
Bonus calculation would be as follows:

$40,000 x 20% = $8,000 (target award) x (performance factor x goal weighting) x proration 7/12^{ths}

plus

$40,000 x 25% = $10,000 (target award) x (performance factor x goal weighting) x proration 5/12^{ths}

Base salary as of the first full pay cycle in July will be utilized and applied to bonus opportunity changes

Example Two: Employee is bonus eligible with a base salary of $40,000 with a target opportunity of 20% and receives a promotion on 3/1/2021 with a base salary of $45,000 and a target opportunity of 25%.
Bonus calculation would be as follows:

$45,000 x 20% = $9,000 (target award) x (performance factor x goal weighting) x proration 2/12^{ths}

plus

$45,000 x 25% = $11,250 (target award) x (performance factor x goal weighting) x proration 10/12^{ths}

Base salary as of the first full pay cycle in July will be utilized and applied to bonus opportunity changes

The performance factor is directly related to performance relative to the established threshold, target and superior performance goals. If actual results fall between the threshold, target or superior performance levels, straight-line interpolation will be used to determine the performance factor unless otherwise determined by the Committee. Multiple goal weightings must add to 100%.

Payment of Awards

Generally, all awards are paid out annually; however, certain non-executive officer positions, if approved by the Committee and the applicable business unit president, may be paid out quarterly or semiannually.

Generally, all awards will be paid out in cash, net of applicable withholding taxes. While awards are generally paid as soon as practicable after the audited financial results are available for the performance period, in the Committee's sole discretion, payments to participants other than executive officers of the Company may be based on an estimation of the audited financial results. Additionally, awards may be paid in one or more installments, in the Committee's sole discretion.

In no event will any portion of any awards payable under the Program (including any pro rata awards paid upon certain terminations of employment described below and any installments) be paid later than March 15, 2022.

Discretionary Adjustment of Awards

The Committee retains discretion to adjust payouts up or down on a case-by-case basis. Individual award payouts may be adjusted downward or eliminated entirely due to personal performance of job responsibilities and/or noncompliance with corporate policy or controls**.**

In addition, consistent with the terms of the Omnibus Plan, as applicable, the Committee may adjust any or all performance goals during a performance period to reflect unforeseen, unusual or extraordinary events or circumstances including but not limited to (i) changes in accounting principles or practices, (ii) extraordinary gains or losses on the sale of assets, (iii) new or amended laws or regulations, and (iv) acquisitions or divestitures.

The Committee also has the authority to impose such other limitations on awards as it may deem necessary or appropriate.

Prorated Awards

In the event that an individual transfers between business units or is promoted during the course of a performance period, a prorated award may be earned based on the time spent in each position.

All eligible employees hired or promoted on or before the 15th of the month will be prorated based on the number of months of Program eligibility, including the month of hire.

All eligible employees hired or promoted on or after the 16th of the month will be eligible to participate in the Program at the beginning of the following month.

All eligible employees hired on or after November 1st of the current year will not be eligible to participate in the Program until the beginning of the next Program year.

Termination of Employment

Forfeiture

Generally, unless an individual's Committee-approved employment agreement provides otherwise, upon termination of employment for any reason, the individual will forfeit any award that has not been paid.

Retirement, Disability or Death

In the event that employment is terminated as a result of retirement (defined below), disability (defined below) or death, the award will be prorated based on the number of months employed during the performance period prior to the termination of employment and based on and subject to actual performance during the performance period, in accordance with the Program. Payment will be paid as soon as practicable in the following year after the audited financial results are available for the performance period, but in no event later than March 15, 2022. In the event of death, the award will be paid to the individual's beneficiary or, if no beneficiary is named, to their estate.

For purposes of the Program: (i) retirement shall mean a termination of a participant's employment, other than for Cause, on or after the attainment of age 65, and (ii) disability shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment for the period of time as set forth under the long term disability program maintained by the Company for the benefit of the participant.

Voluntary Termination or Termination by the Company

Other than in the event of a termination of employment as a result of retirement, in the event that a participant voluntarily terminates from employment or is involuntarily terminated by the Company, the participant will forfeit any award that has not been paid, in accordance with the Program. In other words, a participant must be employed by the Company on the date the award is actually paid by the Company.

