KAR Auction Services, Inc.
Form S-1/A
December 10, 2009
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As filed with the Securities and Exchange Commission on December 10, 2009

Registration No. 333-161907

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 5

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

KAR Auction Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**5010**	**20-8744739**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

(800) 923-3725

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Rebecca C. Polak

Executive Vice President and General Counsel

KAR Auction Services, Inc.

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

(317) 815-9135

(317) 249-4518 (facsimile)

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Gregory A. Fernicola, Esq.	**Peter J. Loughran, Esq.**
Skadden, Arps, Slate, Meagher & Flom LLP	**Debevoise & Plimpton LLP**
Four Times Square	**919 Third Avenue**
New York, New York 10036	**New York, New York 10022**
(212) 735-3000	**(212) 909-6000**
(212) 735-2000 (facsimile)	**(212) 909-6836 (facsimile)**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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 x (Do not check if a smaller reporting company)	Smaller reporting company ¨

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated December 10, 2009.

23,000,000 Shares

KAR Auction Services, Inc.

Common Stock

This is an initial public offering of shares of common stock of KAR Auction Services, Inc. All of the shares of common stock are being sold by us.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $15.00 and $17.00. Our common stock has been approved for listing on the New York Stock Exchange under the symbol KAR, subject to official notice of issuance.

See Risk Factors beginning on page 14 to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to KAR Auction Services, Inc.	$	$

To the extent that the underwriters sell more than 23,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 3,450,000 shares from us at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about , 2009.

Goldman, Sachs & Co. **Credit Suisse**
BofA Merrill Lynch **J.P. Morgan**

Barclays Capital **BMO Capital Markets**

Baird **Barrington Research**
BB&T Capital Markets **RBC Capital Markets**
Stephens Inc.

Prospectus dated , 2009.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

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INDUSTRY AND MARKET DATA

This prospectus includes estimates of market share and industry data and forecasts that we obtained from industry publications and surveys and internal company sources. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. All information regarding our market share is based on the latest market data currently available to us. Our estimates involve risks and uncertainties, and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus. In this prospectus, references to our market share or market position for ADESA and IAAI are based on the number of vehicles sold annually.

DEFINED TERMS

Unless otherwise indicated, the following terms used in this prospectus have the following meanings:

we, us, our and the Company refer, collectively, to KAR Auction Services, Inc. (formerly known as KAR Holdings, Inc.) and all of its subsidiaries;

2007 Transactions refers to the transactions described in Combination of ADESA and IAAI ;

ADESA refers, collectively, to ADESA, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries;

AFC refers, collectively, to Automotive Finance Corporation, a wholly owned subsidiary of ADESA and its subsidiaries;

ALLETE refers to ALLETE, Inc. the former parent company of ADESA;

AutoVIN refers to AutoVIN, Inc., our wholly owned subsidiary;

Credit Agreement refers to the Credit Agreement, dated April 20, 2007, among KAR Auction Services, as the borrower, KAR LLC, as guarantor, the several lenders from time to time parties thereto and the administrative agent, the joint bookrunners, the co-documentation agents, the syndication agent and the joint lead arrangers named therein, as amended;

Equity Sponsors refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P., which own through their respective affiliates substantially all of the equity of KAR Auction Services;

fixed senior notes refers to KAR Auction Services 8¾% Senior Notes due May 1, 2014 ($450.0 million aggregate principal amount currently outstanding);

floating senior notes refers to KAR Auction Services Floating Rate Senior Notes due May 1, 2014 ($150.0 million aggregate principal amount currently outstanding);

IAAI refers, collectively, to Insurance Auto Auctions, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries;

KAR Auction Services and the issuer refer to KAR Auction Services, Inc., and not to its subsidiaries;

KAR LLC refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors and management of the Company;

LAI refers, collectively, to LiveBlock Auctions International, Inc., a wholly owned subsidiary of ADESA and its subsidiaries;

notes refers, collectively, to our senior notes and senior subordinated notes;

senior notes refers, collectively, to the fixed senior notes and floating senior notes; and

senior subordinated notes refers to KAR Auction Services 10% Senior Subordinated Notes due May 1, 2015 ($425.0 million aggregate principal amount currently outstanding).

COMBINATION OF ADESA AND IAAI

KAR Auction Services is a holding company that was organized for the purpose of consummating a merger with ADESA and related transactions that resulted in ADESA and IAAI becoming, directly or indirectly, wholly owned subsidiaries of the Company. The Company had no operations prior to the transactions on April 20, 2007.

On December 22, 2006, KAR LLC entered into a definitive merger agreement to acquire ADESA. The merger occurred on April 20, 2007. Concurrently with the merger, IAAI, a leading provider of automotive salvage auction and claims processing services in the United States, was contributed by affiliates of Kelso & Company and Parthenon Capital and IAAI s management to KAR Auction Services. Both ADESA and IAAI became wholly owned subsidiaries of KAR Auction Services, which was wholly-owned by KAR LLC prior to this offering. KAR Auction Services is the accounting acquirer, and the assets and liabilities of both ADESA and IAAI were recorded at fair value as of April 20, 2007.

The following transactions occurred in connection with the merger:

Approximately 90.8 million shares of ADESA s outstanding common stock converted into the right to receive $27.85 per share in cash.

Approximately 3.4 million outstanding options to purchase shares of ADESA s common stock were cancelled in exchange for payments in cash of $27.85 per underlying share, less the applicable option exercise price, resulting in net proceeds to holders of $18.6 million.

Approximately 0.3 million outstanding restricted stock and restricted stock units of ADESA vested immediately and were paid out in cash of $27.85 per unit.

Affiliates of the Equity Sponsors and management contributed to KAR Auction Services approximately $1.1 billion in equity, consisting of approximately $790.0 million in cash and ADESA stock and approximately $272.4 million of equity interest in IAAI.

KAR Auction Services entered into new senior secured credit facilities, comprised of a $1,565.0 million term loan facility and a $300.0 million revolving credit facility.

KAR Auction Services issued the senior notes and the senior subordinated notes.

The net proceeds from the Equity Sponsors and financings were used to: (a) fund the cash consideration payable to ADESA stockholders, ADESA option holders and ADESA restricted stock and restricted stock unit holders under the merger agreement;

(b) repay the outstanding principal and accrued interest under ADESA s existing credit facility and notes; (c) repay the outstanding principal and accrued interest under IAAI s existing credit facility and notes; (d) pay related transaction fees and expenses; and (e) contribute IAAI s equity at fair value.

The transactions described above are collectively referred to as the 2007 Transactions.

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SUMMARY

This summary highlights information appearing elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making your investment decision. You should read the entire prospectus carefully, including the matters discussed under the caption Risk Factors and in the financial statements and related notes included elsewhere in this prospectus, as well as information incorporated by reference.

Our Company

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace providing auction services for sellers of used, or whole car, vehicles and salvage vehicles through our 214 physical auction locations and multiple proprietary Internet venues. In 2008, we facilitated the sale of over 3.2 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers as well as by providing value-added ancillary services, including inspections, storage, transportation, reconditioning, salvage recovery, titling, and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and we do not take title or ownership to substantially all vehicles sold at our auctions. We currently have over 150,000 registered buyers at our auctions. For the twelve month period ended September 30, 2009, our revenues totaled $1,708 million, and our Adjusted EBITDA was $383.7 million. For the twelve month period ended September 30, 2009, our net loss was $31.4 million. For a reconciliation from Net income (loss) to Adjusted EBITDA, which is a non-GAAP measure, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources EBITDA and Adjusted EBITDA.

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA s auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. IAAI, our salvage auction services business, is one of the two largest providers of salvage auction services in North America. Vehicles at our salvage auctions are typically damaged or low value vehicles that are sold primarily by automobile insurance companies, non-profit organizations, automobile dealers, vehicle leasing companies and rental car companies to licensed dismantlers, rebuilders, scrap dealers or qualified public buyers. An important component of ADESA s and, to a lesser extent, IAAI 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.

We have a network of 62 whole car auction locations and 152 salvage auction locations. Our auction locations are primarily stand-alone facilities dedicated to either whole car or salvage auctions. Eleven of our locations are combination sites, which offer both whole car and salvage auction services. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with North American providers and buyers of used and salvage vehicles.

Our Industry

Auctions are the hub of the redistribution system for used and salvage vehicles, bringing professional sellers and buyers together and creating a marketplace for the sale of these vehicles. Whole car auction vehicles include vehicles from dealers turning their inventory, off-lease vehicles, vehicles repossessed by financial institutions and rental and other program fleet vehicles that have reached a predetermined age or mileage. The salvage vehicle auction industry provides a venue for

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sellers, primarily automobile insurance companies, to dispose or liquidate damaged or low value vehicles to dismantlers, rebuilders, scrap dealers or qualified public buyers. The following are key industry highlights:

Stable Whole Car Industry Volumes

During the period from 1999 to 2008, approximately 9.2 to 10.0 million used vehicles per year were sold in North America through whole car auctions. The stable number of vehicles sold at auction in North America is primarily dependent upon the total population of cars on the road as opposed to the more volatile annual new vehicle sales. Positive trends which should influence future demand for used vehicles include increases in the number of households with more than one vehicle, improvements by manufacturers that have extended vehicle lifespan and the affordability of used vehicles relative to new vehicles.

Growing Salvage Auction Industry Volumes

During the period of 2004 through 2008, we believe that the North American salvage vehicle auction industry volumes increased at an estimated annual growth rate of 2%. Vehicles deemed a total loss by the insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. This trend, along with increases in miles driven and vehicles per household, has contributed to the growth in salvage vehicle volumes.

Consolidated Whole Car and Salvage Auction Markets

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA represent approximately 50% and over 21% of the market, respectively, and no other competitor represents more than 3%. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, Copart and IAAI, representing an estimated 37% and 35% of the market, respectively, and no other competitor representing more than 10%.

High Barriers to Entry

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

Our Competitive Strengths

Leading Provider of Both Whole Car and Salvage Vehicle Auctions

We are the second largest provider of both whole car and salvage vehicle auctions and related services in North America, with estimated market shares of over 21% and 35% in the whole car and salvage auction markets, respectively. We have 62 whole car and 152 salvage auction locations and are the only company in North America with a top two market share position in both the whole car and salvage auction markets. Our market presence in the 75 largest metropolitan markets in the United States and Canada enables us to attract large whole car and salvage sellers while simultaneously maintaining strong relationships with local franchised and independent automobile dealers. Our auctions attract a high volume of vehicles, thereby ensuring sufficient supply to create the successful marketplaces that buyers and sellers demand. We also have a leading market position in the floorplan financing industry. AFC has 87 branches primarily supporting over 10,000 independent dealers across North America who purchase vehicles primarily from whole car auctions.

Differentiated Internet-Based Auction Services Complement Physical Presence

All of our services are augmented by state-of-the-art information technology solutions enabling our buyers and sellers to maximize exposure and salability of inventory at all points in the remarketing lifecycle. For our whole car customers, we complement the physical auction with LiveBlock (real-time simulcast of the physical auction via the Internet), DealerBlock® (24/7 interactive, virtual auctions) and customized private label solutions that allow our institutional consignors to offer vehicles via the Internet prior to arrival at the physical auction. In addition, our Internet services allow buyers to search inventory, review vehicle condition reports, receive electronic notifications of successful vehicle searches, determine market values and purchase vehicles via the Internet. ADESA owns LAI, which we believe is a leading provider of software that facilitates the simulcast of physical auctions on the Internet in real time allowing buyers to bid from any location. Our handheld condition reporting technology provided through our wholly owned subsidiary, AutoVin, prepares standard vehicle inspection reports, including pictures, for all vehicles sold via the Internet or at physical auction. For our salvage buyers, we complement the physical auctions with i-Bid LIVE℠ (real-time simulcast of the physical auction via the Internet) and a newly designed website that allows buyers to search inventory, review photos, set up alerts and purchase vehicles. In addition, our insurance company suppliers can manage inventory, perform salvage return analyses and electronically assign vehicles to our auctions via the Internet using CSA Today , a proprietary software product developed by IAAI.

Provider of Comprehensive Vehicle Auction Services

We offer a full range of integrated pre- and post-auction services aimed at assisting our customers in the redistribution of their vehicles in an efficient and cost-effective manner. In 2008, we generated a combined total of more than $600 million of revenue from pre- and post-auction services. Pre-auction services include inspections, storage, transportation, reconditioning (such as detailing, body repairs and light mechanical repairs), titling and other administrative services. Post-auction services include the clearing of auction proceeds and collections, floorplan financing, ownership transfer, storage, vehicle delivery, post-sale inspections, reconditioning and customized reporting and analyses. The combination of our physical auction locations, Internet-based solutions and ancillary services offers our customers a single vendor solution to meet all of their vehicle redistribution needs.

Longstanding Customer Relationships and Diversified Customer Base

We have established long-term customer relationships with franchised and independent vehicle dealers and large institutional customers. Our combined whole car and salvage buyer base exceeds 150,000 registered buyers in over 100 countries. No single customer accounted for more than 4% of our consolidated revenue in 2008. We believe this diversity allows us to better withstand changes in the economy and market conditions. ADESA enjoys long-term relationships with all of the major vehicle manufacturers, vehicle finance companies, vehicle fleet companies and rental car companies in North

America, including, but not limited to, AmeriCredit, Capital One Auto Finance, Chase Auto Finance, Chrysler, Enterprise Rent-A-Car, Ford, GE Capital, General Motors, Hertz, Honda, Mercedes-Benz, Santander Consumer, Toyota, VW and Wells Fargo. IAAI enjoys long-term relationships with most of the top automobile insurers, including, but not limited to, Allstate, American Family Insurance, Farmers Insurance, GEICO, Nationwide, Progressive, State Farm and USAA.

Low Capital Intensity Financial Model

Our low maintenance capital expenditures and working capital requirements enable the business to generate strong cash flows. We do not take title to or bear the risk of loss for substantially all vehicles sold at whole car or salvage auctions. Furthermore, 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. These requirements contribute to limited inventory and accounts receivable exposure. Our low capital intensity financial model should allow us to produce significant free cash flow in the future enabling us to continue to reduce debt.

Strong Management Team with Track Record of Driving Growth and Improving Efficiency

Since 2007, our senior management team has implemented a series of successful initiatives resulting in auction services revenue growth and gross profit expansion. Through a better coordination of corporate sales efforts and local auction operations, in addition to numerous strategic Internet initiatives, we have organically grown our volumes and revenues at auction. Furthermore, the management team implemented a disciplined expansion strategy, acquiring or building numerous auction locations since the consummation of the 2007 Transactions. We believe our integration experience and cost discipline will continue to be a competitive advantage as we grow both organically and through selective acquisitions. In addition, we have reduced costs through the integration of operating systems and introduction of standard operating practices across all auction sites, resulting in improved operating efficiencies, reduced headcount and improved operating profit at existing and acquired sites.

Our Business Strategy

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

Grow Market Share and Unit Volume in Our Whole Car and Salvage Auction Businesses

We are continuing to implement new initiatives to grow our market share in our whole car and salvage businesses. Through the coordinated efforts of ADESA and IAAI, we have achieved significant market share and volume gains in each of these businesses by providing customers with a comprehensive offering of services that we believe increase customer value. In addition to continuing to grow our institutional volumes, our other specific major initiatives for continuing to increase our market share include:

- **Grow our dealer consignment business.** The dealer consignment business is a highly market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have recently augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team will assist the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share.

Our sales representatives will also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our auctions.

Grow our non-insurance salvage auction customer base. More than 14 million vehicles are de-registered annually, but only approximately 3.5 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of that unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers. ADESA s strong customer relationships with rental car, captive finance and fleet companies provide an advantage in accessing these segments as these customers already use ADESA s whole car auction services.

Selective acquisitions and greenfield expansion. Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire smaller, less geographically diverse competitors. Both ADESA and IAAI have a strong record of acquiring and integrating independent auction operations and improving profitability. We will continue to evaluate opportunities to open and acquire new sites in selected markets in order to effectively leverage our sales and marketing capabilities and expand our geographic presence for both ADESA and IAAI. Finally, we expect to expand our salvage operations by operating additional salvage auction sites at certain of ADESA s existing whole car auction facilities.

Continue to Grow Revenue per Vehicle

From 2004 through 2008, we grew our whole car and salvage revenue per vehicle at compound annual growth rates of 7.1% and 4.7%, respectively. Increased utilization of ancillary services, selective fee increases and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. We plan to further grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services through such initiatives as increasing the number of vehicles offered both online and at physical auctions and by expanding other services such as LAI and AutoVIN.

Improve Customer Experience through Internet Initiatives

Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. IAAI is the only national salvage auction company that offers buyers both live and Internet purchasing opportunities. ADESA provides online solutions to sell vehicles directly from a dealership or other interim storage location (upstream selling) and also offers vehicles for sale while in transit to auction locations (midstream selling). We are focused on enhancing our Internet solutions in all of the key channels (upstream, midstream and at auction) and we will continue to invest in our technology platforms to ensure that we can capitalize on new opportunities.

Increase Our International Presence

We believe we are well positioned to grow internationally and are continuing to identify opportunities to expand certain of our service offerings globally. We currently license our LAI online bidding software to auction customers internationally. We plan to further capitalize on the international appeal of our proprietary technologies, such as LAI s bidding software and AutoVIN s inspection

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technology, through licensing and other arrangements with third parties. In both our whole car and salvage vehicle businesses, we have experience managing international relationships with buyers in over 100 countries. We will continue to assess acquisition and greenfield expansion opportunities in selective markets. For example, we have successfully grown our ADESA Mexico City auction and recently opened our Guadalajara auction.

Use Excess Cash Flow to Reduce Debt

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, low maintenance capital expenditures and limited working capital requirements. We generated $224.9 million of cash flow from operations for the year ended December 31, 2008, and have generated $239.1 million of cash flow from operations in the nine months ended September 30, 2009. Management is committed to utilizing a significant portion of excess cash generated by the business for debt reduction for the foreseeable future.

Leverage AFC s Products and Services at ADESA and IAAI

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

Continue to Improve Operating Efficiency

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. We successfully implemented IAAI s standard processes and technology systems at 28 of ADESA s legacy salvage auction sites and 14 salvage sites acquired since the 2007 Transactions, streamlining operations and improving operating efficiencies. As a result, IAAI has achieved gross margin expansion of 3.0% over the last two fiscal years. Subsequent to the 2007 Transactions, ADESA implemented Project PRIDE, an initiative to identify best practices at its whole car auction sites, standardize auction operating processes and improve efficiency in the delivery of services. We recently introduced a personnel management system to actively monitor and manage staffing levels in conjunction with Project PRIDE and have begun to realize significant labor efficiency gains. Through Project PRIDE, we expect to achieve gross profit margin expansion at ADESA similar to that realized at IAAI. Additionally, we continue to focus on consolidating selective administrative and overhead functions.

The Equity Sponsors

Kelso & Company

Kelso & Company, one of the oldest and most established firms specializing in private equity investing, has been involved in leveraged acquisitions both as principal and as financial advisor since 1971. Kelso makes equity investments on behalf of investment partnerships, which it manages. Since 1980, Kelso has completed approximately 100 transactions with an aggregate initial capitalization at closing of over $31 billion.

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GS Capital Partners

Founded in 1869, Goldman, Sachs & Co. is one of the oldest and largest investment banking firms. Goldman, Sachs & Co. is also a global leader in private corporate equity and mezzanine and senior debt investing. Established in 1991, the Goldman Sachs Capital Partners family of funds is part of the firm s Principal Investment Area in the Merchant Banking Division. Goldman, Sachs & Co. s Principal Investment Area has formed 15 investment vehicles aggregating $80 billion of capital to date.

ValueAct Capital

ValueAct Capital, with offices in San Francisco and Boston, seeks to make strategic-block value investments in a limited number of companies. ValueAct Capital concentrates primarily on acquiring significant ownership stakes in publicly traded companies, and a select number of control investments, through both open-market purchases and negotiated transactions.

Parthenon Capital

Parthenon Capital is a private equity firm with offices in Boston and San Francisco. The firm provides capital and strategic resources to growing middle market companies for acquisitions, internal growth strategies and shareholder liquidity. The firm invests in a wide variety of industries with particular expertise in business services, financial services and healthcare.

