

KAR Auction Services, Inc.

Form 10-Q

August 04, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

Commission File Number: 001-34568

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

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

13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (800) 923-3725

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

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

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

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

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

As of July 31, 2015, 141,775,001 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

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KAR Auction Services, Inc.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

KAR Auction Services, Inc.

Consolidated Statements of Income

(In millions, except per share data)

(Unaudited)

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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KAR Auction Services, Inc.

Consolidated Balance Sheets

(In millions, except share and per share data)

(Unaudited)

	June 30, 2015	December 31, 2014
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$629.9	\$471.7
Accrued employee benefits and compensation expenses	65.5	77.6
Accrued interest	0.5	0.3
Other accrued expenses	120.6	114.4
Income taxes payable	8.5	5.5
Dividends payable	38.3	38.2
Obligations collateralized by finance receivables	1,094.8	865.2
Current maturities of long-term debt	17.7	17.7
Total current liabilities	1,975.8	1,590.6
Non-current liabilities		
Long-term debt	1,727.9	1,736.6
Deferred income tax liabilities	328.6	333.4
Other liabilities	150.9	143.8
Total non-current liabilities	2,207.4	2,213.8
Commitments and contingencies (Note 8)		
Stockholders' equity		
Preferred stock, \$0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none	—	—
Common stock, \$0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
June 30, 2015: 141,851,515		
December 31, 2014: 141,316,444	1.4	1.4
Additional paid-in capital	1,596.4	1,593.7
Accumulated deficit	(9.0)) (46.4)
Accumulated other comprehensive loss	(16.8)) (1.6)
Total stockholders' equity	1,572.0	1,547.1
Total liabilities and stockholders' equity	\$5,755.2	\$5,351.5

See accompanying notes to consolidated financial statements

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

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

See accompanying notes to consolidated financial statements

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KAR Auction Services, Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Operating activities		
Net income	\$114.0	