Termination or Modification of the Program

The Committee may modify or terminate the Program at any time, effective at such date as the Committee may determine. The Committee or Board may, prior to the end of the Program year, adopt a resolution fixing a minimum aggregate amount, which amount is in the Committee or Board's discretion (a "Pool"), to be paid to participants under the Program for 2021. After such a Pool is established, (i) the Program may not be modified or terminated and the amount of the Pool may not be reduced after December 31, 2021, and (ii) any amounts forfeited by individual participants hereunder because they are not employed as of the payment date will not reduce the Pool but will be reallocated among other participants in the Program, and shall not revert to the Company.

Exhibit 10.30

KAR AUCTION SERVICES, INC.

2009 OMNIBUS STOCK AND INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AWARD AGREEMENT

This Non-Qualified Stock Option Award Agreement (this "Award Agreement"), dated as of [●] (the "Grant Date"), is made by and between KAR Auction Services, Inc., a Delaware corporation (the "Company"), and [●] (the "Recipient").

1. Definitions. Any capitalized term that is used but not defined in this Award Agreement shall have the meaning ascribed to such term in the KAR Auction Services, Inc. 2009 Omnibus Stock and Incentive Plan (as may be amended from time to time, the "Plan"), and (ii) the terms set forth below shall have the following meanings:

(a) "Exchange" means, for any date, New York Stock Exchange or, if different from the New York Stock Exchange, the principal U.S. securities exchange on which the Common Stock is listed on such date.

(b) "Good Reason" shall have the meaning set forth in the Recipient's employment agreement, to the extent applicable.

(c) "Retirement" means the Recipient's voluntary termination of employment (i) on or after attaining 65 years of age and at least 5 years of service with the Company and its Affiliates or (ii) on or after December 31, 2022, having attained 60 years of age as of the Grant Date, and having at least 10 years of service with the Company and its Affiliates through the date of termination.

(d) "Option Expiration Date" means the tenth (10th) anniversary of the Grant Date.

(e) "Sustained Stock Price" means following the Grant Date, the closing price of the Common Stock at or above the applicable Stock Price Hurdle (as defined below) is maintained for twenty (20) consecutive Trading Days.

(f) "Trading Day" means any day (i) other than a Saturday or Sunday and (ii) on which the Exchange is open for trading during its regular trading session, notwithstanding the Exchange closing prior to its scheduled closing time.

2. Grant of Stock Option. The Company hereby grants to the Recipient an option to purchase [●] shares of Common Stock at an Exercise Price of $[●] per share, (the "Option") as of the Grant Date.

3. Vesting.

(a) Time-Based Option. A total of [●] shares of Common Stock subject to the Option (the "Time-Vesting Option") shall vest and become exercisable in equal installments on each of the first four (4) anniversaries of the Grant Date (each such date, a "Scheduled Vesting Date");

provided that the Recipient remains in continuous employment with the Company or an Affiliate through, and has not given or received a notice of termination of such employment as of, the applicable Scheduled Vesting Date, unless otherwise provided in Sections 6 and 7, below.

(b) Performance-Based Option. A total of [●] shares of Common Stock subject to the Option (the "Performance-Vesting Option") shall become eligible to vest and become exercisable in equal 25% increments, each upon the later of the occurrence of the Scheduled Vesting Date and the attainment of the Sustained Stock Price in respect of the applicable "Stock Price Hurdle," as set forth below (the later of such dates, the "Performance Vesting Date"); provided that the Recipient remains in continuous employment with the Company or an Affiliate through, and has not given or received a notice of termination of such employment as of, the applicable Performance Vesting Date, unless otherwise provided in Sections 6 and 7, below.