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The Offering

Common stock offered by us	23,000,000 shares
Common stock to be outstanding immediately after this offering	129,853,660 shares
Common stock to be beneficially owned by the Equity Sponsors immediately after this offering	100,991,440 shares. See Principal Stockholders.
Option to purchase additional shares from us	We have granted the underwriters a 30-day option to purchase up to 3,450,000 additional shares of our common stock at the initial public offering price.
Use of proceeds	We intend to use $276.8 million of the net proceeds from this offering to repay and/or repurchase amounts under one or more of our senior subordinated notes, fixed senior notes and floating senior notes, which may include a tender offer for cash or the redemption of notes pursuant to the optional redemption provisions described under Description of Certain Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption. We also intend to use $64.1 million of the net proceeds from this offering, together with approximately $200 million of cash on hand, to repay $250 million of outstanding borrowings under our senior secured term loan, pay $3.6 million of senior secured term loan amendment fees and pay $10.5 million of termination fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with each of them. See Use of Proceeds and Unaudited Pro Forma Consolidated Financial Data.
Dividend policy	We do not anticipate paying a dividend on our common stock.
Risk factors	See Risk Factors beginning on page 14 to read about factors you should consider before buying shares of the common stock.
New York Stock Exchange symbol for our common stock	KAR
Conflict of Interest	Affiliates of Goldman, Sachs & Co. beneficially own more than 10% of our outstanding common stock. For more information, see Underwriting Conflict of Interest; FINRA Regulations.

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The number of shares of common stock to be outstanding immediately after this offering excludes:

- 6,492,683 shares of common stock reserved for future issuance under our equity incentive plans. See Compensation Discussion and Analysis Equity Incentive Plans.

Except as otherwise indicated, the information in this prospectus:

- assumes no exercise of the underwriters option to purchase additional shares;
- assumes that we will repay or repurchase, excluding accrued and unpaid interest, $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million and $37.4 million aggregate principal amount of senior floating notes for $35.1 million (we may not, however, be able to repay or repurchase the notes on these terms or at all). See Use of Proceeds and Unaudited Pro Forma Consolidated Financial Data; and
- gives effect to a 10-for-1 common stock split that became effective on December 9, 2009.

Information About KAR Auction Services

KAR Auction Services was incorporated in November 2006 and commenced operations in April 2007 upon the acquisition of ADESA and the consummation of transactions that resulted in ADESA and IAAI becoming, directly or indirectly, wholly owned subsidiaries of the Company. On November 3, 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle redistribution industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC, our floorplan financing business. ADESA remained a public company until 1995 when ALLETE purchased a majority of its outstanding equity interests. In June 2004, ALLETE sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders in September 2004. ADESA was acquired by affiliates of the Equity Sponsors in April 2007. IAAI entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAAI was acquired by affiliates of Kelso & Company and Parthenon Capital in 2005. Affiliates of Kelso & Company and Parthenon Capital and certain members of IAAI management contributed IAAI to KAR Auction Services in connection with the 2007 Transactions.

Our principal executive offices are located at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032, and our telephone number is (800) 923-3725. Our website is located at www.karauctionservices.com. The information on, or accessible through, the website is not a part of, or incorporated by reference in, this prospectus.

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Summary Historical and Pro Forma Consolidated Financial Data

The following table sets forth our summary historical consolidated financial data and summary unaudited pro forma consolidated income statement data, at the dates and for the periods indicated. The summary historical consolidated financial data as of and for the years ended December 31, 2007 and 2008 have been derived from our audited consolidated financial statements and the related notes included elsewhere in this prospectus. The summary historical consolidated financial data as of and for the nine months ended September 30, 2008 and 2009 have been derived from our unaudited consolidated financial statements and the related notes included elsewhere in this prospectus. We were incorporated on November 9, 2006; however, we had no operations until the consummation of the 2007 Transactions.

The summary unaudited pro forma consolidated statement of operations data for the year ended December 31, 2007 have been prepared to give effect to the 2007 Transactions as if they had occurred on the first day of the fiscal year 2007. The summary unaudited pro forma consolidated statement of operations data does not purport to represent what our results of operations would have been if the 2007 Transactions had occurred as of the dates indicated, or what such results will be for any future period.

The following selected financial data should be read in conjunction with Selected Historical Consolidated Financial Data, Unaudited Pro Forma Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, the audited consolidated financial statements of KAR Auction Services and related notes, the audited consolidated financial statements of ADESA and related notes, the audited consolidated financial statements of IAAI and related notes, and other financial information included elsewhere in this prospectus.

(Dollars in millions except per share amounts)	Year Ended December 31, 2007(1)	Pro Forma Year Ended December 31, 2007(2) (unaudited)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Statement of Operations Data:					
Net revenues	$ 1,102.8	$ 1,588.9	$ 1,771.4	$ 1,375.2	$ 1,311.7
Cost of sales (excludes depreciation and amortization)	627.4	891.2	1,053.0	792.9	755.1
Gross profit	475.4	697.7	718.4	582.3	556.6
Operating expense:					
Selling, general and administrative	242.4	348.2	383.7	285.2	274.3
Depreciation and amortization	126.6	176.1	182.8	137.3	129.9
Goodwill and other intangibles impairment			164.4	164.4	
Operating income (loss)	106.4	173.4	(12.5)	(4.6)	152.4
Other (income) expense:					
Interest expense	162.3	226.3	215.2	161.5	132.8
Other expense (income), net	(7.6)	(9.7)	19.9	4.9	(9.3)
Income (loss) before income taxes	(48.3)	(43.2)	(247.6)	(171.0)	28.9
Income taxes	(10.0)	(17.4)	(31.4)	(4.1)	11.0
Net (loss) income from continuing operations	$ (38.3)	$ (25.8)	$ (216.2)	$ (166.9)	$ 17.9
Net earnings (loss) per share basic and diluted	$ (0.36)	$ (0.24)	$ (2.02)	$ (1.56)	$ 0.17
Weighted average shares outstanding					
Basic	106.7	106.7	106.9	106.9	106.9
Diluted	106.7	106.7	106.9	106.9	106.9

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	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Other Financial Data:				
EBITDA(6)	$ 327.3	$ 148.6	$ 126.2	$ 291.3
Adjusted EBITDA per the Credit Agreement(6)	405.2	396.0	338.5	326.2
Cash flow from operations	96.8	224.9	207.5	239.1
Capital expenditures	62.7	129.6	85.7	40.8
Balance Sheet Data (at end of period):				
Available cash and cash equivalents(3)	$ 99.3	$ 91.2	$ 97.8	$ 299.6
Working capital(4)	442.1	304.3	366.3	447.3
Total assets	4,530.8	4,157.6	4,345.0	4,334.5
Total debt	2,616.7	2,527.4	2,561.0	2,522.9
Total net debt(5)	2,517.4	2,436.2	2,463.2	2,223.3
Total stockholders equity	1,013.6	750.7	833.4	801.0

(1) We were incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007.

(2) The amounts for pro forma year ended December 31, 2007 are based on the historical financial data of ADESA for the period from January 1, 2007 to April 19, 2007, the historical financial data of IAAI for the period from January 1, 2007 to April 19, 2007 and the historical financial data of KAR Auction Services for the period from January 1, 2007 to December 31, 2007, as adjusted to combine the financial statements of ADESA and IAAI on a historical basis and to illustrate the pro forma effects of the 2007 Transactions as if they had occurred on January 1, 2006. KAR Auction Services was incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Supplemental Discussion of Operating Results Summary for the Year Ended December 31, 2008 for a further discussion and the presentation of these pro forma financial statements.

(3) Available cash and cash equivalents excludes cash in transit.

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

(5) Represents total debt less available cash and cash equivalents.

(6) EBITDA and Adjusted EBITDA per the Credit Agreement, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with generally accepted accounting principles, or GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to revenues, net income (loss) or any other performance measures derived in accordance with GAAP or as alternatives to cash flow from operating activities as measures of our liquidity.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. Adjusted EBITDA is calculated by adjusting EBITDA for the items of income and expense and expected incremental revenues and cost savings as follows (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock option expense; (e) certain other noncash amounts included in the determination of net income; (f) management, monitoring, consulting and advisory fees paid to the equity sponsors; (g) charges and revenue reductions resulting from purchase accounting; (h) unrealized gains and losses on hedge agreements; (i) minority interest expense; (j) expenses associated with the consolidation of salvage operations; (k) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (l) 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; (m) expenses incurred in connection with permitted acquisitions; and (n) any impairment charges or write-offs of intangibles.

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 internal measures of performance used by them. Management uses the Adjusted EBITDA measure to evaluate our performance and to evaluate results relative to incentive compensation targets. Adjusted EBITDA per the Credit Agreement adds the pro forma impact of recent acquisitions and the pro forma cost savings per the credit agreement to Adjusted EBITDA. Adjusted EBITDA per the Credit Agreement is used by our creditors in assessing debt covenant compliance and management believes its inclusion is appropriate to provide additional information to investors about certain covenants required pursuant to our senior secured credit facility and the notes. EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement measures 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.

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Under the Credit Agreement, we are required to maintain a maximum Consolidated Senior Secured Leverage Ratio which is based on Adjusted EBITDA per the Credit Agreement. Failure to comply with the ratio covenant would result in a default under the Credit Agreement, and, absent a waiver or an amendment from the lenders, permit the acceleration of all outstanding borrowings under the credit facility. An acceleration of $50 million or more under the Credit Agreement would result in a default pursuant to the indentures governing the notes and therefore, allow the holders of the notes to accelerate the outstanding principal amount of the notes.

EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement are reconciled to net income (loss) as follows (unaudited):

(Dollars in millions)	Year Ended December 31, 2007(a)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Net (loss) income	$ (38.3)	$ (216.2)	$ (166.9)	$ 17.9
Add back:				
ADESA 2007 net income	26.9			
ADESA 2007 discontinued operations	0.1			
IAAI 2007 net loss	(0.4)			
	(11.7)	(216.2)	(166.9)	17.9
Add back:				
Income taxes	(10.0)	(31.4)	(4.1)	11.0
ADESA 2007 income taxes	24.9			
IAAI 2007 income taxes	1.5			
Interest expense, net of interest income	156.0	213.4	159.9	132.5
ADESA 2007 interest expense, net of interest income	6.3			
IAAI 2007 interest expense, net of interest income	9.9			
Depreciation and amortization	126.6	182.8	137.3	129.9
ADESA 2007 depreciation and amortization	15.9			
IAAI 2007 depreciation and amortization	7.9			
EBITDA	327.3	148.6	126.2	291.3
Nonrecurring charges	24.2	40.8	28.8	15.3
Nonrecurring transaction charges	24.8			
Noncash charges	16.6	200.4	178.3	16.8
Advisory services	2.6	3.7	2.7	2.8
Adjusted EBITDA	$ 395.5	$ 393.5	$ 336.0	$ 326.2
Pro forma impact of recent acquisitions	4.7	2.5	2.5	
Pro forma cost savings per the Credit Agreement	5.0			
Adjusted EBITDA per the Credit Agreement	$ 405.2	$ 396.0	$ 338.5	$ 326.2

(a) Our EBITDA measures (including Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement) have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- they do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

they do not reflect any cash income taxes that we may be required to pay;

assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements;

they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

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- they do not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations;

- they do not reflect limitations on, or costs related to, transferring earnings from our subsidiaries to us; and

- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, our EBITDA measures (including Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement) should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our GAAP results and using these measures supplementally. See Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements and the related notes included elsewhere in this prospectus.

RISK FACTORS

Investing in our common stock 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 prospectus, before deciding to invest in our common stock. 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.

Risks Related to Our Business

A prolonged economic downturn may negatively affect our business and results of operations.

The recent prolonged economic downturn or future adverse economic conditions could increase our exposure to several risks, including:

- *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 the decline in consumer spending and consumer confidence. Adverse credit conditions also affect the ability of dealers to secure financing to purchase used vehicles, which further negatively affects buyer demand. In addition, a reduction in the number of franchised and independent used car dealers negatively affects our ability to collect receivables and may reduce dealer demand for used vehicles.

- *Fluctuations in the supply of used vehicles*. We are dependent on the supply of used vehicles coming to auction. During the recent 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. Capacity reductions could depress the number of vehicles received at auction in the future.

- *Decrease in the supply and demand of salvage vehicles*. If number of miles driven decreases, the number of salvage vehicles received at auction may also decrease. In addition, decreases in commodity prices, such as steel and platinum, may negatively affect vehicle values and demand at salvage auctions.

- *Volatility in the asset-backed securities market*. The volatility and disruption in the asset-backed commercial paper market and increased loan losses as used vehicle dealers have experienced steep declines in sales in previous quarters have led to reduced revenues and the narrowing of interest rate spreads at AFC in certain periods. In addition, the volatility and disruption have affected, and may continue to affect, AFC s cost of financing related to its securitization conduit.

- *Increased counterparty credit risk*. Continued 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 persist.

- *Ability to service and refinance indebtedness*. Continued 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 the economic downturn continues, 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.

The U.S. Government, Federal Reserve and other governmental and regulatory bodies have taken certain actions to address the recent disruptions in the financial markets. There can be no assurance as to the effect that any such governmental actions will have on the financial markets generally or on our business, results of operations and financial condition.

Decreases in consumer demand for new and used vehicles impact auction sales volumes and may adversely affect our revenues and profitability.

Consumer demand for new and used vehicles is affected by the availability and affordability of consumer credit, interest rates, fuel prices, inflation, discretionary spending levels, unemployment rates and consumer confidence about the economy in general. Significant changes in economic conditions could adversely impact consumer demand for new and used vehicles.

As consumer demand fluctuates, the volume and prices of used vehicles may be affected and the demand for used vehicles at auction by dealers may likewise be affected. The demand for used vehicles at auction by dealers may therefore affect the wholesale price of used vehicles and the conversion percentage of vehicles sold at auction. In addition, changes in demand for used vehicles may affect the demand for floorplan financing as well as our ability to collect existing floorplan loans.

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. As 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 declines. In total, off-lease vehicles available at auction for the industry rose by approximately 15% from 2006 to 2008 based on our estimates. During 2008, total new vehicle sales declined year over year and a number of automobile lenders announced the modification of or discontinuance of their leasing programs, leading to a decline in new vehicle lease originations. This will reduce the number of off-lease vehicles at auction as the leases mature. The typical lease maturity is two to four years. We believe that new vehicle lease originations will decline further in 2009 as new vehicle sales have declined further and leasing trends have been consistent with 2008. We believe the declines in lease originations in 2008 and year to date 2009 will negatively impact the number of off-lease vehicles sold at auction beginning in 2011. If the supply of off-lease vehicles coming to auction declines significantly, 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 and 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.

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

We are dependent upon receiving a sufficient number of total loss vehicles as well as recovered theft vehicles to sustain profit margins in our salvage auction business. Factors that can adversely affect the number of vehicles received include, but are not limited to, a decrease in the number of vehicles in operation or miles driven, mild weather conditions that cause fewer traffic accidents, reduction of policy writing by insurance providers that would affect the number of claims over a period of time, delays or changes in state title processing, and changes in direct repair procedures that would reduce the number of newer, less damaged total loss vehicles, which tend to have higher salvage values. In addition, our salvage auction business depends on a limited number of key insurance companies to supply the salvage vehicles we sell at auction. Our agreements with these insurance company suppliers are generally subject to cancellation by either party upon 30 to 90 days notice. There can be no assurance that our existing agreements will not be cancelled or that we will be able to enter into future agreements with these suppliers. Future decreases in the quality and quantity of vehicle inventory, and in particular the availability of newer and less damaged vehicles, could have a material adverse effect on our operating results and financial condition. In addition, in the last few years there has been a declining trend in theft occurrences which reduces the number of stolen vehicles recovered by insurance companies for which a claim settlement has been made. If the supply of salvage vehicles coming to auction declines significantly, our revenues and profitability may be adversely affected.

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 September 30, 2009, our total debt was approximately $2.5 billion and we had $300.0 million of borrowing capacity under our senior secured credit facilities ($250.0 million after consummation of this offering).

Our substantial indebtedness could have important consequences including:

- limiting our ability to borrow additional amounts to fund working capital, capital expenditures, debt service requirements, execution of our business strategy, acquisitions and other purposes;
- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on debt, which would reduce the funds available to us 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 some of our indebtedness, including a portion of the borrowings under the senior secured credit facilities, are 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, 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 senior secured credit facility and the indentures governing our senior notes and senior subordinated 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 senior secured credit facilities could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and

we could be forced into bankruptcy or liquidation.

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

The indentures governing our senior notes and senior subordinated notes and the agreement governing our senior secured credit facilities contain, and future debt instruments may contain, various provisions that limit our ability and the ability of our subsidiaries, including ADESA and IAAI, to, among other things:

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

For a description of our senior secured credit facilities, see Description of Certain Indebtedness Senior Secured Credit Facilities. For a description of our senior notes and senior subordinated notes, see Description of Certain Indebtedness Senior Notes and Description of Certain Indebtedness Senior Subordinated Notes.

Significant competition exists in our industry and we may not be able to compete successfully.

We face significant competition for the supply of used and salvage vehicles and for the buyers of those vehicles and for the floorplan financing of these vehicles. Current or potential competition comes from four primary sources: (i) direct competitors, (ii) potential entrants, (iii) potential new vehicle remarketing venues and dealer financing services and (iv) existing alternative vehicle remarketing venues. In both the vehicle auction and dealer financing businesses, we and our competitors are working to develop new services and technologies, or improvements and modifications to existing services and technologies. Some of these competitors may have greater financial and marketing resources than we do, and may be able to respond more quickly to new or emerging services and technologies, evolving industry trends and changes in customer requirements, and devote greater resources to the development, promotion and sale of their services. Increased competition could result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business and results of operations.

There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us would not have a material adverse effect on our business and results of operations. If we are not able to compete successfully, our ability to grow and achieve or sustain profitability could be impaired. Our agreements with our largest institutional suppliers are generally subject to cancellation by either party upon 30 to 90 days   notice. There can be no assurance that our existing agreements will not be cancelled or that we will be able to enter into future agreements with these or other suppliers on similar terms, or at all.

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In our salvage auction business, potential competitors include used vehicle auctions, providers of claims software to insurance companies and certain salvage buyer groups and automobile insurance companies, some of which currently supply salvage vehicles to us. Insurance companies may in the future decide to dispose of their salvage vehicles directly to end users. Increased competition could result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business and results of operations. There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us would not have a material adverse effect on our business and results of operations. We may not be able to compete successfully against current or future competitors, which could impair our ability to grow and achieve or sustain profitability.

We currently compete with online wholesale and retail vehicle selling platforms, including SmartAuction, OpenLane, eBay Motors and others. These online selling platforms generally do not have any meaningful physical presence; however, they may decrease the quantity of vehicles sold through our online and physical auctions. If the number of vehicles sold at our auctions decreases due to these competitors or other redistribution methods, our revenue and profitability may be negatively impacted.

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

We are pursuing strategic initiatives that management considers critical to our long-term success, including but not limited to growing market share and volume, increasing revenue per vehicle and improving customer experiences through Internet initiatives, using excess cash flow to reduce debt, leveraging AFC s products and services at ADESA and IAAI and continuing to improve operating efficiency. There are significant risks involved with the execution of these initiatives, including significant business, economic and competitive uncertainties, many of which are outside of our control. Accordingly, we cannot predict whether we will succeed in implementing these strategic initiatives. For example, if we are unsuccessful in continuing to generate significant cash flows from operations (we generated $239.1 million and $224.9 million of cash flow from operations for the nine months ended September 30, 2009 and the year ended December 31, 2008, respectively), we may be unable to reduce our outstanding indebtedness, which could negatively affect our financial position and results of operations and our ability to execute our other strategies. It could take several years to realize any direct financial benefits from these initiatives if any direct financial benefits from these initiatives are achieved at all. Additionally, our business strategy may change from time to time, which could delay our ability to implement initiatives that we believe are important to our business.

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

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

Our information and technology systems may be subject to viruses, network failures and infiltration by unauthorized persons. If these systems were compromised or not operable for extended periods of time, our ability to provide many of our electronic and online solutions to our customers may be impaired. If that were to occur, it could have a material adverse effect on our operating results and financial condition.

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

Extreme weather or other events, such as hurricanes, tornadoes, earthquakes, forest fires, floods, terrorist attacks or war, may adversely affect the overall economic environment, the markets in which we compete, our operations and profitability. These events may impact our physical auction facilities, causing a material increase in costs, or delays or cancellation of auction sales, which could have a material adverse impact on our revenues and profitability.

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

A portion of our net income is derived from our international operations, primarily Canada, which exposes us to foreign exchange risks that may impact our financial statements.

Fluctuations between U.S. and foreign currency values may adversely affect our results of operations and financial position, particularly fluctuations with Canadian currency values. In addition, there may be tax inefficiencies in repatriating cash from Canada. For the year ended December 31, 2008, approximately 17% of our revenues were attributable to our Canadian operations. A decrease in the value of the Canadian currency relative to the U.S. dollar would reduce our profits from Canadian operations and the value of the net assets of our Canadian operations when reported in U.S. dollars in our financial statements. This could have a material adverse effect on our business, financial condition or results of operations as reported in U.S. dollars.