Stock Price Hurdle	**Percentage of Performance-Vesting Option Vesting (following applicable Scheduled Vesting Date)**
$xx [$5.00 above the Exercise Price]	25%
$xx [$10.00 above the Exercise Price]	25%
$xx [$15.00 above the Exercise Price]	25%
$xx [$20.00 above the Exercise Price]	25%

4. Timing of Exercise. Following the vesting of the Option as set forth in Section 3 hereof, the Recipient may exercise all or any portion of such Option at any time prior to the earliest to occur of:

(a) The Option Expiration Date;

(b) The first (1st) anniversary of the Recipient's termination of employment by reason of the Recipient's death or Disability; and

(c) The three (3) month period anniversary of the Recipient's termination of employment by reason of termination of employment by the Company without Cause or a termination of employment by the Recipient for any reason, except in either case for a termination which constitutes Retirement (in which case the vested portion of the Option will remain exercisable until the Option Expiration Date, or a termination addressed in Section 7 below which shall be governed by such section); provided that in the event that the Employee dies after terminating his employment, but within the period during which the Option would otherwise be exercisable hereunder, such three (3) month period shall be extended to the date that is the first (1st) anniversary of such termination.

The Administrator may at any time extend the post-termination exercise period of all or any portion of the Option up to and including, but not beyond, the Option Expiration Date.

5. Method of Exercise. The Recipient may exercise all or any portion of the Option by giving written notice of exercise to the Company specifying the number of shares of Common

Stock to be purchased, accompanied by payment in full of the aggregate exercise price of the shares of Common Stock so purchased in cash or its equivalent. As determined by the Administrator in its sole discretion, payment of the aggregate exercise price of such shares of Common Stock may also be made (i) by means of any cashless exercise procedure approved by the Administrator (including the withholding of shares of Common Stock otherwise issuable upon exercise), (ii) in the form of shares of Common Stock already owned by the Recipient which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the shares of Common Stock with respect to which the Option is being exercised, (iii) any other form of consideration approved by the Administrator and (iv) any combination of the foregoing.

6. Termination of Employment.

(a) If the Recipient experiences a termination of employment with the Company and its Affiliates by reason of the Recipient's Retirement, then the unvested portions of the Time-Vesting Option and the Performance-Vesting Option as of the date of such termination shall continue to vest in accordance with the applicable vesting schedule set forth in Section 3 hereof, except that the requirement to continue providing services until the applicable vesting dates shall no longer apply.

(b) If the Recipient experiences a termination of employment with the Company and its Affiliates on account of the Recipient's death or Disability, then (i) the unvested portion of the Time-Vesting Option as of the date of such termination of employment shall vest in full immediately upon such termination of employment and shall be exercisable until the earlier of the first (1st) anniversary of such termination of employment or the Option Expiration Date and (ii) with respect to the Performance-Vesting Option, the service vesting criteria shall be deemed achieved as of such termination of employment and the Performance-Vesting Option shall continue to be eligible to vest in accordance with the applicable vesting schedule set forth in Section 3 hereof until the earlier of the first (1st) anniversary of such termination of employment or the Option Expiration Date. Any portion of the Performance-Vesting Option that vest during such period shall be exercisable until the earlier of the first (1st) anniversary of the termination of employment or the Option Expiration Date. Any portion of the Performance-Vesting Option that is unvested at the end of such period, shall be forfeited on such date.

(c) If the Recipient experiences a termination of employment with the Company and its Affiliates for Cause, then the Time-Vesting Option and the Performance-Vesting Option, whether vested or unvested, as of the date of such termination of employment shall be forfeited on such date.

(d) If the Recipient experiences a termination of employment with the Company and its Affiliates for any reason other those set forth in Sections 6(a), 6(b) and 6(c) above, or as provided in Section 7 below, then any unvested portions of the Time-Vesting Option and the Performance-Vesting Option as of the date of such termination of employment shall be forfeited on such date.

7. Change in Control.

(a) Upon a Change in Control: (i) the unvested portion of the Time-Vesting Option assumed by the Company or its successor shall continue to vest in accordance with the applicable vesting schedule set forth in Section 3 hereof, (ii) with respect to the unvested portion of the Performance-Vesting Option, the Committee shall determine (in its discretion and prior to the Change in Control) whether the price (whether paid in cash or property) in the transaction constituting a Change in Control equals or exceeds the applicable Stock Price Hurdle and the unvested portion of the Performance-Vesting Option shall continue to vest based on continued service as though Sustained Stock Price in respect of such Stock Price Hurdle were achieved at the time of the Change in Control, and the unvested portion of the Performance-Vesting Option that is not eligible to vest based on such Sustained Stock Price shall be forfeited as of the Change in Control.