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

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

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

Capacity reductions and uncertain conditions at the major original equipment manufacturers could negatively impact auction volumes.

Our financial performance depends, in part, on conditions in the automotive industry. Original equipment manufacturers have experienced declining new vehicle sales in North America. Resulting capacity reductions may lead to reduced program vehicles and rental fleet sales, negatively impacting auction volumes. In addition, weak growth in or declining new vehicle sales negatively impacts used vehicle trade-ins to dealers and auction volumes. These factors could adversely affect our revenues and profitability.

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

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

High fuel prices may have an adverse effect on our revenues and operating results, as well as our earnings growth rates.

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

If we are unable to successfully acquire and integrate other auction businesses and facilities, it could adversely affect our growth prospects.

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

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

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

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

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

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

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

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

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

- The acquisition and sale of used, leased, totaled and recovered theft vehicles are regulated by state or other local motor vehicle departments in each of the locations in which we operate.

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

- In many states and provinces, regulations require that a salvage vehicle be forever branded with a salvage notice in order to notify prospective purchasers of the vehicle s previous salvage status.

- Some state, provincial and local regulations limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts or scrap only.

- AFC is subject to laws in certain states and in Canada which regulate commercial lending activities and interest rates and, in certain jurisdictions, require AFC or one of its subsidiaries to be licensed.

- 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.

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

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

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

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

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

Our Internet-based auction services have allowed us to offer our products and services to international markets and has increased our international buyer base. As a result, foreign importers of salvage vehicles now represent a significant part of our total buyer base. Changes in laws and regulations that restrict the importation of salvage vehicles into foreign countries may reduce the demand for salvage vehicles and impact our ability to maintain or increase our international buyer base. For example, in March 2008, a decree issued by the president of Mexico became effective that placed restrictions on the types of vehicles that can be imported into Mexico from the United States. The adoption of similar laws or regulations in other jurisdictions that have the effect of reducing or curtailing our activities abroad could have a material adverse effect on our results of operations and financial condition by reducing the demand for our products and services.

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

Goodwill represents the amount by which the cost of an acquisition accounted for using the purchase method exceeds the fair value of the net assets acquired. Current accounting standards require that goodwill no longer be amortized but instead be periodically evaluated for impairment based on the fair value of the reporting unit. A significant percentage of our total assets represent goodwill primarily associated with the 2007 Transactions. Declines in our profitability or the value of comparable companies may impact the fair value of our reporting units, which could result in a write-down of goodwill and a reduction in net income.

In light of the overall economy and in particular the automotive finance industries which continue to face severe pressures, AFC and its customer dealer base have been negatively impacted. As a result of reduced interest rate spreads and increased risk associated with lending in the automotive industry, AFC has tightened credit policies and experienced a decline in its portfolio of finance receivables. These factors contributed to lower operating profits and cash flows at AFC for 2008 compared to 2007. Based on that trend, the forecasted performance was revised. As a result, in the third quarter of 2008, a noncash goodwill impairment charge of approximately $161.5 million was recorded in the AFC reporting unit.

We still have approximately $1.5 billion of goodwill on our consolidated balance sheet that could be subject to impairment. In addition, if we acquire new businesses in the future, we may recognize additional goodwill, which could be significant. We could also be required to recognize additional impairments in the future and such an impairment charge could have a material adverse effect on the financial position and results of operations in the period of recognition.

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 employee medical costs would increase, which could have an adverse impact on the operating results in that period.

If we fail to attract and retain key personnel, we may not be able to execute our business strategy and our financial results could be negatively affected.

Our success depends in large part on the performance of our executive management team and other key employees, including key field personnel. If we lose the services of one or more of our executive officers or key employees, or if one or more of them decides to join a competitor or otherwise compete with us, we may not be able to effectively implement our business strategies, our business could suffer and the value of our common stock could be materially adversely affected. Our auction business is directly impacted by the business relationships our employees have established with customers and suppliers and, as a result, if we lose key personnel, we may have difficulty in retaining and attracting customers, developing new services, negotiating favorable agreements with customers and providing acceptable levels of customer service. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. We do not currently expect to obtain key person insurance on any of our executive officers. Only one of our named executive officers, Thomas O Brien, has an employment agreement with us.

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

Currently, none of our employees participate in collective bargaining agreements. If we negotiate a first-time collective bargaining agreement, we could be subject to a substantial increase in labor and benefits expenses that we may be unable to pass through to customers for some period of time, if at all. The U.S. Congress could pass labor legislation, such as the proposed Employee Free Choice Act (the EFCA, also called card-check legislation), that could adversely affect our operations. The EFCA would make it significantly easier for union organizing drives to be successful for example, by eliminating employees absolute right to a secret ballot vote in union elections and could give third-party arbitrators the ability to impose terms of collective bargaining agreements upon us and a labor union if we and such union are unable to agree to the terms of a collective bargaining agreement. Such an arbitrated initial contract could include pay, benefit and work rules that could adversely affect our profitability and operational flexibility.

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

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

Proposed future U.S. federal income tax legislation could impact our effective tax rate.

In May 2009, President Obama s administration announced proposed future tax legislation that could substantially modify the rules governing the U.S. taxation of certain non-U.S. subsidiaries. These potential changes include, but are not limited to: (1) limitations on the deferral of U.S. taxation of foreign earnings; (2) limitations on the ability to claim and utilize foreign tax credits; and (3) deferral of various tax deductions until non-U.S. earnings are repatriated to the U.S. Each of these proposals would be effective for taxable years beginning after December 31, 2010. Many details of the proposal remain unknown, although if any of these proposals are enacted into law they could impact the Company s effective tax rate.

ADESA may be subject to risks in connection with its former relationship with and separation from ALLETE.

ADESA and ALLETE entered into a tax sharing agreement in 2004, which governs ALLETE s and ADESA s respective rights, responsibilities and obligations after the spin-off with respect to taxes for the periods ending on or before the spin-off. Under the tax sharing agreement, if the spin-off becomes taxable to ALLETE, ADESA may be required to indemnify ALLETE for any taxes which arise as a result of ADESA s actions or inaction. In addition, ADESA has agreed to indemnify ALLETE for 50% of any taxes related to the spin-off that do not arise as a result of actions or inaction of either ADESA or ALLETE.

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.

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Risks Related to this Offering and Ownership of Our Common Stock

There is no public market for our common stock and a market may never develop, which could cause our common stock to trade at a discount and make it difficult for holders of our common stock to sell their shares.

Our common stock has been approved for listing on the New York Stock Exchange, or the NYSE, under the symbol KAR, subject to official notice of issuance. However, we cannot assure you that a regular trading market of our common stock will develop on that exchange or elsewhere or, if developed, that any market will be sustained. Accordingly, we cannot assure you of the likelihood that an active trading market for our common stock will develop or be maintained, the liquidity of any trading market, your ability to sell your common stock when desired, or at all, or the prices that you may obtain for your 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.

Before this offering, there has been no public market for our common stock. An active public market for our common stock may not develop or be sustained after this offering. The price of our common stock in any such market may be higher or lower than the price you pay. If you purchase shares of common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you will pay the price that we negotiated with the representatives of the underwriters.

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

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

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

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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 markets.

After this offering, there will be 129,853,660 shares of common stock outstanding. There will be 133,303,660 shares issued and outstanding if the underwriters exercise in full their option to purchase additional shares. Of our issued and outstanding shares, all the common stock sold in this offering will be freely transferable, except for any shares held by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. Following completion of the offering, approximately 82% of our outstanding common stock (or 80% if the underwriters exercise in full their option to purchase additional shares from us) will be held by affiliates of the Equity Sponsors and other equity co-investors (indirectly through their investment in KAR LLC) and members of our management and employees.

We, our officers, directors and substantially all of our stockholders, including KAR LLC and the Equity Sponsors, have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through 180 days after the date of this prospectus except with the prior written consent of Goldman, Sachs & Co. See Shares Eligible for Future Sale Lock-Up Agreements included elsewhere in this prospectus.

In addition, pursuant to a registration rights agreement entered into in connection with the 2007 Transactions, we have granted KAR LLC the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act covering resales of all shares of our common stock held by KAR LLC. These shares will represent approximately 82% of our outstanding common stock after this offering (or 80% if the underwriters exercise in full their option to purchase additional shares from us). These shares also may be sold pursuant to Rule 144 under the Securities Act, depending on the holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or if KAR LLC exercises its registration rights, the market price of our stock could decline if KAR LLC sells the restricted shares or is perceived by the market as intending to sell them. See Certain Relationships and Related Party Transactions Relationships with the Equity Sponsors Registration Rights Agreement and Shares Eligible for Future Sale.

Immediately following this offering, we also intend to file a registration statement registering under the Securities Act the shares of common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of our employees. If any of these holders cause a large number of securities to be sold in the public market, the sales could reduce the trading price of our common stock. These sales also could impede our ability to raise future capital. See Shares Eligible for Future Sale for a more detailed description of the shares of our common stock that will be available for future sales upon completion of this offering.

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You will incur immediate dilution as a result of this offering.

The initial public offering price of our common stock is higher than the net tangible book deficit per share of our outstanding common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $27.08 ($26.40 if the underwriters exercise in full their option to purchase additional shares) in net tangible book deficit per share based on an assumed initial public offering price of $16.00 per share, the midpoint of the range set forth on the front cover of this prospectus. Further dilution will result if rights to purchase our common stock that we have issued or may issue in the future are exercised, or if we issue additional shares of our common stock, at prices lower than our net tangible book deficit at such time. For additional information regarding the dilution effects of this offering, see Dilution.

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

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

These provisions include:

- limiting the right of stockholders to call special meetings of stockholders to holders of at least 35% of our outstanding common stock;
- rules regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;
- permitting our board of directors to issue preferred stock without stockholder approval;
- granting to the board of directors, and not the stockholders, the sole power to set the number of directors; and
- 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.

From and after the time that KAR LLC no longer has beneficial ownership of 35% or more of our outstanding common stock, these provisions will also include:

- authorizing the removal of directors only for cause and only upon the affirmative vote of holders of a majority of the outstanding shares of our common stock entitled to vote for the election of directors; and
- prohibiting stockholder action by written consent.

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

The Equity Sponsors (through KAR LLC) will continue to have significant influence over us after this offering, including control over decisions that require the approval of shareholders, which could limit your ability to influence the outcome of key transactions, including a change of control.

Currently, we are indirectly controlled, and upon consummation of this offering, will continue to be indirectly controlled, by affiliates of the Equity Sponsors. Affiliates of the Equity Sponsors will indirectly own through their investment in KAR LLC approximately 78% of our common stock (or 76% if the

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underwriters exercise in full their option to purchase additional shares) after the completion of this offering. As a result, affiliates of the Equity Sponsors will have control over our decisions to enter into any corporate transaction and the ability to prevent any transaction that requires shareholder approval regardless of whether others believe that the transaction is in our best interests. So long as the Equity Sponsors continue to indirectly hold a majority of our outstanding common stock, they will have the ability to control the vote in any election of directors.

In connection with this offering, we will enter into a director designation agreement that will provide for the rights of KAR LLC directly, and the Equity Sponsors indirectly, to nominate designees to our board of directors. See Certain Relationships and Related Party Transactions Director Designation Agreement.

The Equity Sponsors are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Equity Sponsors may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. So long as the Equity Sponsors, or other funds controlled by or associated with the Equity Sponsors, continue to indirectly own a significant amount of our outstanding common stock, even if such amount is less than 50%, the Equity Sponsors will continue to be able to strongly influence or effectively control our decisions. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Under our amended and restated certificate of incorporation, the Equity Sponsors and, in some circumstances, any of our directors and officers who is also a director, officer, manager, member or employee of any of our Equity Sponsors, have no obligation to offer us corporate opportunities.

Our amended and restated certificate of incorporation provides that the Equity Sponsors and their respective subsidiaries and affiliates have the right to engage or invest in, and do not have a duty to abstain from engaging or investing in, the same or similar businesses as us, do business with any of our clients, customers or vendors or employ or otherwise engage any of our officers, directors or employees. If any Equity Sponsor or any of its officers, directors, managers, members, partners or employees acquires knowledge of a potential transaction that could be a corporate opportunity for us, such person has no duty to offer that opportunity to us, our stockholders or our affiliates, even if it is one that we might reasonably have pursued. Neither the Equity Sponsors nor their officers, directors, managers, members, partners or employees will generally be liable to us or our stockholders for breach of any duty by reason of engaging in such activities. In addition, any of our directors and officers who is also a director, officer, manager, member, partner or employee of any of our Equity Sponsors and is offered or acquires knowledge of a corporate opportunity, other than solely in such person s capacity as our director or officer, will not have any liability to us if any of the Equity Sponsors pursues or acquires such corporate opportunity.

We do not currently intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock. We anticipate that we will retain all of our future earnings, if any, for the repayment of our indebtedness and for general corporate purposes including the development and expansion of our business. Any determination to pay dividends on our common stock in the future will be at the discretion of our board of directors.

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We are a controlled company within the meaning of the NYSE rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to shareholders of companies that are subject to such requirements.

After completion of this offering, KAR LLC will control a majority of the voting power of our outstanding common stock. As a result, we are a controlled company within the meaning of the NYSE corporate governance standards. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the Board of Directors consist of independent directors;
- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors, our nominating/corporate governance committee and compensation committee will not consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the NYSE.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of federal securities laws and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus 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, estimates, and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; strategic initiatives, greenfields and acquisitions; our competitive position; 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:

- fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;
- trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;
- the ability of consumers to lease or finance the purchase of new and/or used vehicles;
- the ability to recover or collect from delinquent or bankrupt customers;
- economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;
- trends in the vehicle remarketing industry;
- changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;
- the introduction of new competitors;
- laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;
- changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;
- competitive pricing pressures;
- costs associated with the acquisition of businesses or technologies;

litigation developments;

our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;

our ability to develop and implement information systems responsive to customer needs;

business development activities, including acquisitions and integration of acquired businesses;

the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;

weather;

general business conditions;

our substantial amount of debt;

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- restrictive covenants in our debt agreements;
- our assumption of the settlement risk for vehicles sold;
- any impairment to our goodwill;
- our self-insurance for certain risks;
- any losses of key personnel;
- interruptions to service from our workforce;
- changes to accounting standards;
- proposed tax legislation;
- our tax indemnification of ALLETE; and
- other risks described in Risk Factors.

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, acquire additional auctions, manage expansion, relocate and integrate acquisitions, control costs in our operations, introduce fee increases, expand our product and service offerings including information systems development and retain our executive officers and key employees. Certain initiatives that management considers important to our long-term success include substantial capital investment in e-business, information technology, facility relocations and expansions, as well as operating initiatives designed to enhance overall efficiencies, have significant risks associated with their execution, and could take several years to yield any direct monetary benefits. Accordingly, 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 redistribution methods in the future and what impact this may have on our auction business.

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USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock in this offering will be $340.9 million, at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) and after deducting the underwriting discount and estimated offering expenses payable by us. Our net proceeds will increase by approximately $51.9 million if the underwriters exercise in full the option to purchase additional shares. Each $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) would increase (decrease) the net proceeds to us of this offering by approximately $21.6 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

We intend to use $276.8 million of the net proceeds from this offering to repay and/or repurchase amounts under one or more of our senior subordinated notes, fixed senior notes and floating senior notes, which may include a tender offer for cash or the redemption of notes pursuant to the optional redemption provisions described under Description of Certain Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption. We also intend to use $64.1 million of the net proceeds from this offering, together with approximately $200 million of cash on hand, to repay $250 million of outstanding borrowings under our senior secured term loan, which matures on October 19, 2013, pay $3.6 million of senior secured term loan amendment fees and pay $10.5 million of termination fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with each of them. See Certain Relationships and Related Party Transactions Financial Advisory Agreements. If the underwriters exercise their option to purchase additional shares, we intend to use the additional net proceeds for general corporate purposes, which may include additional repayments and repurchases of indebtedness. The weighted average interest rates of our senior secured term loan and our floating senior notes was 6.84% and 7.29%, respectively, for the year ended December 31, 2008, and 4.49% and 5.24%, respectively, for the period ended September 30, 2009. The interest rates of our fixed senior notes and senior subordinated notes are 8¾% and 10%, respectively.

On November 30, 2009, we commenced a tender offer to purchase for cash a portion of our senior subordinated notes, fixed senior notes and floating senior notes. We are offering to purchase an aggregate principal amount of these notes such that the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, will be $276.8 million; provided, however, that under certain circumstances, such maximum aggregate consideration, excluding accrued and unpaid interest, may be $113.2 million (the alternative maximum aggregate consideration).

The tender offer is subject to the condition that our senior subordinated notes with an aggregate principal amount equal to at least $191.2 million are validly tendered as of the early tender date for the tender offer (the minimum condition), which is December 11, 2009. The tender offer is also conditioned upon the consummation of this offering and specified general conditions. If any condition of the tender offer is not satisfied, we will not be obligated to accept for purchase, or to pay for, any notes tendered and may delay the acceptance for payment of any tendered notes, in each case subject to applicable laws.

If the minimum condition is satisfied as of the early tender date, we intend to accept for purchase notes tendered in the tender offer based on the following priority: (1) first, the maximum aggregate principal amount of our senior subordinated notes validly tendered on a pro rata basis that can be purchased such that the maximum aggregate consideration for senior subordinated notes, excluding accrued and unpaid interest, will be $276.8 million, (2) second, the maximum aggregate principal amount of fixed senior notes validly tendered on a pro rata basis that can be purchased, if any, such that the aggregate consideration paid for all senior subordinated notes and fixed senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $276.8 million and (3) thereafter, the maximum aggregate principal amount of floating senior notes validly tendered on a pro rata basis that can be purchased, if any, such that the aggregate consideration paid for all senior subordinated notes, fixed senior notes and floating senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $276.8 million.

If the minimum condition is not satisfied as of the early tender date, we may choose in our sole discretion to waive such condition so that we will proceed with the tender offer in the same manner as if the minimum condition had been satisfied except that, even though all validly tendered senior subordinated notes would be purchased, less than $191.2 million aggregate principal amount of senior subordinated notes would be purchased. Alternatively, if the minimum condition is not satisfied as of the early tender date, we may choose in our sole discretion to waive the minimum condition so that we will not purchase any senior subordinated notes in the tender offer and the maximum aggregate consideration for fixed senior notes and floating senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $113.2 million. We then would accept for purchase (1) first, the maximum aggregate principal amount of fixed senior notes validly tendered on a pro rata basis that can be purchased such that the maximum aggregate consideration for fixed senior notes, excluding accrued and unpaid interest, will be $113.2 million and (2) thereafter, the maximum aggregate principal amount of floating senior notes validly tendered on a pro rata basis that can be purchased, if any, such that the maximum aggregate consideration for fixed senior notes and floating senior notes, excluding accrued and unpaid interest, will be $113.2 million.

Holders of senior subordinated notes, fixed senior notes and floating senior notes will receive $1,080, $1,060 and $940, respectively, plus accrued and unpaid interest, for each $1,000 principal amount of notes that are validly tendered on or before December 11, 2009 and accepted for purchase in the tender offer. Holders of senior subordinated notes, fixed senior notes and floating senior notes will receive $1,040, $1,020 and $900, respectively, plus accrued and unpaid interest, for each $1,000 principal amount of such notes that are validly tendered after December 11, 2009 but on or before December 28, 2009 and accepted for purchase in the tender offer.

As of November 30, 2009, the outstanding aggregate principal amount of the senior subordinated notes, fixed senior notes and floating senior notes was $425.0 million, $450.0 million and $150.0 million, respectively. Unless we specifically state otherwise, the information in this prospectus assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million. We may not, however, be able to consummate the tender offer on the terms described above or at all. We may modify the terms of the tender offer, including pricing terms or the maximum consideration to be paid for notes that are validly tendered, or we may extend or terminate the tender offer, at any time prior to its consummation, which may result in our spending more or less than $276.8 million in connection with the tender offer. If we apply less than $276.8 million of net proceeds from this offering to repurchase notes in the tender offer, we intend to use any remaining amounts of those net proceeds for the other purposes described above in lieu of using cash on hand or for general corporate purposes, which may include the repayment or redemption of our indebtedness, including the repayment of additional indebtedness under our senior secured term loan or the redemption of notes pursuant to the optional redemption provisions described under Description of Certain Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption. These optional redemption provisions include, without limitation, provisions that permit us, on or before May 1, 2010, at our option, to redeem up to 35% of each tranche of notes with the proceeds of certain sales of our equity (which would include the sale of shares in this offering) at the applicable redemption price listed under Description of Certain

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Indebtedness Senior Notes Optional Redemption and Description of Certain Indebtedness Senior Subordinated Notes Optional Redemption or that permit us, on or before May 1, 2010 for the fixed senior notes or May 1, 2011 for the senior subordinated notes, at our option, to redeem the fixed senior notes or senior subordinated notes at a price equal to 100% of the principal amount plus the applicable premium (as defined in the applicable indenture).