(b) If following a Change in Control the Recipient's employment with the Company or its successor is terminated by the Company without Cause or by the Recipient for Good Reason (each, a "CIC Termination"), then (i) the vested portions of the Time-Vesting Option and the Performance-Vesting Option shall remain exercisable until the earlier of the Option Expiration Date or the second (2nd) anniversary of such CIC Termination, and (ii) the unvested portions of the Time-Vesting Option and the Performance-Vesting Option shall become fully vested on the date of such CIC Termination and shall be exercisable until the earlier of the Option Expiration Date or the second (2nd) anniversary of such CIC Termination. Notwithstanding the above, if the Recipient is eligible for Retirement on the date of such CIC Termination, then the Option shall remain exercisable until the Option Expiration Date.

(c) To the extent the unvested portions of the Time-Vesting Option and the Performance-Vesting Option are not assumed by the Company or its successor upon such a Change in Control, then (i) the unvested portion of the Time-Vesting Option shall immediately become fully vested on the date of such Change in Control and (ii) the unvested portion of the Performance-Vesting Option that would remain eligible to vest pursuant to a determination described in Section 7(a)(ii) above shall immediately become fully vested on the date of such Change in Control, and (iii) the remaining unvested portion of the Performance-Vesting Option shall be forfeited as of the Change in Control. Payment in respect of the portions of Time-Vesting Option and the Performance-Vesting Option that vest under this section shall be made in accordance with Section 11 of the Plan as soon as administratively feasible thereafter, but in no event later than sixty (60) days following the date of the Change in Control.

8. Rights as Stockholder. The Recipient shall have no rights of a stockholder with respect to the shares of Common Stock subject to the Option (including the right to vote and the right to receive distributions or dividends) unless and until shares of Common Stock are issued in respect thereof.

9. Award Agreement Subject to Plan. This Award Agreement is made pursuant to all of the provisions of the Plan, which is incorporated herein by this reference, and is intended, and shall be interpreted in a manner, to comply therewith.

10. No Rights to Continuation of Employment. Nothing in the Plan or this Award Agreement shall confer upon the Recipient any right to continue in the employ of the Company or any Affiliate thereof or shall interfere with or restrict the right of the Company or its Affiliates to terminate the Recipient's employment any time for any reason whatsoever, with or without cause.

11. Tax Withholding. The Company shall be entitled to require a cash payment by or on behalf of the Recipient and/or to deduct from the shares of Common Stock otherwise issuable hereunder or other compensation payable to the Recipient the amount of any federal, state or local withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option, in each case in accordance with the terms of the Plan.

12. Governing Law. This Award Agreement shall be governed by, interpreted under, and construed and enforced in accordance with the internal laws, and not the laws pertaining to conflicts or choices of laws, of the State of Delaware applicable to agreements made and to be performed wholly within the State of Delaware.

13. Award Agreement Binding on Successors. The terms of this Award Agreement shall be binding upon the Recipient and upon the Recipient's heirs, executors, administrators, personal representatives, transferees, assignees and successors in interest, and upon the Company and its successors and assignees, subject to the terms of the Plan.

14. No Assignment. Notwithstanding anything to the contrary in this Award Agreement, neither this Award Agreement nor any rights granted herein shall be assignable by the Recipient.

15. Necessary Acts. The Recipient hereby agrees to perform all acts, and to execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Award Agreement, including but not limited to all acts and documents related to compliance with federal and/or state securities and/or tax laws.

16. Severability. Should any provision of this Award Agreement be held by a court of competent jurisdiction to be unenforceable, or enforceable only if modified, such holding shall not affect the validity of the remainder of this Award Agreement, the balance of which shall continue to be binding upon the parties hereto with any such modification (if any) to become a part hereof and treated as though contained in this original Award Agreement. Moreover, if one or more of the provisions contained in this Award Agreement shall for any reason be held to be excessively broad as to scope, activity, subject or otherwise so as to be unenforceable, in lieu of severing such unenforceable provision, such provision or provisions shall be construed by the appropriate judicial body by limiting or reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear, and such determination by such judicial body shall not affect the enforceability of such provisions or provisions in any other jurisdiction.

17. Entire Agreement. This Award Agreement and the Plan contain the entire agreement and understanding among the parties as to the subject matter hereof, and supersede

any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof.

18. Headings. Headings are used solely for the convenience of the parties and shall not be deemed to be a limitation upon or descriptive of the contents of any such Section.

19. Counterparts; Electronic Signature. This Award Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. The Recipient's electronic signature of this Award Agreement shall have the same validity and effect as a signature affixed by the Recipient's hand.

20. Amendment. No amendment or modification hereof shall be valid unless it shall be in writing and signed by all parties hereto.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company and the Recipient have duly executed this Agreement as of the date first above written.

KAR AUCTION SERVICES, INC.

By:
Name:
Title:

RECIPIENT

Name

[Signature Page to Non-Qualified Stock Option Award Agreement]

ASSIGNMENT AND ASSUMPTION AGREEMENT

ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Agreement") dated as of June 9, 2020 by and between Periphas Capital GP, LLC, a Delaware limited liability company (the "Assignor"), and Periphas Kanga Holdings, LP, a Delaware limited partnership (the "Assignee").

WHEREAS, the Assignor is a party to that certain Investment Agreement, dated as of May 26, 2020, by and between KAR Auction Services, Inc., a Delaware corporation ("KAR"), and the Assignor (the "Investment Agreement");

WHEREAS, capitalized terms used but not defined herein shall have the meanings ascribed to them in the Investment Agreement;

WHEREAS, pursuant to and subject to the terms and conditions of Section 2.01 of the Investment Agreement, the Assignor (i) has the right to, or to cause its designee to, purchase and acquire from the Company, an aggregate of 20,000 shares of Series A Preferred Stock (the "Initial Purchase Right") and (ii) has the option to, or to cause its designee to, purchase and acquire from the Company, an aggregate of up to such number of shares of Series A Preferred Stock specified in the Exercise Notice, but not more than 30,000 shares of Series A Preferred Stock (the "Supplemental Purchase Right," and together with Initial Purchase Right, the "Assigned Rights");

WHEREAS, pursuant to and subject to the conditions of Section 8.03 of the Investment Agreement, Assignor may assign its rights, interests and obligations under the Investment Agreement, in whole or in part, (including, without limitation, solely the right to purchase the Initial Acquired Shares at the Initial Closing or the Supplemental Acquired Shares at the Second Closing, as applicable, in accordance with Section 2.02 of the Investment Agreement), to one or more Permitted Transferees;

WHEREAS, the Assignee is a Permitted Transferee; and

WHEREAS, the Assignor now desires to transfer and assign to the Assignee the Assigned Rights, and the Assignee now desires to accept such transfer and assignment.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the parties hereto hereby covenant and agree as follows:

1. Assignment and Assumption. The Assignor hereby transfers and assigns to the Assignee the Assigned Rights and the Assignee hereby accepts the transfer and assignment of the Assigned Rights and the obligations related thereto. The Assignee agrees to be bound by the provisions of the Investment Agreement, including the rights and interests of the Assigned Rights and the obligations related thereto (provided, that such transfer and assignment of the Assigned Rights and assumption of the obligations related thereto do not relieve the Assignor of its obligations under the Investment Agreement prior to the Initial Closing or the Second Closing).

2. Entire Agreement. This agreement represents the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior understandings, oral or written, between the Assignor and the Assignee.

3. Further Assurances. Each of the parties hereto shall execute and cause to be delivered to the other party hereto such instruments and other documents, and shall take such other actions, as such other party may reasonably request for the purpose of carrying out or evidencing any of the transactions contemplated by this agreement.

4. Amendments. This agreement may not be amended, modified, altered or supplemented, other than by means of a written instrument duly executed and delivered on behalf of each of the parties hereto.

5. Governing Law and Jurisdiction. Section 8.06 of the Investment Agreement shall also apply to this Agreement, *mutatis mutandis*, and all rights and obligations arising hereunder.

6. WAIVER OF JURY TRIAL. Section 8.08 of the Investment Agreement shall also apply to this Agreement, *mutatis mutandis*, and all rights and obligations arising hereunder.