To the extent we receive less than the estimated $340.9 million of net proceeds from the sale of our common stock in this offering (based on the number of shares and the midpoint of the price range set forth on the cover of this prospectus), we intend to reduce proportionally the net proceeds we use to repurchase notes in the tender offer or to redeem notes. Any reduction in net proceeds therefore would reduce the maximum aggregate consideration and the alternative maximum aggregate consideration for notes purchased in the tender offer by an amount corresponding to the reduction in net proceeds. See footnote (f) to the Unaudited Pro Forma Consolidated Statements of Operations and footnote (g) to the Unaudited Pro Forma Consolidated Balance Sheet, in each case under Unaudited Pro Forma Consolidated Financial Data. Under the terms of the second amendment to the credit agreement, we cannot consummate this offering if our gross proceeds are less than $300.0 million (which, after deducting the underwriting discount and estimated offering expenses payable by us, would result in net proceeds to us of $277.0 million).

J.P. Morgan Securities Inc. acts as administrative agent and Goldman, Sachs & Co. as documentation agent and affiliates of certain of the underwriters are lenders with respect to our senior secured credit facilities and will receive a portion of the net proceeds of this offering to the extent that we repay a part of the borrowings outstanding under our senior secured term loan using net proceeds from this offering. Goldman, Sachs & Co. and RBC Capital Markets Corporation are acting as dealer-managers in the tender offer and will receive customary fees for their services in such capacity. J.P. Morgan Securities Inc. and Goldman, Sachs & Co. or their respective affiliates are holders of a portion of our notes and may receive a portion of the net proceeds of this offering to the extent they validly tender such notes, and such notes are accepted for purchase, in the tender offer.

This prospectus is not an offer to purchase the senior subordinated notes, fixed senior notes or floating senior notes. Our tender offer is made only by and pursuant to the terms of the Offer to Purchase and the related Letter of Transmittal, each dated as of November 30, 2009.

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DIVIDEND POLICY

Following the completion of the offering, we do not anticipate paying cash dividends on our common stock. We anticipate that we will retain all of our future earnings, if any, for the repayment of our indebtedness and for general corporate purposes, including the development and expansion of our business. Any determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent on then-existing conditions, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our credit facilities, capital requirements and other factors.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2009:

on an actual basis; and

on an as adjusted basis to give effect to (i) the sale of shares of common stock by us in this offering (assuming no exercise of the underwriters option to purchase additional shares from us) at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus), and (ii) the application of the net proceeds of this offering as described under Use of Proceeds.

You should read the data set forth in the table below in conjunction with the Unaudited Pro Forma Consolidated Financial Data, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and accompanying notes thereto appearing elsewhere in this prospectus.

	As of September 30, 2009	
	Actual	As Adjusted
	(in millions)	
Debt:		
Revolving credit facility(1)	$	$
Term Loan B	1,497.9	1,247.9
Floating Rate Senior Notes	150.0	112.6
8 3/4% Senior Notes	450.0	416.9
10% Senior Subordinated Notes	425.0	233.8
Total debt(2)	2,522.9	2,011.2
Shareholders equity:		
Common stock, par value $0.01 per share, 400,000,000 shares authorized, 106,853,660 shares issued and outstanding, actual, and 129,853,660 shares issued and outstanding, as adjusted(3)	1.1	1.3
Preferred stock, par value $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital(4)	1,025.7	1,366.4
Retained deficit(5)	(239.8)	(259.8)
Accumulated other comprehensive loss	14.0	14.0
Total shareholders equity(6)	801.0	1,121.9
Total capitalization(6)	$ 3,323.9	$ 3,133.1

(1) Provides for up to $300.0 million of borrowings. In connection with this offering, commitments under this facility will be reduced by $50.0 million to $250.0 million. See Description of Certain Indebtedness Senior Secured Credit Facilities.

(2) As adjusted represents the estimated amounts to be outstanding after the net proceeds of this offering and $200.0 million of available cash are utilized to repay debt and pay $3.6 million of amendment fees, and assumes that we will repay or repurchase $250.0 million aggregate principal amount of Term Loan B debt for $250.0 million, $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of fixed senior notes for $35.1 million and $37.4 million aggregate principal amount of floating senior notes for $35.1 million. See Use of Proceeds.

(3) Reflects the 23,000,000 increase in shares issued in connection with this offering.

(4)

Reflects the proceeds from this offering, net of $27.1 million of underwriting commissions, legal, accounting, printing, filing, registration and transfer agent fees and expenses incurred in connection with the issuance and distribution of our common stock. Almost all of the proceeds will be recorded in additional paid-in capital as the par value of the common stock is $0.01 per share.

(5) As adjusted reflects $15.1 million of net premiums payable related to the repurchase of notes, the expensing of previously recorded debt issue costs of $7.3 million related to the repurchase of notes and termination fees of $10.5 million in connection with the termination of our financial advisory agreements with our Equity Sponsors, offset by the estimated tax effect of these expenses.

(6) A $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share would increase (decrease) each of the total shareholders equity and total capitalization by $21.6 million assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. To the extent we receive less than the estimated $340.9 million of net proceeds from the sale of our common stock in this offering (based on the number of shares and the midpoint of the price range set forth on the cover of this prospectus), we intend to reduce proportionally the net proceeds we use to repurchase notes in the tender offer or to redeem notes. See footnote (f) to the Unaudited Pro Forma Consolidated Statements of Operations and footnote (g) to the Unaudited Pro Forma Consolidated Balance Sheet, in each case under Unaudited Pro Forma Consolidated Financial Data.

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DILUTION

If you invest in our common stock, your ownership interest will be diluted to the extent of the difference between the initial public offering price in this offering per share of our common stock and the pro forma as adjusted net tangible book deficit per share of our common stock upon consummation of this offering. Net tangible book deficit per share represents the book value of our total tangible assets less the book value of our total liabilities divided by the number of shares of common stock then issued and outstanding.

Our net tangible book deficit as of September 30, 2009, was approximately $1,759.7 million, or approximately $16.47 per share based on the 106,853,660 shares of common stock issued and outstanding as of such date. After giving effect to our sale of common stock in this offering at the initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover page of this prospectus), and after deducting estimated underwriting discounts and estimated expenses related to this offering, our pro forma as adjusted net tangible book deficit as of September 30, 2009 would have been $1,438.8 million, or $11.08 per share (assuming no exercise of the underwriters option to purchase additional shares). This represents an immediate and substantial dilution of $27.08 per share to new investors purchasing common stock in this offering. The following table illustrates this dilution per share:

Assumed initial public offering price per share		$ 16.00
Net tangible book value (deficit) per share as of September 30, 2009	(16.47)	
Increase in net tangible book value (deficit) per share attributable to this offering	5.39	
Pro forma as adjusted net tangible book value (deficit) per share after giving effect to this offering		(11.08)
Dilution per share to new investors in this offering		$ (27.08)

A $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover page of this prospectus) would decrease (increase) our net tangible book deficit by $21.6 million, the pro forma net tangible book deficit per share after this offering by $0.17 per share and the increase in net tangible book deficit to new investors in this offering by $0.83 per share, assuming the number of shares of common stock offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise in full their option to purchase additional shares in this offering, our pro forma as adjusted net tangible book deficit as of September 30, 2009 would have been $1,386.9 million, or $10.40 per share, representing an immediate decrease in our pro forma as adjusted net tangible book deficit to our existing stockholders of $6.06 per share and an immediate dilution to investors participating in this offering of $26.40 per share.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma consolidated financial data for the year ended December 31, 2008 and as of and for the nine months ended September 30, 2009 are based on our audited and unaudited financial statements included elsewhere in this prospectus. We expect that future results of operations will be different from historical operating results. The tables below present certain pro forma data that adjust the historical data to give effect to:

(i) the sale of shares of common stock by us in this offering (assuming no exercise of the underwriters option to purchase additional shares) at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus);

(ii) the use of net proceeds from this offering to repurchase notes in a tender offer which assumes that the maximum aggregate consideration for all notes purchased, excluding accrued and unpaid interest, is $276.8 million and which assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million; and

(iii) the use of $64.1 million of the net proceeds from this offering, together with approximately $200 million of cash on hand, to repay $250 million of outstanding borrowings under our senior secured term loan, pay $3.6 million of senior secured term loan amendment fees and pay $10.5 million of termination fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with each of them.

The unaudited pro forma consolidated statements of operations are presented as if the above-described transactions had occurred on January 1, 2008. The unaudited pro forma consolidated balance sheet is presented as if the above-described transactions had occurred as of September 30, 2009.

Each $1.00 increase (decrease) in the assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) would increase (decrease) the net proceeds to us of this offering by approximately $21.6 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

The unaudited pro forma consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Selected Historical Consolidated Financial Data, the consolidated financial statements and related notes and other financial information appearing elsewhere in this prospectus.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma consolidated financial statements are presented for informational purposes only, do not purport to represent what results of operations would have been had the changes actually occurred on the dates indicated and they do not purport to project results of operations for any future period. All pro forma adjustments and their underlying assumptions are described more fully in the notes to the unaudited pro forma consolidated financial statements.

If the minimum condition in the tender offer is not satisfied as of the early tender date, we may choose in our sole discretion (i) to waive the minimum condition and proceed with the tender offer in which the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, will remain $276.8 million, (ii) to waive the minimum condition and

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proceed with the tender offer in which the maximum aggregate consideration for fixed senior notes and floating senior notes purchased in the tender offer, excluding accrued and unpaid interest, will be $113.2 million and separately redeem senior subordinated notes or (iii) to terminate the tender offer and separately redeem notes, in each case as described under Use of Proceeds. The unaudited pro forma consolidated financial statements do not purport to represent the full range of possible actions by us. Assuming that we receive net proceeds from the sale of common stock in this offering of $340.9 million (based on the number of shares and the midpoint of the price range set forth on the cover of this prospectus) and that we apply a total of $276.8 million of net proceeds from this offering to repurchase and/or redeem notes, we expect any of the foregoing alternatives will not result in significantly different results from the data presented in the unaudited pro forma consolidated financial statements.

We estimate that the net proceeds to us from the sale of our common stock in this offering will be $340.9 million, at an assumed initial public offering price of $16.00 per share (the midpoint of the price range set forth on the cover of this prospectus) and after deducting the underwriting discount and estimated offering expenses payable by us. To the extent we receive less than $340.9 million of net proceeds, we intend to reduce proportionally the net proceeds we use to repurchase notes in the tender offer or to redeem notes. Any reduction in net proceeds therefore would affect several numbers presented in the tables below. For a summary of these changes, see footnote (f) to the Unaudited Pro Forma Consolidated Statements of Operations and footnote (g) to the Unaudited Pro Forma Consolidated Balance Sheet. Under the terms of the second amendment to the credit agreement, we cannot consummate this offering if our gross proceeds are less than $300.0 million (which, after deducting the underwriting discount and estimated offering expenses payable by us, would result in net proceeds to us of $277.0 million).

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Unaudited Pro Forma Consolidated Statements of Operations

For the Year Ended December 31, 2008 and the Nine Months Ended September 30, 2009

	Year Ended December 31, 2008			Nine Months Ended September 30, 2009		
(*Dollars in millions, except per share amounts*)	Actual	Pro Forma Adjustments(f) (unaudited)	Pro Forma (unaudited)	Actual (unaudited)	Pro Forma Adjustments(f) (unaudited)	Pro Forma (unaudited)
Statement of Operations Data:						
Net revenues	$ 1,771.4	$	$ 1,771.4	$ 1,311.7	$	$ 1,311.7
Cost of goods sold	1,053.0		1,053.0	755.1		755.1
Gross profit	718.4		718.4	556.6		556.6
Selling, general & administrative	383.7	(3.5)(a)	380.2	274.3	(2.6)(b)	271.7
Depreciation & amortization	182.8		182.8	129.9		129.9
Goodwill & other intangibles impairment	164.4		164.4			
Operating (loss) income	(12.5)	3.5	(9.0)	152.4	2.6	155.0
Interest expense	215.2	(33.2)(c)	182.0	132.8	(18.6)(c)	114.2
Other expense (income)	19.9	(d)	19.9	(9.3)	(d)	(9.3)
(Loss) income before income taxes	(247.6)	36.7	(210.9)	28.9	21.2	50.1
Income taxes	(31.4)	14.3(e)	(17.1)	11.0	8.3(e)	19.3
Net (loss) income	$ (216.2)	$ 22.4	$ (193.8)	$ 17.9	$ 12.9	$ 30.8
Net (loss) earnings per share basic and diluted	$ (2.02)		$ (1.49)	$ 0.17		$ 0.24

(a) Represents the $3.5 million annual advisory fee actually paid to the Equity Sponsors during the year ended December 31, 2008. The financial advisory agreements will be terminated in connection with this offering. We intend to use any remaining net proceeds from this offering after repurchase or repayment of a portion of our indebtedness, together with cash on hand, to pay termination fees of $10.5 million. See Use of Proceeds. Upon consummation of this offering and payment of these termination fees, our obligation to pay the aggregate financial advisory fee of $3.5 million per annum to the Equity Sponsors will cease. The non-recurring termination fees of $10.5 million are not reflected in the unaudited pro forma consolidated statements of operations.

(b) Represents prorated portion of previously described aggregate financial advisory fee of $3.5 million per annum payable quarterly in advance to the Equity Sponsors.

(c) Represents a reduction in interest expense to give effect to an assumed repurchase or repayment of $511.7 million of debt on January 1, 2008, the 0.50% increase in the interest rate on Term Loan B, the write-off of previously recorded debt issue costs of $7.3 million related to the repurchase of notes and the additional $3.6 million for amendment fees related to the Term Loan B debt. Assumes repayment of $250.0 million of Term Loan B, repurchase or repayment of $37.4 million aggregate principal amount of Floating Rate Senior Notes due May 1, 2014, repurchase or repayment of $33.1 million aggregate principal amount of 8¾% Senior Notes due May 1, 2014 and repurchase or repayment of $191.2 million aggregate principal amount of 10% Senior Subordinated Notes due May 1, 2015.

(d) The non-recurring $15.1 million of net premiums payable related to the repurchase of notes and the expensing of previously recorded debt issue costs of $7.3 million related to the repurchase of notes are not reflected in the unaudited pro forma consolidated statements of operations.

(e) Represents the estimated tax effect of the pro forma adjustments at an estimated tax rate of 39.0%.

(f) This table presents certain pro forma data that adjust the historical data to give effect to, among other things, the use of an assumed $340.9 million of net proceeds from this offering to

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repurchase notes in a tender offer in which the maximum aggregate consideration for all notes purchased, excluding accrued and unpaid interest, will be $276.8 million and which assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million.

For each $20.0 million reduction in net proceeds we receive in this offering, we intend to reduce the maximum aggregate consideration for all notes purchased in the tender offer by $20.0 million. In that case, for each $20.0 million reduction in net proceeds: pro forma interest expense for the year ended December 31, 2008 and for the nine months ended September 30, 2009 would increase by approximately $1.7 million and approximately $1.1 million, respectively; pro forma loss before income taxes for the year ended December 31, 2008 would increase by approximately $1.7 million and pro forma income before income taxes for the nine months ended September 30, 2009 would decrease by approximately $1.1 million; pro forma income tax benefit for the year ended December 31, 2008 would increase by approximately $0.7 million and pro forma income tax expense for the nine months ended September 30, 2009 would decrease by approximately $0.4 million; pro forma net loss for the year ended December 31, 2008 would increase by approximately $1.0 million and pro forma net income for the nine months ended September 30, 2009 would decrease by approximately $0.7 million; and pro forma net loss per share basic and diluted for the year ended December 31, 2008 would increase by approximately $0.01 and pro forma net earnings per share basic and diluted for the nine months ended September 30, 2009 would decrease by approximately $0.01.

The calculations in the preceding paragraph assume that if we receive $20.0 million less in net proceeds, the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be reduced by $20.0 million, the principal amount of and aggregate consideration for senior subordinated notes we purchase in the tender offer would remain the same, and the aggregate consideration for senior fixed notes and senior floating notes we purchase in the tender offer would each be reduced by $10.0 million. For example, if we received $20.0 million less in net proceeds so that total net proceeds to us in this offering were $320.9 million, the calculations in the preceding paragraph assume that the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be $256.8 million and that we would purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $23.7 million aggregate principal amount of senior fixed notes for $25.1 million, and $26.7 million aggregate principal amount of senior floating notes for $25.1 million.

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Unaudited Pro Forma Consolidated Balance Sheet

As of September 30, 2009

(*Dollars in millions*)	Actual (unaudited)	Pro Forma Adjustments(g) (unaudited)	Pro Forma (unaudited)
Assets			
Cash and cash equivalents	$ 380.8	$ (209.5)(a)	$ 171.3
Restricted cash	8.8		8.8
Other current assets	625.3		625.3
Total current assets	1,014.9	(209.5)	805.4
Goodwill, customer relationships and other intangible assets, net of accumulated amortization	2,560.7		2,560.7
Unamortized debt issuance costs	59.8	(3.7)(b)	56.1
Other assets	16.4		16.4
Property and equipment, net of accumulated depreciation	682.7		682.7
Total assets	$ 4,334.5	$ (213.2)	$ 4,121.3
Liabilities and Stockholders Equity			
Accounts payable and accrued expenses	$ 563.8	(9.5)(c)	$ 554.3
Income taxes payable	3.8	(12.9)(d)	(9.1)
Current maturities of long-term debt			
Total current liabilities	567.6	(22.4)	545.2
Long-term debt	2,522.9	(511.7)(e)	2,011.2
Deferred income tax liabilities	329.0		329.0
Other liabilities	114.0		114.0
Total stockholders equity	801.0	320.9(f)	1,121.9
Total liabilities and stockholders equity	$ 4,334.5	$ (213.2)	$ 4,121.3

(a) Represents proceeds of $368.0 million less underwriting discount, estimated offering expenses and the financial advisory agreement termination fees totaling $37.6 million, less the $539.9 million of cash used for repayment of Term Loan B debt and repurchase of notes, of which $15.1 million represents net premiums payable related to the repurchase of notes, $3.6 million represents amendment fees related to the Term Loan B debt and $9.5 million represents accrued interest paid at September 30, 2009 for repayment of Term Loan B debt and the repurchase of notes.

(b) Represents the write-down of previously recorded debt issue costs of $7.3 million related to the repurchase of notes, together with an increase of $3.6 million for amendment fees related to the Term Loan B debt.

(c) Represents a payment of accrued interest in connection with the repayment of Term Loan B debt and the repurchase of notes.

(d) Represents accrued income taxes in relation to the net premiums payable related to the repurchase of notes, the financial advisory agreement termination fees and the expensing of previously recorded debt issue costs.

(e) Represents the application of the net proceeds of this offering and available cash to repay $511.7 million of principal debt.

(f) Represents additional equity of $368.0 million related to the offering less $27.1 million of underwriting discount and estimated offering expenses, $15.1 million of net premiums payable related to the repurchase of notes, the expensing of previously recorded debt issue costs of $7.3 million and the $10.5 million financial advisory agreement termination fees, net of tax.

(g) This table presents certain pro forma data that adjust the historical data to give effect to, among other things, the use of an assumed $340.9 million of net proceeds from this offering to

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repurchase notes in a tender offer in which the maximum aggregate consideration for all notes purchased, excluding accrued and unpaid interest, will be $276.8 million and which assumes that we will purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $33.1 million aggregate principal amount of senior fixed notes for $35.1 million, and $37.4 million aggregate principal amount of senior floating notes for $35.1 million.

For each $20.0 million reduction in net proceeds we receive in this offering, we intend to reduce the maximum aggregate consideration for all notes purchased in the tender offer by $20.0 million. In that case, for each $20.0 million reduction in net proceeds, as of September 30, 2009: pro forma cash and cash equivalents would increase by approximately $0.5 million; pro forma total current assets would increase by approximately $0.5 million; pro forma unamortized debt issuance costs would increase by approximately $0.5 million; pro forma total assets would increase by approximately $1.0 million; pro forma accounts payable and accrued expenses would increase by approximately $0.5 million; pro forma income taxes payable would increase by approximately $0.2 million; pro forma total current liabilities would increase by approximately $0.7 million; pro forma long-term debt would increase by approximately $20.1 million; pro forma total stockholders equity would decrease by approximately $19.8 million; and pro forma total liabilities and stockholders equity would increase by approximately $1.0 million.

The calculations in the preceding paragraph assume that if we receive $20.0 million less in net proceeds, the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be reduced by $20.0 million, the principal amount of and aggregate consideration for senior subordinated notes we purchase in the tender offer would remain the same, and the aggregate consideration for senior fixed notes and senior floating notes we purchase in the tender offer would each be reduced by $10.0 million. For example, if we received $20.0 million less in net proceeds so that total net proceeds to us in this offering were $320.9 million, the calculations in the preceding paragraph assume that the maximum aggregate consideration for all notes purchased in the tender offer, excluding accrued and unpaid interest, would be $256.8 million and that we would purchase in the tender offer $191.2 million aggregate principal amount of senior subordinated notes for $206.6 million, $23.7 million aggregate principal amount of senior fixed notes for $25.1 million, and $26.7 million aggregate principal amount of senior floating notes for $25.1 million.

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SELECTED HISTORICAL CONSOLIDATED 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 consolidated financial statements of KAR Auction Services and related notes, the consolidated financial statements of ADESA and related notes, the consolidated financial statements of IAAI and related notes, and other financial information included elsewhere in this prospectus.

Selected Historical Data of KAR Auction Services

For the Years Ended December 31, 2007 and 2008, and for the Nine Months

Ended September 30, 2009

The following consolidated financial data for the years ended December 31, 2007 and 2008 is based on our audited financial statements. We were incorporated on November 9, 2006, but had no operations in 2006 or for the period of January 1 through April 19, 2007. On April 20, 2007, we consummated a merger agreement with ADESA, Inc. and as part of the related transactions, ADESA and IAAI became, directly or indirectly, our wholly owned subsidiaries.

(Dollars in millions except per share amounts)	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Operations:				
Operating revenues				
ADESA	$ 677.7	$ 1,123.4	$ 862.7	$ 838.6
IAAI	330.1	550.3	426.0	412.5
AFC	95.0	97.7	86.5	60.6
Total operating revenues	$ 1,102.8	$ 1,771.4	$ 1,375.2	$ 1,311.7
Operating expenses (exclusive of depreciation and amortization and impairment charges)	869.8	1,436.7	1,078.1	1,029.4
Goodwill and other intangibles impairment		164.4	164.4	
Operating profit (loss)	106.4	(12.5)	(4.6)	152.4
Interest expense	162.3	215.2	161.5	132.8
(Loss) income from continuing operations	(38.3)	(216.2)	(166.9)	17.9
Net (loss) income	(38.3)	(216.2)	(166.9)	17.9
Net earnings (loss) per share, basic and diluted	(0.36)	(2.02)	(1.56)	0.17
Weighted average shares outstanding				
Basic	106.7	106.9	106.9	106.9
Diluted	106.7	106.9	106.9	106.9

	At December 31, 2007	At December 31, 2008	At September 30, 2008 (unaudited)	At September 30, 2009 (unaudited)
Financial Position:				
Working capital(2)	$ 442.1	$ 304.3	$ 366.3	$ 447.3
Total assets	4,530.8	4,157.6	4,345.0	4,334.5
Total debt	2,616.7	2,527.4	2,561.0	2,522.9
Total stockholders equity	1,013.6	750.7	833.4	801.0

	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Nine Months Ended September 30, 2008 (unaudited)	Nine Months Ended September 30, 2009 (unaudited)
Other Financial Data:				

Net cash provided by operating activities	$ 96.8	$ 224.9	$ 207.5	$ 239.1
Capital expenditures	62.7	129.6	85.7	40.8
Depreciation and amortization	126.6	182.8	137.3	129.9

(1) The Company had no operations prior to the consummation of the 2007 Transactions on April 20, 2007; as such, this data represents the period from April 20, 2007 through December 31, 2007.

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

Selected Historical Data of Predecessor ADESA

For the Years Ended December 31, 2004, 2005 and 2006 and For the Period January 1 Through April 19, 2007

The selected historical financial data of ADESA for the year ended December 31, 2006, for the period January 1 through April 19, 2007 and as of April 19, 2007 has been derived from the audited financial statements included elsewhere in this prospectus. The historical financial data for the years ended December 31, 2004 and 2005 and as of December 31, 2004, 2005 and 2006 presented below has been derived from audited financial statements that are not included in this prospectus. Certain amounts reported in previous periods have been reclassified to conform to the current presentation.

(Dollars in millions except per share amounts)	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006	January 1-April 19, 2007
Operations:				
Operating revenues				
Auction services group	$ 808.9	$ 842.8	$ 959.9	$ 325.4
Dealer services group	116.6	126.0	144.0	45.9
Total operating revenues	$ 925.5	$ 968.8	$ 1,103.9	$ 371.3
Operating expenses (exclusive of depreciation and amortization)	676.6	700.6	832.5	297.6
Operating profit	213.0	227.4	224.9	57.8
Interest expense	25.4	31.2	27.4	7.8
Loss on extinguishment of debt	14.0	2.9		
Income from continuing operations	109.0	126.1	126.8	27.0
Net income	105.3	125.5	126.3	26.9
Basic earnings per share from continuing operations	$ 1.19	$ 1.40	$ 1.41	$ 0.30
Diluted earnings per share from continuing operations	$ 1.19	$ 1.40	$ 1.41	$ 0.29
Cash dividends declared per share	$ 0.075	$ 0.30	$ 0.30	$

	At December 31, 2004	At December 31, 2005	At December 31, 2006	At April 19, 2007
Financial Position:				
Working capital(1)	$ 358.2	$ 302.0	$ 325.2	$ 381.3
Total assets	1,915.0	1,945.5	1,975.3	2,219.5
Total debt	516.1	432.5	352.5	345.0
Total stockholders equity	1,011.4	1,089.9	1,203.5	1,238.7

	Year Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2006	January 1-April 19, 2007
Other Financial Data:				
Net cash provided by operating activities	$ 175.5	$ 136.5	$ 190.9	$ 14.9
Capital expenditures	31.2	55.3	37.1	11.3
Depreciation and amortization	35.9	40.8	46.5	15.9

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

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Selected Historical Data of Predecessor IAAI

For the Fiscal Years Ended 2004, 2005 and 2006 and For the

Period January 1 Through April 19, 2007

The statement of operations data of IAAI for 2006 and for the period January 1, through April 19, 2007, and the balance sheet data as of April 19, 2007 has been derived from the audited consolidated financial statements included elsewhere in this prospectus. The statement of operations data for 2004 and 2005 as well as the balance sheet data for 2004, 2005 and 2006 has been derived from audited consolidated financial statements not included in this prospectus.

IAAI s consolidated financial statements for the periods subsequent to the merger in 2005 of Axle Merger Sub, Inc. with and into IAAI, which resulted in affiliates of Kelso & Company controlling IAAI, or the 2005 Acquisition, reflect a new basis of accounting incorporating the fair value adjustments made in recording the 2005 Acquisition and the related transactions, while the periods prior to the 2005 Acquisition reflect IAAI s historical cost basis. Accordingly, the accompanying selected financial data and other data as of dates and for periods ending on or prior to May 24, 2005 are labeled as predecessor, and the accompanying selected financial data and other data as of and for periods beginning after the date of the 2005 Acquisition are labeled as successor.

IAAI s fiscal year 2006 consisted of 53 weeks and ended on December 31, 2006. IAAI s fiscal years 2005 and 2004 each consisted of 52 weeks and ended on December 25, 2005 and December 26, 2004, respectively.

	Pre-Predecessor				
(Dollars in thousands)	**December 26, 2004**	**December 27, 2004 - May 24, 2005**	**May 25, 2005 - December 25, 2005**	**December 31, 2006**	**January 1 - April 19, 2007**
Operations:					
Revenues	$ 240,179	$ 120,445	$ 160,410	$ 331,950	$ 114,788
Earnings (loss) from operations	20,909	2,584	7,909	22,581	10,985
Net earnings (loss).	$ 12,265	$ (440)	$ (5,434)	$ (7,179)	$ (370)

	Pre-Predecessor			
(Dollars in thousands)	**2004**	**2005**	**2006**	**April 19, 2007**
Financial Position (at period end):				
Working capital(1)	$ 16,881	$ 52,002	$ 49,973	$ 53,798
Total assets	298,979	514,860	588,021	582,751
Total debt(2)	24,642	265,022	344,842	344,242
Current debt(2)	14,606	1,510	2,247	2,167
Long-term debt(2)	10,036	263,512	342,595	342,075
Total shareholders equity	202,651	144,024	137,576	139,927

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

(2) Includes capital leases.

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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 Historical Consolidated Financial Data and the consolidated financial statements and notes thereto included elsewhere in this prospectus. The following discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The actual results could differ materially from those discussed in or implied by the forward-looking statements for various reasons including the reasons described in Risk Factors and Forward-Looking Statements.

Overview

We provide whole car and salvage auction services in North America. Our business is divided into three reportable business segments, each of which is an integral part of the vehicle redistribution industry: ADESA, IAAI and AFC.

The ADESA segment consists primarily of a 62 whole car auction network in North America. Vehicles at ADESA s auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. ADESA also provides value-added ancillary services including inspections, storage, transportation, reconditioning and titling and other administrative services.

The IAAI segment consists of salvage vehicle auctions and related services provided at 152 sites in North America. The salvage auctions facilitate the redistribution of damaged or low value vehicles designated as total losses by insurance companies and charity donation vehicles, as well as recovered stolen (or theft) vehicles. The salvage auction business specializes in providing services such as transportation, titling, salvage recovery and claims settlement administrative services.

The AFC segment provides short-term, inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. AFC conducts business through 87 branches in North America.

The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate office, such as salaries, benefits, and travel costs for our management team, certain human resources, information technology and accounting costs, and incremental insurance, treasury, legal and risk management costs. Holding company interest includes the interest incurred on the corporate debt structure. Other than some information technology costs, costs incurred at the holding company are not allocated to the three business segments.

Industry Outlook and Trends

During the period from 1999 to 2008, despite fluctuations in economic conditions, new vehicle sales and churn (i.e., the rate of ownership transfer of vehicles in the used vehicle market), used vehicles sold in North America through whole car auctions per year have remained within the relatively narrow range of approximately 9.2 million to 10.0 million used vehicles per year. We believe that, despite challenging conditions in the overall economy and the automotive industry in 2008 and earlier in 2009 and the attendant fluctuations in new vehicle sales and churn, used vehicle auction volumes in North America in the foreseeable future will continue to be consistent with the range of approximately 9.2 million to 10.0 million used vehicles per year. We estimate that the vehicle population in the United States has increased from 209.5 million units in 1999 to 249.8 million units in 2008 and therefore the used vehicle market, and hence the used vehicle auction industry, have an even larger inventory of potential transactions to draw from. A larger vehicle population may offset any short-term decreases in new vehicle sales, which we believe has resulted in vehicle auction volumes remaining consistent during this time period.

During the period from 2006 through 2008, the North American salvage vehicle auction industry volumes have increased. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. The percentage of claims resulting in total losses continues at a high level of 14%. This trend, along with increases in miles driven and vehicles per household, has contributed to growth in salvage vehicle volumes.

In 2008 and earlier in 2009, the overall economy and in particular the automotive finance industries faced pressures which negatively affected the used vehicle dealer base. In excess of 4,000 independent dealers went out of business during 2008, almost a 10% reduction in the independent dealer base. Used vehicle dealers experienced a significant decline in sales which resulted in a decrease in loan originations and an increased number of dealers defaulting on their loans, increasing credit losses. In addition, the value of recovered collateral on defaulted loans was impacted to some degree by the volatility in the vehicle pricing market. To the extent these negative trends continue, they could have a material adverse impact on AFC s results of operations.

In 2008 and earlier in 2009, significant changes occurred in the economy which impacted our business. A lack of availability of consumer credit for retail used vehicle buyers, a decline in consumer spending, a reduction in the number of franchised and independent used vehicle dealers in the Untied States, reduced miles driven and decreases in commodity prices such as steel and platinum all negatively impacted us. These factors contributed to a 3% decrease in revenues for each of ADESA and IAAI for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008.

In addition, changes in the business environment for automotive manufacturers have resulted in a number of initiatives to reduce costs in the auto industry. Chrysler LLC, or Chrysler, and General Motors Corporation, or GM, have a longstanding relationship with ADESA and regularly use our auctions to remarket their vehicles. Chrysler and GM have publicly announced that they are in the process of significantly reducing the number of franchised dealerships. The reduced number of franchised dealerships may have an impact on our future financial performance.

The availability of financing to franchised dealerships and consumers from the vehicle manufacturers captive finance companies and their respective remarketing programs may also impact the supply of vehicles to the wholesale auction industry in the future. A change in the supply of used vehicles could impact the value of used vehicles sold, conversion rates (calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale) and ADESA s profitability on the sale of vehicles.

Recent Events

We have agreed to terms for the securitization of AFC s Canadian receivables. This securitization facility will provide up to C$75 million in financing for eligible accounts receivable. The agreement is expected to be finalized in the first quarter of 2010, subject to customary conditions, and initial gross proceeds from the securitization will be approximately C$60 million. In accordance with terms of the Company s Credit Agreement, 50% of the net proceeds from the initial sale of AFC s Canadian receivables will be used to repay amounts outstanding on the Company s term loan.

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Effect of 2007 Transactions

The 2007 Transactions resulted in a new basis of accounting due to the transactions being accounted for under the purchase accounting method as required by GAAP. This change resulted in many differences between reporting for KAR Auction Services after the 2007 Transactions, and ADESA and IAAI independently prior thereto. The ADESA and IAAI financial data for periods ending on or prior to April 19, 2007 are generally not comparable to the financial data for subsequent periods. Since the acquisition resulted in an entirely new capital structure, there are significant differences between ADESA and IAAI pre-acquisition and KAR Auction Services post-acquisition in the balance sheets and statements of operations. In addition, KAR Auction Services incurred $2,590 million of debt in connection with the merger. The $662.6 million of debt related to ADESA and IAAI s credit facilities and notes was paid off in connection with the acquisition and contribution ($318.0 million for ADESA and $344.6 million for IAAI). As a result, interest expense and total debt are not comparable between the pre-acquisition and the post-acquisition companies. Certain purchase accounting adjustments have been made to increase or decrease the carrying amount of assets and liabilities as a result of estimates and certain reasonable assumptions, which, in certain instances, have resulted in changes to amortization and depreciation expense amounts.

Seasonality

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

Sources of Revenues and Expenses

Our revenue is derived from auction fees and related services at our whole car and salvage auction facilities and dealer financing fees and net interest income at AFC. Although auction revenues primarily include the auction services and related fees, our related receivables and payables include the value of the vehicles sold. AFC s net revenue consists primarily of securitization income and interest and fee income less provisions for credit losses. Securitization income is primarily comprised of the gain on sale of finance receivables sold, but also includes servicing income, discount accretion, and any change in the fair value of the retained interest in finance receivables sold. Our operating expenses consist of cost of services, selling, general and administrative and depreciation and amortization. Cost of services is composed of payroll and related costs, subcontract services, supplies, insurance, property taxes, utilities, 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 indirect payroll and related costs, sales and marketing, information technology services and professional fees.

Reportable Segments

Prior to April 19, 2007, ADESA, Inc. s operations were grouped into three operating segments: used vehicle auctions, Impact salvage auctions and AFC. These three operating segments were aggregated into two reportable business segments: Auction Services Group (used vehicle auctions and Impact salvage auctions) and Dealer Services Group (AFC and related businesses). Prior to April 19, 2007, IAAI operated in a single business segment. Concurrently with the 2007 Transactions, we

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established three reportable business segments: ADESA, IAAI and AFC. ADESA s Impact salvage auctions operating segment was combined with IAAI. For comparative purposes, ADESA Impact s results of operations are included in the IAAI segment for all periods presented below. These reportable segments offer different services have distinct suppliers and buyers of vehicles and are managed separately based on the fundamental differences in their operations.

Results of Operations

Overview of Results of KAR Auction Services for the Nine Months Ended September 30, 2008 and 2009:

	Nine Months Ended September 30,	
(Dollars in millions)	**2008**	**2009**
Revenues		
ADESA	$ 862.7	**$ 838.6**
IAAI	426.0	**412.5**
AFC	86.5	**60.6**
Total revenues	1,375.2	**1,311.7**
Cost of services*	792.9	**755.1**
Gross profit*	582.3	**556.6**
Selling, general and administrative	285.2	**274.3**
Depreciation and amortization	137.3	**129.9**
Goodwill and other intangibles impairment	164.4	
Operating profit (loss)	(4.6)	**152.4**
Interest expense	161.5	**132.8**
Other (income) expense, net	4.9	**(9.3)**
Income (loss) before income taxes	(171.0)	**28.9**
Income taxes	(4.1)	**11.0**
Net income (loss)	$ (166.9)	**$ 17.9**

* Exclusive of depreciation and amortization

For the nine months ended September 30, 2009, we had revenue of $1,311.7 million compared with revenue of $1,375.2 million for the nine months ended September 30, 2008, a decrease of 5%. 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 decreased $7.4 million, or 5%, to $129.9 million for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008. The decrease is representative of certain assets becoming fully depreciated as well as a decrease in 2009 capital spending compared to recent years.

Interest Expense

Interest expense decreased $28.7 million, or 18%, to $132.8 million for the nine months ended September 30, 2009, compared with $161.5 million for the nine months ended September 30, 2008. The decrease in interest expense was the result of a decrease in interest rates for our variable rate debt instruments as well as payments on Term Loan B of $59.3 million during 2008 which decreased

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the outstanding principal balance of our debt. In addition, the swap agreement which became effective on June 30, 2009 effectively resulted in a fixed LIBOR interest rate of 2.19% on $650 million of the term loan compared with the previous swap, which expired on June 30, 2009, and effectively resulted in a fixed LIBOR interest rate of 5.345% on $800 million of the term loan.

Other (Income) Expense

Other income was $9.3 million for the nine months ended September 30, 2009 compared with other expense of $4.9 million for the nine months ended September 30, 2008, representing an increase of $14.2 million. The change in other (income) expense was primarily representative of foreign currency transaction gains in 2009 versus foreign currency transaction losses in 2008, partially offset by a decrease in interest income resulting from lower interest rates in 2009.

Income Taxes

Our effective tax rate increased from 2.4% for the nine months ended September 30, 2008 to 38.1% for the nine months ended September 30, 2009. The increase in the tax rate was primarily attributable to the 2008 noncash goodwill impairment charge at AFC that was not deductible for tax purposes.

ADESA Results

	Nine Months Ended September 30,	
(Dollars in millions)	**2008**	**2009**
ADESA revenue	$ 862.7	**$ 838.6**
Cost of services*	492.2	**468.1**
Gross profit*	370.5	**370.5**
Selling, general and administrative	181.1	**157.2**
Depreciation and amortization	69.1	**66.8**
Operating profit	$ 120.3	**$ 146.5**

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $24.1 million, or 3%, to $838.6 million for the nine months ended September 30, 2009, compared with $862.7 million for the nine months ended September 30, 2008. The decrease in revenue was primarily a result of a 2% decrease in revenue per vehicle sold and a less than 1% decrease in the total number of used vehicles sold at ADESA for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008.

The 2% decrease in revenue per vehicle sold resulted in decreased auction revenue of approximately $16.6 million. The decrease in revenue per vehicle sold reflects fluctuations in the Canadian exchange rate which decreased revenue by approximately $23.7 million for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. In addition, a net decrease in ancillary services such as shop services and other services resulted in decreased ADESA revenue of approximately $8.5 million. Partially offsetting the impact of the Canadian exchange rate and ancillary services was incremental fee income related to higher used vehicle values and selective fee increases.

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The total number of used vehicles sold at ADESA decreased less than 1% for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008 and resulted in a decrease in ADESA revenue of approximately $7.7 million. The volume sold decrease was attributable to same store volume decreases.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our used vehicle auctions, increased to 68.4% for the nine months ended September 30, 2009 compared with 61.8% for the nine months ended September 30, 2008. The increase in conversion rates was representative of a reduced supply of vehicles at auction combined with relatively constant demand.

Gross Profit

For the nine months ended September 30, 2009, gross profit in the ADESA segment remained constant at $370.5 million. Gross margin for ADESA was 44.2% of revenue for the nine months ended September 30, 2009 compared with 42.9% of revenue for the nine months ended September 30, 2008. The increase in gross margin percentage for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008 is representative of a decrease in lower margin ancillary services as well as reduced labor associated with the higher conversion rates.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment decreased $23.9 million, or 13%, to $157.2 million for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008, primarily due to a $8.5 million decrease in marketing costs, a $5.3 million decrease for the prior year loss on the sale of land related to the sale-leaseback, a $4.7 million decrease in professional fees, a $4.2 million decrease in bad debt expense, a $3.1 million decrease related to fluctuations in the Canadian exchange rate and a $1.5 million decrease in supplies expense. The decreases to selling, general and administrative expenses were partially offset by an increase in incentive compensation expense and an increase in costs at sites acquired in 2008.