7. No Third Party Beneficiaries. Section 8.05(b) of the Investment Agreement shall also apply to this Agreement, *mutatis mutandis*, and all rights and obligations arising hereunder. Notwithstanding anything to the contrary herein, the Company shall be a third party beneficiary of this Agreement.

8. Specific Enforcement. Section 8.07 of the Investment Agreement shall also apply to this Agreement, *mutatis mutandis*, and all rights and obligations arising hereunder.

9. Miscellaneous. This agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall be one and the same document.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the date first above written.

ASSIGNOR:

PERIPHAS CAPITAL GP, LLC

By: SKM, LLC
its managing member

By: /s/ Sanjeev Mehra
Name: Sanjeev Mehra
Title: Investment Manager

ASSIGNEE:

PERIPHAS KANGA HOLDINGS, LP

By: PERIPHAS KANGA HOLDINGS GP, LLC
its general partner

By: SKM, LLC
its managing member

By: /s/ Sanjeev Mehra
Name: Sanjeev Mehra
Title: Investment Manager

[Signature Page to Assignment and Assumption Agreement]

EXHIBIT 21.1

Subsidiaries of KAR Auction Services, Inc.

The following is a list of subsidiaries of KAR Auction Services, Inc. (a Delaware corporation) as of December 31, 2020:

Name	State or Jurisdiction of Incorporation or Organization
ADESA, Inc.	Delaware
ADESA Corporation, LLC	Indiana
A.D.E. of Ark-La-Tex, Inc.	Louisiana
A.D.E. of Knoxville, LLC	Tennessee
ADESA Ark-La-Tex, LLC	Louisiana
ADESA Arkansas, LLC	Delaware
ADESA Atlanta, LLC	New Jersey
ADESA Birmingham, LLC	Alabama
ADESA California, LLC	California
ADESA Charlotte, LLC	North Carolina
ADESA Colorado, LLC	Colorado
ADESA Dealer Services, LLC	Indiana
ADESA Des Moines, LLC	Iowa
ADESA Florida, LLC	Florida
ADESA Illinois, LLC	Illinois
ADESA Indianapolis, LLC	Indiana
ADESA Lansing, LLC	Michigan
ADESA Lexington, LLC	Kentucky
ADESA Mexico, LLC	Indiana
ADESA Minnesota, LLC	Minnesota
ADESA Missouri, LLC	Missouri
ADESA Nevada, LLC	Nevada
ADESA New Jersey, LLC	New Jersey
ADESA New York, LLC	New York
ADESA Ohio, LLC	Ohio
ADESA Oklahoma, LLC	Oklahoma
ADESA Pennsylvania, LLC	Pennsylvania
ADESA Phoenix, LLC	New Jersey
ADESA San Diego, LLC	California
ADESA South Florida, LLC	Indiana
ADESA Texas, Inc.	Texas
ADESA Virginia, LLC	Virginia
ADESA Wisconsin, LLC	Wisconsin
AFC CAL, LLC	California
Asset Holdings III, L.P.	Ohio
Auto Dealers Exchange of Concord, LLC	Massachusetts
Auto Dealers Exchange of Memphis, LLC	Tennessee
Automotive Finance Consumer Division, LLC	Indiana
Automotive Finance Corporation	Indiana
Autoniq, LLC	Virginia
AutoVIN, Inc.	Indiana
MobileTrac LLC	Delaware