IAAI Results

	Nine Months Ended September 30,	
(Dollars in millions)	**2008**	**2009**
IAAI revenue	$ 426.0	**$ 412.5**
Cost of services*	273.5	**264.5**
Gross profit*	152.5	**148.0**
Selling, general and administrative	52.7	**52.1**
Depreciation and amortization	46.6	**43.9**
Operating profit	$ 53.2	**$ 52.0**

* Exclusive of depreciation and amortization

Revenue

Revenue from IAAI decreased $13.5 million, or 3%, to $412.5 million for the nine months ended September 30, 2009, compared with $426.0 million for the nine months ended September 30, 2008. The decrease in revenue was primarily a result of a decline in average selling price for vehicles sold at salvage auctions, partially offset by an increase in the number of salvage vehicles sold during the nine months ended September 30, 2009. IAAI s decrease in average selling price was due primarily to the sharp decline in steel scrap prices.

Gross Profit

For the nine months ended September 30, 2009, gross profit at IAAI decreased to $148.0 million, or 36% of revenue, compared with $152.5 million, or 36% of revenue, for the nine months ended September 30, 2008. Cost of services decreased due to a decline in value and the number of vehicles sold under the purchase agreement method of sales. In addition, there were cost reductions in outside labor, supplies, travel and auction costs. These reductions were partially offset by increases in occupancy costs relating to the addition of facilities as a result of acquisitions and greenfields.

Selling, General and Administrative

Selling, general and administrative expenses at IAAI decreased $0.6 million, or 1%, to $52.1 million for the nine months ended September 30, 2009, compared with $52.7 million for the nine months ended September 30, 2008. The decrease in selling, general and administrative expenses was attributable to decreases in integration expenses and incentive compensation based on the financial performance of IAAI, offset by an increase in sales and marketing expenses and stock-based compensation expense.

AFC Results

	Nine Months Ended September 30,	
(Dollars in millions except loan volumes and per loan amounts)	**2008**	**2009**
AFC revenue		
Securitization income	$ 34.4	**$ 26.8**
Interest and fee income	52.2	**34.9**
Other revenue	1.7	**0.2**
Provision for credit losses	(1.8)	**(1.3)**
Total AFC revenue	86.5	**60.6**
Cost of services*	27.2	**22.5**
Gross profit*	59.3	**38.1**
Selling, general and administrative	12.6	**8.1**
Depreciation and amortization	19.2	**18.4**
Goodwill and intangibles impairment	164.4	
Operating profit (loss)	$ (136.9)	**$ 11.6**
Loan transactions	900,584	**589,093**
Revenue per loan transaction	$ 96	**$ 103**

* Exclusive of depreciation and amortization

Revenue

For the nine months ended September 30, 2009, AFC revenue decreased $25.9 million, or 30%, to $60.6 million, compared with $86.5 million for the nine months ended September 30, 2008. The decrease in revenue was the result of a 35% decrease in loan transactions to 589,093 for the nine months ended September 30, 2009 partially offset by a 7% increase in revenue per loan transaction for the nine months ended September 30, 2009.

The decrease in loan transactions, which includes both loans paid off and loans curtailed, compared to the nine months ended September 30, 2008, was primarily the result of a decrease in loans outstanding. AFC implemented a number of strategic initiatives in 2008 and early 2009 designed to tighten credit standards and reduce risk and exposure in its portfolio of finance receivables. These initiatives, along with the soft retail used vehicle market, have resulted in a 32% decrease in the size of

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AFC s average managed portfolio of finance receivables compared to the nine months ended September 30, 2008. In addition, these initiatives have resulted in a substantial improvement in the delinquency of the managed portfolio resulting in decreased credit losses.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased $7, or 7%, primarily as a result of a decrease in credit losses for both loans held and sold, increased fee income per unit and a decrease in cost of funds, partially offset by the average portfolio duration and the average loan value.

Gross Profit

For the nine months ended September 30, 2009, gross profit for the AFC segment decreased $21.2 million, or 36%, to $38.1 million primarily as a result of a 35% decrease in loan transactions. The decrease in cost of services was primarily the result of decreased compensation and related employee benefit costs. Compensation and related employee benefit costs decreased as the number of AFC employees was reduced to correspond with the decrease in the size of the finance receivables portfolio.

Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased $4.5 million, or 36%, for the nine months ended September 30, 2009, compared with the nine months ended September 30, 2008. The decrease was primarily the result of decreased compensation and related employee benefit costs as well as decreased travel and other miscellaneous expenses.

Goodwill and Other Intangibles Impairment

In the third quarter of 2008, a noncash goodwill impairment charge of approximately $161.5 million was recorded in the AFC reporting unit. In addition, in the third quarter of 2008, a noncash tradename impairment charge of approximately $2.9 million was recorded in the AFC reporting unit. In light of the overall economy and in particular the automotive and finance industries which continued to face severe pressures, AFC and its customer dealer base were negatively impacted. In addition, AFC was negatively impacted by reduced interest rate spreads. As a result of reduced interest rate spreads and increased risk associated with lending in the automotive industry, AFC tightened credit policies and experienced a decline in its portfolio of finance receivables. These factors contributed to lower operating profits and cash flows at AFC throughout 2008 as compared to 2007. Based on this trend, the forecasted performance was revised and the fair value of the reporting unit declined.

Holding Company Results

	Nine Months Ended September 30,	
(Dollars in millions)	**2008**	**2009**
Selling, general and administrative	$ 38.8	**$ 56.9**
Depreciation and amortization	2.4	**0.8**
Operating loss	($ 41.2)	**$ (57.7)**

Selling, General and Administrative

For the nine months ended September 30, 2009, selling, general and administrative expenses at the holding company increased $18.1 million, or 47%, to $56.9 million, primarily as a result of an increase in stock-based compensation expense and incentive compensation expense as well as an increase in professional fees, partially offset by a decrease in travel expenses. For the nine months ended September 30, 2009, stock-based compensation expense related to the KAR LLC and Axle LLC

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operating units was $8.7 million. For the nine months ended September 30, 2008, stock-based compensation expense decreased $5.8 million related to the KAR LLC and Axle LLC operating units which are remeasured each reporting period to fair value.

Operating Results Summary for the Years Ended December 31, 2008 and 2007

KAR Auction Services, Inc. had no operations prior to the 2007 Transactions on April 20, 2007. However, ADESA and IAAI operated as independent companies with significant operations prior to the 2007 Transactions and came under the control of KAR Auction Services, Inc. simultaneously on April 20, 2007. KAR Auction Services, Inc. succeeded to substantially all of the business of both ADESA and IAAI on April 20, 2007. As such, both ADESA and IAAI are considered to be predecessor companies. The following sections discuss the historical KAR Auction Services, Inc. consolidated results of operations, the historical Predecessor ADESA results of operations and the historical Predecessor IAAI results of operations prepared in accordance with GAAP.

For a further understanding of our performance for the years ended December 31, 2007 and 2008 see Supplemental Discussion of Operating Results Summary for the Year Ended December 31, 2008 which presents pro forma results for the year ended December 31, 2007 as if the 2007 Transactions occurred on January 1, 2006. For a further understanding of our performance for the years ended December 31, 2006 and 2007 see Supplemental Discussion of Operating Results Summary for the Year Ended December 31, 2007 which also presents pro forma results as if the 2007 Transactions occurred on January 1, 2006.

Overview of Results of KAR Auction Services for the Years Ended December 31, 2007 and 2008

(Dollars in millions)	**Year Ended December 31, 2007**	**2008**
Revenues		
ADESA	$ 677.7	**$ 1,123.4**
IAAI	330.1	**550.3**
AFC	95.0	**97.7**
Total revenues	1,102.8	**1,771.4**
Cost of services*	627.4	**1,053.0**
Gross profit*	475.4	**718.4**
Selling, general and administrative	242.4	**383.7**
Depreciation and amortization	126.6	**182.8**
Goodwill and other intangibles impairment		**164.4**
Operating profit (loss)	106.4	**(12.5)**
Interest expense	162.3	**215.2**
Other (income) expense	(7.6)	**19.9**
Loss before income taxes	(48.3)	**(247.6)**
Income taxes	(10.0)	**(31.4)**
Net loss	$ (38.3)	**$ (216.2)**

* Exclusive of depreciation and amortization

For the year ended December 31, 2008, we had revenue of $1,771.4 million compared with revenue of $1,102.8 million for the year ended December 31, 2007, an increase of 61%. The increase in revenue was representative of full-year 2008 revenue as compared with 2007 revenue for the period April 20, 2007 through December 31, 2007. Included in the results for the year ended December 31, 2008, is a $164.4 million charge related to goodwill and tradename impairment at AFC. For further details, see the Goodwill and Other Intangibles Impairment discussion under the AFC Results below. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

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Interest Expense

Interest expense increased $52.9 million, or 33%, to $215.2 million for the year ended December 31, 2008, compared with interest expense of $162.3 million for the year ended December 31, 2007. The increase in interest expense was the result of full-year 2008 interest expense as compared with 2007 interest expense for the period April 20, 2007 through December 31, 2007.

Other (Income) Expense

Other expense was $19.9 million for the year ended December 31, 2008, compared with other income of $7.6 million for the year ended December 31, 2007, representing a decrease of $27.5 million. The change in other (income) expense is representative of foreign currency transaction losses in 2008 as well as the full-year results for 2008 as compared with the April 20, 2007 to December 31, 2007 period.

Income Taxes

Our effective tax rate decreased from 20.7% in 2007 to 12.7% in 2008. The decrease in the tax rate primarily resulted from the non-tax deductible goodwill impairment charge in the amount of $161.5 million at AFC in 2008.

ADESA Results

	Year Ended December 31,	
(Dollars in millions)	**2007**	**2008**
ADESA revenue	$ 677.7	**$ 1,123.4**
Cost of services*	386.1	**654.9**
Gross profit*	291.6	**468.5**
Selling, general and administrative	142.8	**244.2**
Depreciation and amortization	64.6	**93.2**
Operating profit	$ 84.2	**$ 131.1**

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $445.7 million, or 66%, to $1,123.4 million for the year ended December 31, 2008, compared with $677.7 million for the year ended December 31, 2007. The increase in revenue was the result of full-year 2008 revenue compared with revenue for the period April 20, 2007 through December 31, 2007, as well as the impact of acquisitions. In addition, revenue per vehicle sold increased approximately 3% as a result of an increase in ancillary services.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at the Company s used vehicle auctions, increased to 60.7% for the year ended December 31, 2008 compared with 57.6% for the year ended December 31, 2007.

Gross Profit

For the year ended December 31, 2008, gross profit in the ADESA segment increased $176.9 million, or 61%, to $468.5 million. Gross margin for ADESA was 41.7% of revenue for the year ended December 31, 2008 compared with 43.0% of revenue for the year ended December 31, 2007. The decrease in margins as a percentage of revenues resulted from increased fuel costs and related

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transportation expenses not matched by a corresponding increase in transportation revenues. The gross margin percentage decline also resulted from factors including increased rent expense and additional labor associated with handling incremental institutional vehicles. In addition, the auctions acquired in 2008 produced lower gross margins than a typical auction site as ADESA s auction processes have not been fully implemented.

Selling, General and Administrative

Selling, general and administrative expenses for ADESA increased $101.4 million, or 71%, to $244.2 million for the year ended December 31, 2008 compared with the year ended December 31, 2007, primarily as a result of full-year 2008 expenses compared with the period April 20, 2007 through December 31, 2007. In addition, selling, general and administrative expenses increased due to increases in costs at acquired sites, consulting and travel costs related to process improvement initiatives, a loss on the sale of land related to the sale-leaseback and the separate transaction in Fairburn, Georgia and an increase in bad debt expense.

Depreciation and Amortization

The increase in depreciation and amortization for the year ended December 31, 2008 compared with the year ended December 31, 2007 was primarily a result of full-year 2008 expense compared with the period April 20, 2007 through December 31, 2007.

IAAI Results

	Year Ended December 31,	
(Dollars in millions)	**2007**	**2008**
IAAI revenue	$ 330.1	**$ 550.3**
Cost of services*	219.0	**362.9**
Gross profit*	111.1	**187.4**
Selling, general and administrative	44.9	**70.1**
Depreciation and amortization	40.0	**61.6**
Operating profit	$ 26.2	**$ 55.7**

* Exclusive of depreciation and amortization

Revenue

Revenue from IAAI increased $220.2 million, or 67%, to $550.3 million for the year ended December 31, 2008, compared with $330.1 million for the year ended December 31, 2007. The increase in revenue was the result of full-year 2008 revenue compared with revenue for the period April 20, 2007 through December 31, 2007, combined with the impact of acquisitions and greenfields and a slight increase in revenue per vehicle sold.

Gross Profit

For the year ended December 31, 2008, gross profit at IAAI increased to $187.4 million, or 34% of revenue, compared with $111.1 million, or 34% of revenue, for the year ended December 31, 2007. Cost of services increased 66% due to the full-year 2008 compared with the period April 20, 2007 through December 31, 2007. Cost of services also increased due to increases related to acquisitions and greenfields, as well as costs associated with the increased volumes. IAAI experienced an increase in tow costs primarily due to increased fuel costs and related tow charges and an increase in the

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number of vehicles towed. In addition, IAAI experienced increases in wages and auction expenses related to the increase in the number of vehicles sold. Occupancy costs, primarily rent, increased as a result of acquiring 17 new auction sites since the first quarter of 2007.

Selling, General and Administrative

Selling, general and administrative expenses at IAAI increased $25.2 million, or 56%, to $70.1 million for the year ended December 31, 2008, compared with $44.9 million for the year ended December 31, 2007. The increase in selling, general and administrative expenses was primarily due to a full-year 2008 compared with the period April 20, 2007 through December 31, 2007. Selling, general and administrative expenses as a percentage of revenue decreased slightly from 14% for the year ended December 31, 2007 compared to 13% for the full year 2008.

Depreciation and Amortization

The increase in depreciation and amortization for the year ended December 31, 2008 compared with the year ended December 31, 2007 was primarily a result of full-year 2008 expense compared with the period April 20, 2007 through December 31, 2007.

AFC Results

(Dollars in millions except volumes and per loan amounts)	Year Ended December 31, 2007	Year Ended December 31, 2008
AFC revenue		
Securitization income	$ 49.4	**$ 32.4**
Interest and fee income	45.5	**64.8**
Other revenue	1.2	**1.8**
Provision for credit losses	(1.1)	**(1.3)**
Total AFC revenue	95.0	**97.7**
Cost of services*	22.3	**35.2**
Gross profit*	72.7	**62.5**
Selling, general and administrative	10.7	**14.6**
Depreciation and amortization	17.8	**25.3**
Goodwill and other intangibles impairment		**164.4**
Operating profit (loss)	$ 44.2	**$ (141.8)**
Loan transactions	831,154	**1,147,116**
Revenue per loan transaction	$ 114	**$ 85**

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2008, AFC revenue increased $2.7 million, or 3%, to $97.7 million, compared with $95.0 million for the year ended December 31, 2007. The increase in revenue was the result of full-year 2008 revenue compared with revenue for the period April 20, 2007 through December 31, 2007, offset by a 25% decrease in revenue per loan transaction for the year ended December 31, 2008, compared with the same period in 2007.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $29, or 25%, primarily as a result of an increase in credit losses for both loans held and sold and decreases in net interest rate spread.

Gross Profit

For the year ended December 31, 2008, gross profit for the AFC segment decreased $10.2 million, or 14%, to $62.5 million as a result of the increase in cost of services as a percent of revenue. Cost of services increased as a result of increased compensation and related employee benefit costs. The increase in compensation and related employee benefit costs relates to the development of Automotive Finance Consumer Division (AFCD), a new initiative of KAR Auction Services that offers finance and insurance solutions to independent used vehicle dealers and the headcount associated with the opening of several new loan production offices during the first eight months of 2008. As a result of the current economic conditions, AFC elected to realign and downsize in certain markets in September 2008 including closing five branches and nine other locations. The realignment resulted in recognition of approximately $0.3 million of severance and rent expense for closed locations in the year ended December 31, 2008.

Selling, General and Administrative

Selling, general and administrative expenses at AFC increased $3.9 million, or 36%, for the year ended December 31, 2008, compared with the year ended December 31, 2007. The increase was representative of a full-year 2008 compared with the period April 20, 2007 through December 31, 2007, as well as increased severance costs associated with the realignment and downsizing initiated in September 2008.

Goodwill and Other Intangibles Impairment

In light of the overall economy and in particular the automotive and finance industries which continue to face severe pressures, AFC and its customer dealer base have been negatively impacted. In addition, AFC has been negatively impacted by reduced interest rate spreads. As a result of reduced interest rate spreads and increased risk associated with lending in the automotive industry, AFC has tightened credit policies and experienced a decline in its portfolio of finance receivables. These factors contributed to lower operating profits and cash flows at AFC for 2008 compared to 2007. Based on that trend, the forecasted performance was revised. As a result, in the third quarter of 2008, a noncash goodwill impairment charge of approximately $161.5 million was recorded in the AFC reporting unit. In addition, in the third quarter of 2008, a noncash tradename impairment charge of approximately $2.9 million was recorded in the AFC reporting unit.

Depreciation and Amortization

The increase in depreciation and amortization for the year ended December 31, 2008 compared with the year ended December 31, 2007 was primarily a result of full-year 2008 expense compared with the period April 20, 2007 through December 31, 2007.

Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	**2007**	**2008**
Selling, general and administrative	$ 44.0	**$ 54.8**
Depreciation and amortization	4.2	**2.7**
Operating loss	$ (48.2)	**$ (57.5)**

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Selling, General and Administrative

For the year ended December 31, 2008, selling, general and administrative expenses at the holding company increased $10.8 million, or 25%, to $54.8 million, primarily as a result of a full-year 2008 compared with the period April 20, 2007 through December 31, 2007. This increase was partially offset by a decrease in stock-based compensation expense related to the KAR LLC and Axle LLC operating units which are remeasured each reporting period to fair value, as well as a decrease in professional fees.

Depreciation and Amortization

The increase in depreciation and amortization for the year ended December 31, 2008 compared with the year ended December 31, 2007 was primarily a result of full-year 2008 expense compared with the period April 20, 2007 through December 31, 2007.

Overview of Results of Predecessor ADESA for the Year Ended December 31, 2006 and the Period January 1 Through April 19, 2007

(Dollars in millions)	**Year Ended December 31, 2006**	**January 1-April 19, 2007**
Revenues		
Auction Services Group	$ 959.9	$ 325.4
Dealer Services Group	144.0	45.9
Total revenues	1,103.9	371.3
Cost of services*	563.8	187.3
Gross profit*	540.1	184.0
Selling, general and administrative	259.2	85.5
Depreciation and amortization	46.5	15.9
Aircraft charge	3.4	
Transaction expenses	6.1	24.8
Operating profit	224.9	57.8
Interest expense	27.4	7.8
Other income	(6.9)	(1.9)
Income from continuing operations before income taxes	204.4	51.9
Income taxes	77.6	24.9
Income from continuing operations	$ 126.8	$ 27.0

* Exclusive of depreciation and amortization

Revenue

For the period January 1, 2007 through April 19, 2007, ADESA had revenue of $371.3 million compared with revenue of $1,103.9 million for the year ended December 31, 2006, a decrease of 66%. The decrease in revenue was primarily representative of revenue for the period January 1, 2007 through April 19, 2007 covering a shorter period of time than full year 2006 revenue. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results below.

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Interest Expense

Interest expense decreased $19.6 million, or 72%, to $7.8 million for the period January 1, 2007 through April 19, 2007, compared with $27.4 million for the year ended December 31, 2006. The decrease in interest expense was primarily a result of full year 2006 interest expense compared with the period January 1, 2007 through April 19, 2007.

Depreciation and Amortization

The decrease in depreciation and amortization of $30.6 million, or 66%, was primarily a result of full year 2006 expense compared with the period January 1, 2007 through April 19, 2007.

Other Income

Other income was $1.9 million for the period January 1, 2007 through April 19, 2007, compared with $6.9 million for the year ended December 31, 2006, representing a decrease of $5.0 million. The decrease in other income was a result of a decrease in interest income resulting from full year 2006 interest income compared with the period January 1, 2007 through April 19, 2007.

Income Taxes

ADESA s effective tax rate increased from 38.0% in 2006 to 48.0% for the period January 1, 2007 through April 19, 2007. During the 2007 period, the effective tax rate was adversely impacted by non-deductible merger related costs and foreign repatriations.

Auction Services Group Results

(Dollars in millions)	**Year Ended December 31, 2006**	**January 1- April 19, 2007**
Auction services group revenues	$ 959.9	$ 325.4
Cost of services*	535.4	177.7
Gross profit*	424.5	147.7
Selling, general and administrative	215.9	69.0
Depreciation and amortization	42.2	14.7
Transaction expenses		4.2
Operating profit	$ 166.4	$ 59.8

* Exclusive of depreciation and amortization

Revenue

Revenue for Auction Services Group decreased $634.5 million, or 66%, to $325.4 million for the period January 1, 2007 through April 19, 2007, compared with $959.9 million for the year ended December 31, 2006. The decrease in revenue was representative of revenue for the period January 1, 2007 through April 19, 2007 covering a shorter period of time than full year 2006 revenue. The decrease in revenue primarily resulted from a 67% reduction in used vehicles sold for the period January 1, 2007 through April 19, 2007 compared with the full year 2006. The revenue per vehicle sold and the mix of vehicles sold remained consistent for the period January 1, 2007 through April 19, 2007 compared with the full year 2006.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at ADESA s used vehicle auctions, increased to 65.8% for the period January 1, 2007 through April 19, 2007, compared with 60.4% for the year ended December 31, 2006. The increase in conversion rates was the result of a reduced supply of vehicles at auction combined with relatively constant demand.

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Gross Profit

For the period January 1, 2007 through April 19, 2007, gross profit for Auction Services Group decreased $276.8 million, or 65%, to $147.7 million which is consistent with the decrease in revenue for the same periods. Gross margin for Auction Services Group was 45% of revenue for the period January 1, 2007 through April 19, 2007 compared with 44% of revenue for the year ended December 31, 2006. The increase in gross margin as a percentage of revenue resulted from lower labor costs associated with the higher conversion rates.

Selling, General and Administrative

Selling, general and administrative expenses for Auction Services Group decreased $146.9 million, or 68%, to $69.0 million for the period January 1, 2007 through April 19, 2007, compared with $215.9 million for the year ended December 31, 2006. The decrease in selling, general and administrative expenses was primarily a result of full year 2006 expense compared with the period January 1, 2007 through April 19, 2007. Selling, general and administrative expenses as a percentage of revenue decreased for the period January 1, 2007 through April 19, 2007 to 21% of revenue compared to 22% of revenue for the full year 2006.

Transaction Expenses

Transaction expenses relate to the 2007 Transactions and are comprised primarily of accelerated incentive compensation costs. There were no transaction expenses for the Auction Services Group for the year ended December 31, 2006.

Dealer Services Group Results

(Dollars in millions except volumes and per loan amounts)	**Year Ended December 31, 2006**	**January 1-April 19, 2007**
Dealer services group revenue		
Securitization income	$ 75.1	$ 24.9
Interest and fee income	68.4	20.3
Other revenue	0.7	1.2
Provision for credit losses	(0.2)	(0.5)
Total Dealer services revenue	144.0	45.9
Cost of services*	28.4	9.6
Gross profit*	115.6	36.3
Selling, general and administrative	21.2	6.9
Depreciation and amortization	3.5	0.9
Transaction expenses		0.7
Operating profit	$ 90.9	$ 27.8
Loan transactions	1,151,702	374,711
Revenue per loan transaction	$ 125	$ 122

* Exclusive of depreciation and amortization

Revenue

Revenue for Dealer Services Group decreased $98.1 million, or 68%, to $45.9 million for the period January 1, 2007 through April 19, 2007, compared with $144.0 million for the year ended December 31, 2006. The decrease in revenue was representative of revenue for the period January 1, 2007 through April 19, 2007 covering a shorter period of time than full year 2006 revenue. In addition, the decrease in revenue was the result of a 67% decrease in loan transactions, which includes both loans paid off and loans curtailed, to 374,711 for period January 1, 2007 through April 19, 2007

compared with 1,151,702 for the year ended December 31, 2006 and a 2% decrease in revenue per loan transaction. Revenue per loan transaction decreased $3, or 2%, primarily as a result of an increase in credit losses for both loans held and sold.

Gross Profit

For the period January 1, 2007 through April 19, 2007, gross profit for Dealer Services Group decreased $79.3 million, or 69%, to $36.3 million compared with the year ended December 31, 2006. The decrease in gross profit was primarily a result of full year 2006 gross profit compared with the period January 1, 2007 through April 19, 2007. The gross margin percentages were relatively consistent during the two periods for Dealer Services Group at 79% of revenue for the period January 1, 2007 through April 19, 2007 compared with 80% of revenue for the year ended December 31, 2006. The decrease in margin percentage is the result of an increase in lot audit costs as a percentage of revenue resulting from a 3% increase in units on floorplan financing as well as an increase in collection costs as a percentage of revenue.

Selling, General and Administrative

Selling, general and administrative expenses for Dealer Services Group decreased $14.3 million, or 67%, to $6.9 million for the period January 1, 2007 through April 19, 2007, compared with $21.2 million for the year ended December 31, 2006. The decrease in selling, general and administrative expenses was primarily a result of full year 2006 expenses compared with the period January 1, 2007 through April 19, 2007. Selling, general and administrative expenses as a percentage of revenue were consistent for the Dealer Services Group at 15% of revenue for the period January 1, 2007 through April 19, 2007 and for the year ended December 31, 2006.

Transaction Expenses

Transaction expenses relate to the 2007 Transactions and are comprised primarily of accelerated incentive compensation costs. There were no transaction expenses at the Dealer Services Group for the year ended December 31, 2006.

Holding Company Results

(Dollars in millions)	**Year Ended December 31, 2006**	**January 1-April 19, 2007**
Selling, general and administrative	$ 22.1	$ 9.6
Depreciation and amortization	0.8	0.3
Aircraft charge	3.4	
Transaction expenses	6.1	19.9
Operating loss	$ (32.4)	$ (29.8)

Selling, General and Administrative

Selling, general and administrative expenses at the Holding Company decreased $12.5 million, or 57%, to $9.6 million for the period January 1, 2007 through April 19, 2007, compared with $22.1 million for the year ended December 31, 2006. The decrease in selling, general and administrative expenses was primarily a result of lower compensation and related benefit costs and consulting expense for the period January 1, 2007 to April 19, 2007 compared with the full year 2006.

Aircraft Charge

The aircraft charge represents the noncash pretax charge for a reduction of ownership interests in the aircraft and other costs associated with the termination of the aircraft agreement with ALLETE.

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Transaction Expenses

Transaction expenses relating to the 2007 Transactions increased by $13.8 million in the period January 1, 2007 through April 19, 2007 compared to the year ended December 31, 2006. The increase primarily related to legal and professional fees as well as accelerated incentive compensation costs for the period January 1, 2007 through April 19, 2007.

Overview of Results of Predecessor IAAI for the Year Ended December 31, 2006 and the Period January 1 Through April 19, 2007

(Dollars in millions)	**Year Ended December 31, 2006**	**January 1-April 19 2007**
IAAI revenue	$ 331.9	$ 114.8
Cost of services	254.9	82.5
Gross profit	77.0	32.3
Selling, general and administrative	50.9	21.4
Loss (gain) related to flood	3.5	(0.1)
Operating profit	22.6	11.0
Interest expense	30.6	10.0
Other (income) expense	0.9	(0.1)
Income (loss) before income taxes	(8.9)	1.1
Income taxes	(1.7)	1.5
Net loss	$ (7.2)	$ (0.4)

Revenue

Revenue for IAAI decreased $217.1 million, or 65%, to $114.8 million for the period January 1, 2007 through April 19, 2007, compared with $331.9 million for the year ended December 31, 2006. The decrease in revenue was primarily a result of full year 2006 revenue compared with the period January 1, 2007 through April 19, 2007. For the period January 1, 2007 through April 19, 2007, units sold decreased 65% as compared to the year ended December 31, 2006.

Gross Profit

For the period January 1, 2007 through April 19, 2007, gross profit for IAAI decreased $44.7 million, or 58%, to $32.3 million. Gross margin for IAAI was 28% of revenue for the period January 1, 2007 through April 19, 2007 compared with 23% of revenue for the year ended December 31, 2006. The gross margin percentage increase primarily related to the elimination of 2006 auction yard costs associated with Hurricane Katrina vehicles.

Selling, General and Administrative

Selling, general and administrative expenses for IAAI decreased $29.5 million, or 58%, to $21.4 million for the period January 1, 2007 through April 19, 2007, compared with $50.9 million for the year ended December 31, 2006. The decrease in selling, general and administrative expenses was primarily a result of full year 2006 expense compared with the period January 1, 2007 through April 19, 2007. Selling, general and administrative expenses as a percentage of revenue increased for the period January 1, 2007 through April 19, 2007 to 19% of revenue compared with 15% of revenue for the full year 2006. The increase in selling, general and administrative expenses as a percentage of revenue was driven primarily by increased stock-based compensation, incentive compensation and legal expenses.

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Loss Related to Flood

On March 19, 2006, the Company s Grand Prairie, Texas facility was flooded when the local utility opened reservoir flood gates causing the waters of Mountain Creek to spill over into the facility, resulting in water damage to the majority of vehicles on the property as well as interior office space. The company recorded a loss of $3.5 million for the year ended December 31, 2006.

Interest Expense

Interest expense decreased $20.6 million, or 67%, to $10.0 million for the period January 1, 2007 through April 19, 2007, compared with $30.6 million for the year ended December 31, 2006. The decrease in interest expense was primarily a result of full year 2006 interest expense compared with the period January 1, 2007 through April 19, 2007.

Supplemental Discussion of Operating Results Summary for the Year Ended December 31, 2008

The following supplemental discussion includes pro forma information for the year ended December 31, 2007. The pro forma information should not be considered in isolation or as a substitute for analysis of the results as reported under GAAP. For a discussion of our GAAP results for the comparable periods, see Operating Results Summary for the Years Ended December 31, 2008 and 2007 .

The 2007 Transactions were completed on April 20, 2007. Pro forma adjustments have been made to the historical statements of income for the year ended December 31, 2007 as if the 2007 Transactions had been completed on January 1, 2006. These adjustments help make the results of operations for the year ended December 31, 2007 comparable to the results of operations for the year ended December 31, 2008.

The following unaudited pro forma results of operations for the year ended December 31, 2007 are based on the predecessor financial statements of ADESA and IAAI as adjusted to combine the financial statements of ADESA Impact and IAAI and to illustrate the estimated pro forma effects of the 2007 Transactions as if they had occurred on January 1, 2006. KAR Auction Services commenced operations on April 20, 2007.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma condensed results are presented for informational purposes only. The unaudited pro forma results do not purport to represent what our results of operations would have been had the 2007 Transactions actually occurred on the dates indicated and they do not purport to project our results of operations for any future period.

The unaudited pro forma results of operations for the year ended December 31, 2007 should be read in conjunction with the information contained in Combination of ADESA and IAAI and the financial statements and related notes thereto, appearing elsewhere in this prospectus. The pro forma adjustments inherent in the segments results presented below include: pro forma interest expense resulting from the new capital structure; pro forma depreciation and amortization expense resulting from the new basis of property and equipment and intangible assets; and adjustments to selling and administrative expenses for the annual sponsor advisory fees. In addition, certain human resources and information technology costs that ADESA had historically allocated to its segments and certain professional fees historically recorded at the segments were reclassified to the holding company for all periods presented. Transaction expenses, representing legal and professional fees as well as accelerated incentive compensation costs, were also removed from 2007 operating results.

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Unaudited Pro Forma Consolidated Statement of Operations

For the Year Ended December 31, 2007

(Dollars in millions)	KAR Auction Services January 1, 2007 to December 31, 2007(f)	ADESA January 1, 2007 to April 19, 2007	IAAI January 1, 2007 to April 19, 2007	2007 Transactions Pro Forma Adjustments	Consolidated Pro Forma January 1, 2007 to December 31, 2007
Statement of Operations Data:					
Net revenues	$ 1,102.8	$ 371.3	$ 114.8	$	$ 1,588.9
Cost of goods sold	627.4	187.3	76.5		891.2
Gross profit	475.4	184.0	38.3		697.7
Selling, general & administrative expenses	242.4	85.5	19.5	0.8(a)	348.2
Depreciation & amortization	126.6	15.9	7.9	25.7(b)	176.1
Transaction expenses		24.8		(24.8)(c)	
Operating income	106.4	57.8	10.9	(1.7)	173.4
Interest expense	162.3	7.8	10.0	46.2(d)	226.3
Other expense (income)	(7.6)	(1.9)	(0.2)		(9.7)
Income (loss) before income taxes	(48.3)	51.9	1.1	(47.9)	(43.2)
Income taxes	(10.0)	24.9	1.5	(33.8)(e)	(17.4)
Net (loss) income from cont. operations	$ (38.3)	$ 27.0	$ (0.4)	$ (14.1)	$ (25.8)

(a) Reflects the net adjustment to selling, general and administrative expense for January 1 through April 19 for the annual sponsor financial advisory fees.

(b) Represents pro forma depreciation and amortization for January 1 through April 19 resulting from our revalued assets.

(c) Represents legal and professional fees as well as accelerated incentive compensation costs associated with the 2007 Transactions.

(d) Represents pro forma interest expense for January 1 through April 19 resulting from our new capital structure.

(e) Represents the estimated tax effect of the pro forma adjustments, calculated at a rate consistent with the post-merger rate.

(f) We were incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007.

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Overview of Results of KAR Auction Services for the Year Ended December 31, 2008 and Pro Forma Results for the Year Ended December 31, 2007

	Year Ended December 31,	
(Dollars in millions)	**2007** ***(Pro Forma)***	**2008**
Revenues		
ADESA	$ 965.5	**$ 1,123.4**
IAAI	482.5	**550.3**
AFC	140.9	**97.7**
Total revenues	1,588.9	**1,771.4**
Cost of services*	891.2	**1,053.0**
Gross profit*	697.7	**718.4**
Selling, general and administrative	348.2	**383.7**
Depreciation and amortization	176.1	**182.8**
Goodwill and other intangibles impairment		**164.4**
Operating profit (loss)	173.4	**(12.5)**
Interest expense	226.3	**215.2**
Other (income) expense	(9.7)	**19.9**
Loss from continuing operations before income taxes	(43.2)	**(247.6)**
Income taxes	(17.4)	**(31.4)**
Loss from continuing operations	($ 25.8)	**($ 216.2)**

* Exclusive of depreciation and amortization

For the year ended December 31, 2008, we had revenue of $1,771.4 million compared with pro forma revenue of $1,588.9 million for the year ended December 31, 2007, an increase of 11%. Included in the results for the year ended December 31, 2008, is a $164.4 million charge related to goodwill and tradename impairment at AFC. For further details see the Goodwill and Other Intangibles Impairment discussion under the AFC Results below. For a further discussion of revenues, gross profit and selling, general and administrative expenses, see the segment results discussions below.

Interest Expense

Interest expense decreased $11.1 million, or 5%, to $215.2 million for the year ended December 31, 2008, compared with pro forma interest expense of $226.3 million for the year ended December 31, 2007. The decrease in interest expense was the result of repayments on long-term debt of $59.3 million which decreased the outstanding principal balance of our debt. In addition, a decrease in interest rates in 2008 reduced interest expense for our variable rate debt instruments.

Other (Income) Expense

Other expense was $19.9 million for the year ended December 31, 2008 compared with other income of $9.7 million for the year ended December 31, 2007, representing a decrease of $29.6 million. The change in other (income) expense is primarily representative of foreign currency transaction losses in 2008 as well as a decrease in interest income resulting from a decrease in interest rates and cash balances in 2008 compared with 2007.

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Income Taxes

Our pro forma effective tax rate decreased from 40.3% in 2007 to 12.7% in 2008. The decrease in tax rate primarily resulted from the non tax deductible $161.5 million goodwill impairment charge at AFC in 2008.

ADESA Results

	Year Ended December 31,	
(Dollars in millions)	**2007 *(Pro Forma)***	**2008**
ADESA revenue	$ 965.5	**$ 1,123.4**
Cost of services*	541.5	**654.9**
Gross profit*	424.0	**468.5**
Selling, general and administrative	200.7	**244.2**
Depreciation and amortization	89.5	**93.2**
Operating profit	$ 133.8	**$ 131.1**

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA increased $157.9 million, or 16%, to $1,123.4 million for the year ended December 31, 2008, compared with $965.5 million for the year ended December 31, 2007. The increase in revenue was primarily a result of a 6% increase in revenue per vehicle sold for the year ended December 31, 2008 compared with the year ended December 31, 2007, and a 10% increase in the number of vehicles sold.

The 6% increase in revenue per vehicle sold resulted in increased auctions revenue of approximately $75.5 million. The increase in revenue per vehicle sold was primarily attributable to an increase in ancillary services such as transportation and other services. These factors resulted in increased ADESA revenue of approximately $61.7 million. The higher transportation and other ancillary services revenues also resulted in corresponding increases in cost of services. Incremental fee income related to selective fee increases resulted in increased ADESA revenue of approximately $11.5 million. Fluctuations in the Canadian exchange rate increased revenue by approximately $2.3 million for the year ended December 31, 2008 compared with the year ended December 31, 2007.

The total number of used vehicles sold at ADESA increased 10% for the year ended December 31, 2008 compared with year ended December 31, 2007, resulting in an increase in ADESA revenue of approximately $82.4 million. Approximately 6% of the volume sold increase was attributable to acquisitions and approximately 4% was representative of same-store volume increases.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our used vehicle auctions, increased to 60.7% for the year ended December 31, 2008 compared with 60.0% for the year ended December 31, 2007. Although the conversion rate appears comparable on a consolidated basis, it is skewed due to a mix shift toward institutional vehicles which convert at a higher rate. Individually, conversion rates for dealer consignment and institutional vehicles are down compared to the prior year.

Gross Profit

For the year ended December 31, 2008, gross profit in the ADESA segment increased $44.5 million, or 10%, to $468.5 million. Gross margin for ADESA was 41.7% of revenue for the year ended

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December 31, 2008 compared with 43.9% of revenue for the year ended December 31, 2007. The decrease in margins as a percentage of revenues resulted from increased fuel costs and related transportation expenses, not matched by a corresponding increase in transportation revenues. The gross margin percentage decline also resulted from factors including increased rent expense and additional labor associated with handling incremental institutional vehicles. In addition, the auctions acquired in 2008 produced lower gross margins than a typical auction site as ADESA s auction processes have not been fully implemented.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $43.5 million, or 22%, to $244.2 million for the year ended December 31, 2008 compared with the year ended December 31, 2007, primarily due to $16.9 million of costs at acquired sites, $11.7 million of consulting and travel costs related to process improvement initiatives, a $10.7 million loss on the sale of land related to the sale-leaseback and the separate transaction in Fairburn, Georgia, a $5.1 million increase in bad debt expense, $0.6 million of marketing costs and $0.4 million of fluctuations in the Canadian exchange rate, partially offset by a decrease in compensation and related employee benefit costs.

IAAI Results

	Year Ended December 31,	
(Dollars in millions)	**2007 *(Pro Forma)***	**2008**
IAAI revenue	$ 482.5	**$ 550.3**
Cost of services*	317.9	**362.9**
Gross profit*	164.6	**187.4**
Selling, general and administrative	67.8	**70.1**
Depreciation and amortization	58.6	**61.6**
Operating profit	$ 38.2	**$ 55.7**

* Exclusive of depreciation and amortization

Revenue

Revenue from IAAI increased $67.8 million, or 14%, to $550.3 million for the year ended December 31, 2008, compared with $482.5 million for the year ended December 31, 2007. The increase in revenue was a result of a 13% increase in salvage vehicles sold combined with a slight increase in revenue per vehicle sold, during the year ended December 31, 2008. The increase in salvage vehicles sold was primarily a result of volumes provided by acquisitions and greenfields of 10% in addition to growth in vehicles sold on a same-store basis of 3%.

Gross Profit

For the year ended December 31, 2008, gross profit at IAAI increased to $187.4 million, or 34% of revenue, compared with $164.6 million, or 34% of revenue, for the year ended December 31, 2007. Cost of services increased 14% due to increases related to acquisitions and greenfields, as well as costs associated with the increased volumes. IAAI experienced an increase in tow costs primarily due to increased fuel costs and related tow charges and an increase in the number of vehicles towed. In addition, IAAI experienced increases in wages and auction expenses related to the increase in the number of vehicles sold. Occupancy costs, primarily rent, increased as a result of acquiring 17 new auction sites since the first quarter of 2007.