Name	State or Jurisdiction of Incorporation or Organization
PAR, Inc.	Indiana
High Tech National, LLC	Indiana
HT Locksmiths, Inc.	Indiana
Sioux Falls Auto Auction, Inc.	South Dakota
Tri-State Auction Co., Inc.	North Dakota
Zabel & Associates, Inc.	North Dakota
AFC Funding Corporation	Indiana
AuctionTrac, LLC	Indiana
OPENLANE, Inc.	Delaware
CarsArrive Network, Inc.	Georgia
Recovery Database Network, Inc.	Delaware
OPENLANE Canada Co.	Nova Scotia
OPENLANE Canada Inc.	Ontario
NEPO Auto Centre, Inc.	Ontario
Auction Vehicles of Mexico S. de R.L. de C.V.	Federal District of Mexico
ADESUR S. de R.L. de C.V.	Federal District of Mexico
2540-0714 Quebec Inc.	Quebec
504811 NB Ltd.	New Brunswick
51937 Newfoundland & Labrador Limited	Newfoundland
79378 Manitoba Inc.	Manitoba
ADESA Auctions Canada Corporation	Nova Scotia
ADESA Montreal Corporation	Nova Scotia
ADESA Quebec Corporation	Quebec
ADESA Remarketing Services Inc.	Ontario
AutoVIN Canada Inc.	Nova Scotia
Automotive Finance Canada Inc.	Ontario
Automotive Key Controls, LLC	Indiana
High Tech Locksmiths Canada ULC	Alberta
ADESA Idaho, LLC	Idaho
ADESA Oregon, LLC	Oregon
ADESA Utah, LLC	Utah
KAR Auction Services International Limited	United Kingdom
ADESA Remarketing Limited	United Kingdom
CarCo Technologies, LLC	Illinois
Nth Gen Software, Inc.	Ontario
Nth Gen Software (Florida) LLC	Florida
TradeRev USA LLC	Florida
TradeRev Motors Inc.	Ontario
TradeRev Technologies Inc.	Ontario
111 Remarketing, LLC	Arizona
STRATIM Systems Incorporated	Delaware
Clearplan, LLC	Delaware
ADESA Belgium NV	Belgium
ADESA Deutschland GmbH	Germany
ADESA Europe Holding NV	Belgium
ADESA Europe NV	Belgium
ADESA France SAS	France

Name	State or Jurisdiction of Incorporation or Organization
ADESA Italia S.R.L.	Italy
ADESA Nederland B.V.	The Netherlands
ADESA Subastas España, S.L.U.	Spain
Car Quality Services GmbH	Germany
CarsArrive Europe GmbH	Germany
BacklotCars, Inc.	Delaware
BacklotCars UY, S.R.L.	Uruguay
BLC UY Quota Holdings, LLC	Delaware

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
KAR Auction Services, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333‑164032, No. 333‑168523, No. 333‑196668, and No. 333‑250085) on Form S‑8 of KAR Auction Services, Inc. of our report dated February 18, 2021, with respect to the consolidated balance sheets of KAR Auction Services, Inc. as of December 31, 2020 and 2019, the related consolidated statements of income (loss), comprehensive income, stockholders' equity, and cash flows for each of the years in the three‑year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2020, which report appears in the December 31, 2020 annual report on Form 10‑K of KAR Auction Services, Inc. Our report refers to a change in the method of accounting for leases effective January 1, 2019 due to the adoption of Financial Accounting Standards Board Accounting Standard Codification (ASC) Topic 842, *Leases*, and to a change in the method of accounting for credit losses effective January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*.

Our audit report on internal control over financial reporting as of December 31, 2020, contains an explanatory paragraph that states that management has excluded from its assessment of the effectiveness of internal control over financial reporting as of December 31, 2020, the internal control over financial reporting associated with BacklotCars, Inc. ("2020 acquisition") with total assets of 6.9% and total revenues of 0.4% included in the consolidated financial statements of KAR Auction Services, Inc. and subsidiaries as of and for the year ended December 31, 2020. Our audit of internal control over financial reporting of KAR Auction Services, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of the 2020 acquisition.

/s/ KPMG LLP

Indianapolis, Indiana
February 18, 2021

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James P. Hallett, certify that:

1) I have reviewed this Annual Report on Form 10-K of KAR Auction Services, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer

Date: February 18, 2021

EXHIBIT 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric M. Loughmiller, certify that:

1) I have reviewed this Annual Report on Form 10-K of KAR Auction Services, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer

Date: February 18, 2021

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of KAR Auction Services, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Hallett, as Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES P. HALLETT

James P. Hallett
Chief Executive Officer

Date: February 18, 2021

EXHIBIT 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of KAR Auction Services, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric M. Loughmiller, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ERIC M. LOUGHMILLER

Eric M. Loughmiller
Executive Vice President and Chief Financial Officer

Date: February 18, 2021