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Selling, General and Administrative

Selling, general and administrative expenses at IAAI increased $2.3 million, or 3%, to $70.1 million for the year ended December 31, 2008, compared with $67.8 million for the year ended December 31, 2007. The increase in selling, general and administrative expenses was attributable to increases in companywide delivery expenses, supplies, advertising expenses, sales and marketing expenses, and integration expense. This increase was partially offset by a decrease in incentive compensation and a decrease in stock compensation expense attributable to the 2007 Transactions.

AFC Results

	Year Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	**2007 *(Pro Forma)***	**2008**
AFC revenue		
Securitization income	$ 74.2	**$ 32.4**
Interest and fee income	65.8	**64.8**
Other revenue	2.4	**1.8**
Provision for credit losses	(1.5)	**(1.3)**
Total AFC revenue	140.9	**97.7**
Cost of services*	31.8	**35.2**
Gross profit*	109.1	**62.5**
Selling, general and administrative	16.2	**14.6**
Depreciation and amortization	25.3	**25.3**
Goodwill and other intangibles impairment		**164.4**
Operating profit (loss)	$ 67.6	**$ (141.8)**
Loan transactions	1,205,865	**1,147,116**
Revenue per loan transaction	$ 117	**$ 85**

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2008, AFC revenue decreased $43.2 million, or 31%, to $97.7 million, compared with $140.9 million for the year ended December 31, 2007. The decrease in revenue was the result of a 27% decrease in revenue per loan transaction for the year ended December 31, 2008, compared with the same period in 2007 and a 5% decrease in loan transactions to 1,147,116 for the year ended December 31, 2008.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $32, or 27%, primarily as a result of an increase in credit losses for both loans held and sold and decreases in net interest rate spread.

Gross Profit

For the year ended December 31, 2008, gross profit for the AFC segment decreased $46.6 million, or 43%, to $62.5 million as a result of the 31% decrease in revenue as well as a 11% increase in cost of services. Cost of services increased as a result of increased compensation and related employee benefit costs. The increase in compensation and related employee benefit costs relates to the development of Automotive Finance Consumer Division, or AFCD, a new initiative of KAR Auction

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Services that offers finance and insurance solutions to independent used vehicle dealers and the headcount associated with the opening of several new branches during the first eight months of 2008. As a result of the current economic conditions, AFC elected to realign and downsize in certain markets in September 2008 including closing five branches and nine other locations. The realignment resulted in recognition of approximately $0.3 million of severance and rent expense for closed locations in the year ended December 31, 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses at AFC decreased $1.6 million, or 10%, for the year ended December 31, 2008, compared with the year ended December 31, 2007. The decrease was primarily the result of decreased professional and promotional expenses as well as decreased payroll and compensation costs, partially offset by increased severance costs associated with the realignment and downsizing initiated in September 2008.

Goodwill and Other Intangibles Impairment

In light of the overall economy and in particular the automotive and finance industries which continue to face severe pressures, AFC and its customer dealer base have been negatively impacted. In addition, AFC has been negatively impacted by reduced interest rate spreads. As a result of reduced interest rate spreads and increased risk associated with lending in the automotive industry, AFC has tightened credit policies and experienced a decline in its portfolio of finance receivables. These factors contributed to lower operating profits and cash flows at AFC for 2008 compared to 2007. Based on that trend, the forecasted performance was revised. As a result, in the third quarter of 2008, a noncash goodwill impairment charge of approximately $161.5 million was recorded in the AFC reporting unit. In addition, in the third quarter of 2008, a noncash tradename impairment charge of approximately $2.9 million was recorded in the AFC reporting unit.

Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	**2007** ***(Pro Forma)***	**2008**
Selling, general and administrative	$ 63.5	**$ 54.8**
Depreciation and amortization	2.7	**2.7**
Operating loss	$ (66.2)	**$ (57.5)**

Selling, General and Administrative Expenses

For the year ended December 31, 2008, selling, general and administrative expenses at the holding company decreased $8.7 million, or 14%, to $54.8 million, primarily as a result of a decrease in stock-based compensation expense related to the KAR LLC and Axle LLC operating units which are remeasured each reporting period to fair value, as well as a decrease in professional fees.

Supplemental Discussion of Operating Results Summary for the Year Ended December 31, 2007

The 2007 Transactions were completed on April 20, 2007. Pro forma adjustments have been made to the historical statements of income for the years ended December 31, 2007 and 2006 as if the 2007 Transactions had been completed on January 1, 2006. These adjustments help make the results of operations for the year ended December 31, 2006 comparable to the results of operations for the year ended December 31, 2007.

The following unaudited pro forma condensed results of operations for the years ended December 31, 2007 and 2006 are based on the predecessor financial statements of ADESA and IAAI, appearing elsewhere in this prospectus, as adjusted to combine the financial statements of ADESA

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Impact and IAAI and to illustrate the estimated pro forma effects of the 2007 Transactions as if they had occurred on January 1, 2006. We were incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007.

The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited pro forma results are presented for informational purposes only. The unaudited pro forma results do not purport to represent what our results of operations would have been had the 2007 Transactions actually occurred on the dates indicated and they do not purport to project our results of operations for any future period.

The unaudited pro forma results of operations for the years ended December 31, 2007 and 2006 should be read in conjunction with the information contained in the financial statements and related notes thereto, appearing elsewhere in this prospectus. The pro forma adjustments inherent in the segment results presented below include: pro forma interest expense resulting from the new capital structure; pro forma depreciation and amortization expense resulting from the new basis of property and equipment and intangible assets; and adjustments to selling, general and administrative expenses for the annual sponsor advisory fees. In addition, certain human resources and information technology costs that ADESA had historically allocated to its segments and certain professional fees historically recorded at the segments were reclassified to the holding company for all periods presented. Transaction expenses, representing legal and professional fees as well as accelerated incentive compensation costs, were also removed from 2007 operating results.

Unaudited Pro Forma Consolidated Statement of Operations

For the Year Ended December 31, 2006

(Dollars in millions)	ADESA December 31, 2006	IAAI December 31, 2006	2007 Transactions Pro Forma Adjustments	Consolidated Pro Forma December 31, 2006
Statement of Operations Data:				
Net revenues	$ 1,103.9	$ 332.0	$ (2.2)(a)	$ 1,433.7
Cost of goods sold	563.8	235.8		799.6
Gross profit	540.1	96.2	(2.2)	634.1
Selling, general & administrative expenses	268.7	43.0	(6.6)(b)	305.1
Depreciation & amortization	46.5	23.9	110.8(c)	181.2
Loss related to flood		3.5		3.5
Operating income	224.9	25.8	(106.4)	144.3
Interest expense	27.4	30.6	174.4(d)	232.4
Other (income) expense	(6.9)	4.0	(1.3)(e)	(4.2)
Income (loss) before income taxes	204.4	(8.8)	(279.5)	(83.9)
Income taxes	77.6	(1.6)	(92.1)(f)	(16.1)
Net income (loss) from cont. operations	$ 126.8	$ (7.2)	$ (187.4)	$ (67.8)

(a) Reflects adjustment of finance receivables to fair value.
(b) Represents legal and professional fees associated with the 2007 Transactions, an aircraft charge at ADESA and an increase in the annual sponsor financial advisory fees.
(c) Represents pro forma depreciation and amortization resulting from our revalued assets.
(d) Represents pro forma interest expense resulting from our new capital structure.
(e) Represents a loss on the early extinguishment of debt at IAAI.
(f) Represents the estimated tax effect of the pro forma adjustments.

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Overview of Pro Forma Results of KAR Auction Services for the Years Ended December 31, 2007 and 2006

	Pro Forma Year Ended December 31,	
(Dollars in millions)	**2006**	**2007**
Revenues		
ADESA	$ 853.8	$ 965.5
IAAI	438.1	482.5
AFC	141.8	140.9
Total revenues	1,433.7	1,588.9
Cost of services*	799.6	891.2
Gross profit*	634.1	697.7
Selling, general and administrative	305.1	348.2
Depreciation and amortization	181.2	176.1
Loss related to flood	3.5	
Operating profit	144.3	173.4
Interest expense	232.4	226.3
Other income	(4.2)	(9.7)
Loss from continuing operations before income taxes	(83.9)	(43.2)
Income taxes	(16.1)	(17.4)
Loss from continuing operations	$ (67.8)	$ (25.8)

* Exclusive of depreciation and amortization

For the year ended December 31, 2007, we had pro forma revenue of $1,588.9 million compared with pro forma revenue of $1,433.7 million for the year ended December 31, 2006, an increase of 11%. Included in the pro forma results for the year ended December 31, 2006, was a $2.7 million pretax charge related to the correction of certain unreconciled balance sheet differences concealed by a former employee at ADESA s Kitchener, Ontario, auction facility. In addition, the results for the year ended December 31, 2006 included a $3.5 million loss related to the flood at IAAI s Grand Prairie, Texas facility. The flood loss consisted of a loss of vehicles and fixed assets as well as costs to clean up the facility.

Pro Forma ADESA Results

	Pro Forma Year Ended December 31,	
(Dollars in millions)	**2006**	**2007**
ADESA revenue	$ 853.8	$ 965.5
Cost of services*	468.6	541.5
Gross profit*	385.2	424.0
Selling, general and administrative	179.9	200.7
Depreciation and amortization	92.5	89.5

Operating profit	$ 112.8	$ 133.8

* Exclusive of depreciation and amortization

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Revenue

Revenue from ADESA increased $111.7 million, or 13%, to $965.5 million for the year ended December 31, 2007, compared with $853.8 million for the year ended December 31, 2006. The 13% increase in revenue was a result of an 8% increase in revenue per vehicle sold for the year ended December 31, 2007 compared with the year ended December 31, 2006, and a 5% increase in the number of vehicles sold.

An 8% increase in revenue per vehicle sold resulted in increased auctions revenue of approximately $71.5 million. The increase in revenue per vehicle sold was primarily attributable to an increase in ancillary services such as transportation and other services. These factors resulted in increased ADESA revenue of approximately $37.8 million. The higher transportation and other ancillary services revenues also resulted in corresponding increases in cost of services. Incremental fee income related to selective fee increases and higher wholesale used vehicle values resulted in increased ADESA revenue of approximately $20.8 million. Fluctuations in the Canadian exchange rate increased revenue by approximately $12.9 million for the year ended December 31, 2007 compared with the year ended December 31, 2006.

While the number of retail used vehicles sold in North America decreased, the total number of wholesale vehicles sold at ADESA increased 5% in the year ended December 31, 2007 compared with year ended December 31, 2006, resulting in an increase in ADESA revenue of approximately $40.2 million.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at our used vehicle auctions, was 60.0% for the year ended December 31, 2007 compared with 60.4% for the year ended December 31, 2006.

Gross Profit

For the year ended December 31, 2007, gross profit in the ADESA segment increased $38.8 million, or 10%, to $424.0 million. The 13% increase in revenues was the leading factor increasing gross profit for the ADESA segment, despite an increase in cost of services on both a dollar and percentage of revenues basis. Increases in transportation costs (which includes fuel costs) and other ancillary services costs of $35.3 million was a leading driver of the increase in cost of services for the ADESA segment. Cost of services also increased due to the costs associated with handling additional used vehicles entered for sale at our used vehicle auctions for the year ended December 31, 2007 compared with the year ended December 31, 2006. Fluctuations in the Canadian exchange rate increased cost of services at the ADESA segment by approximately $7.4 million.

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment increased $20.8 million, or 12%, to $200.7 million for the year ended December 31, 2007 compared with the prior year, primarily due to increases in compensation and related employee benefit costs, consulting and travel costs related to process improvement initiatives, marketing costs and costs at acquired sites. These increases were partially offset by a $2.7 million pretax charge in 2006 related to unreconciled balance sheet differences concealed by a former employee at ADESA s Kitchener, Ontario, auction facility.

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Pro Forma IAAI Results

(Dollars in millions)	Pro Forma Year Ended December 31, 2006	2007
IAAI revenue	$ 438.1	$ 482.5
Cost of services*	302.6	317.9
Gross profit*	135.5	164.6
Selling, general and administrative	53.6	67.8
Depreciation and amortization	57.3	58.6
Loss related to flood	3.5	
Operating profit	$ 21.1	$ 38.2

* Exclusive of depreciation and amortization

Revenue

Revenue from IAAI increased $44.4 million, or 10%, to $482.5 million for the year ended December 31, 2007, compared with $438.1 million for the year ended December 31, 2006. The increase in revenue was a result of an 18% increase in salvage vehicles sold during the year ended December 31, 2007. The increase in salvage vehicles sold was primarily a result of volumes provided by acquisitions and greenfields in addition to growth in vehicles sold on a same-store basis. The increase in revenue was partially offset by reduced proceeds from units sold under purchase agreements with customers. For purchase agreement vehicles, the gross sales price of the vehicle is recognized as revenue. Vehicles sold under purchase agreements represented less than 4% of total vehicles sold.

Gross Profit

For the year ended December 31, 2007, gross profit at IAAI increased to $164.6 million, or 34% of revenue, compared with $135.5 million, or 31% of revenue, for the year ended December 31, 2006. Cost of services increased 5% due to increases related to acquisitions and greenfields, as well as costs associated with the increased volumes; however, cost of services increased at a lower rate than revenues. IAAI has negotiated a number of tow contracts in the current year resulting in lower tow costs per vehicle towed. In addition, IAAI has reduced its auction yard costs due to the elimination of costs associated with Hurricane Katrina related vehicles.

Selling, General and Administrative

Selling, general and administrative expenses at IAAI increased $14.2 million, or 26%, to $67.8 million for the year ended December 31, 2007, compared with $53.6 million for the year ended December 31, 2006. The increase in selling, general and administrative expenses was primarily attributable to integration costs associated with the integration of ADESA Impact into IAAI and an increase in stock compensation expense. The integration costs represent travel, consulting costs, outside labor and retention agreements.

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Pro Forma AFC Results

(Dollars in millions)	Pro Forma Year Ended December 31, 2006	2007
AFC revenue		
Securitization income	$ 74.2	$ 74.2
Interest and fee income	67.0	65.8
Other revenue	0.8	2.4
Provision for credit losses	(0.2)	(1.5)
Total AFC revenue	141.8	140.9
Cost of services*	28.4	31.8
Gross profit*	113.4	109.1
Selling, general and administrative	16.5	16.2
Depreciation and amortization	25.4	25.3
Operating profit	$ 71.5	$ 67.6
Loan transactions	1,151,702	1,205,865
Revenue per loan transaction	$ 123	$ 117

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2007, AFC pro forma revenue decreased $0.9 million, or less than 1%, to $140.9 million, compared with $141.8 million for the year ended December 31, 2006. A 5% increase in the number of loan transactions was offset by a 5% decrease in revenue per loan transaction for the year ended December 31, 2007, compared with 2006. The increase in loan transactions to 1,205,865 for the year ended December 31, 2007 was primarily the result of an increase in floorplan utilization by AFC s existing dealer base.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $6, or 5%, primarily as a result of decreases in net interest rate spread and an increase in the provision for credit losses for both loans held and sold partially offset by increases in the average portfolio duration and the average values of vehicles floored.

Gross Profit

For the year ended December 31, 2007, gross profit for the AFC segment decreased $4.3 million, or 4%, to $109.1 million as a result of the 12% increase in cost of services and the $0.9 million decrease in revenue. Cost of services increased as a result of increased professional fees, compensation and related employee benefit cost increases, increased expenses associated with lot checks and processing additional loan transactions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses at AFC decreased $0.3 million, or 2%, for the year ended December 31, 2007 compared with the year ended December 31, 2006. The decrease is primarily the result of decreases in compensation costs.

Pro Forma Holding Company Results

(Dollars in millions)	Pro Forma Year Ended December 31, 2006	2007
Selling, general and administrative	$ 55.1	$ 63.5
Depreciation and amortization	6.0	2.7
Operating loss	$ (61.1)	$ (66.2)

Selling, General and Administrative Expenses

For the year ended December 31, 2007, selling, general and administrative expenses at the holding company increased $8.4 million, or 15%, to $63.5 million, primarily due to increases in compensation and related employee benefit costs as well as professional and consulting fees.

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.

(Dollars in millions)	December 31, 2007(1)	December 31, 2008	September 30, 2009
Cash and cash equivalents	$ 204.1	$ 158.4	$ 380.8
Restricted cash	16.9	15.9	8.8
Working capital	442.1	304.3	447.3
Amounts available under credit facility(2)	300.0	300.0	300.0
Cash flow from operations	96.8	224.9	239.1

(1) We were incorporated on November 9, 2006, but had no operations until the consummation of the 2007 Transactions on April 20, 2007.

(2) There were related outstanding letters of credit totaling approximately $17.5 million, $29.3 million and $31.3 million at December 31, 2007, December 31, 2008 and September 30, 2009, respectively, which reduce the amount available for borrowings under our credit facility.

Working Capital

A substantial amount of our working capital is generated from the payments received for services provided. The majority of our working capital needs are short-term in nature, usually less than a week in duration. Due to the decentralized nature of the business, payments for most vehicles purchased are received at each auction and branch. Most of the financial institutions place a temporary hold on the availability of the funds deposited that generally can range up to two business days, resulting in cash in our accounts and on our balance sheet that is unavailable for use until it is made available by the various financial institutions. Over the years, we have increased the amount of funds that are available for immediate use and are actively working on initiatives that will continue to decrease the time between the deposit of and the availability of funds received from customers. 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.

AFC offers short-term inventory-secured financing, also known as floorplan financing, to used vehicle dealers. Financing is primarily provided for terms of 30 to 60 days. AFC principally generates its funding through the sale of its U.S. dollar denominated receivables. For further discussion of AFC s securitization arrangements, see Off-Balance Sheet Arrangements.

Credit Facilities

On April 20, 2007, we entered into a $1,865 million senior credit facility, pursuant to the terms and conditions of the Credit Agreement. The Credit Agreement provides for a six and one-half year $1,565 million senior term loan, or the term loan, and a six year $300 million revolving senior credit facility, or the revolving credit facility. The term loan will be repaid in quarterly installments at an amount of 0.25% of the initial term loan, with the remaining principal balance due on October 19, 2013. The revolving credit facility may be used for loans, and up to $75 million may be used for letters of credit. The revolving loans may be borrowed, repaid and reborrowed until April 19, 2013, at which time all revolving amounts borrowed must be repaid. Under the terms of the Credit Agreement, the lenders committed to provide advances and letters of credit in an aggregate amount of up to $1,865 million, subject to certain conditions. Borrowings under the Credit Agreement may be used to finance working capital and acquisitions permitted under the Credit Agreement and for other corporate purposes.

The revolving credit facility bears interest at a rate equal to LIBOR plus a margin ranging from 150 basis points to 225 basis points depending on our total leverage ratio. As of September 30, 2009, our revolving credit facility margin based on our leverage ratio was 225 basis points. The revolving credit facility also provides for both overnight and swingline borrowings at a rate of prime plus a margin ranging from 50 basis points to 125 basis points. At September 30, 2009 the applicable margin was 125 basis points. The term loan bears interest at a rate equal to LIBOR plus a margin of either 200 basis points or 225 basis points depending on our total leverage ratio and ratings received from Moody s and Standard and Poor s. As of September 30, 2009, our term loan margin was 225 basis points.

Our $300 million revolving line of credit was undrawn as of September 30, 2009. There were related outstanding letters of credit totaling approximately $31.3 million at September 30, 2009, which reduce the amount available for borrowings under our revolving credit facility. In the third quarter of 2009, we amended our Canadian line of credit and as a result it was reduced from C$8 million to C$4 million. The Canadian line of credit was undrawn as of September 30, 2009; however, there were related letters of credit outstanding totaling approximately $1.7 million at September 30, 2009, which reduce credit available under the Canadian line of credit, but do not affect amounts available for borrowings under our revolving credit facility.

The Credit Agreement contains certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum consolidated senior secured leverage ratio be satisfied as of the last day of each fiscal quarter if revolving loans are outstanding, and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, consummate change of control transactions, dispose of assets, pay dividends, make capital expenditures, make investments and engage in certain transactions with affiliates. The leverage ratio covenant is based on consolidated Adjusted EBITDA which is EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted to exclude among other things (a) gains and losses from asset sales; (b) unrealized foreign currency translation gains and losses in respect of indebtedness; (c) certain non-recurring gains and losses; (d) stock option expense; (e) certain other noncash amounts included in the determination of net income; (f) management, monitoring, consulting and advisory fees paid to the equity sponsors; (g) charges and revenue reductions resulting from purchase accounting; (h) unrealized gains and losses on hedge agreements; (i) minority interest expense; (j) expenses associated with the consolidation of salvage operations; (k) consulting expenses incurred for cost reduction, operating restructuring and business improvement efforts; (l) 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; (m) expenses incurred in connection with permitted acquisitions; and (n) any impairment charges or write-offs of intangibles. Adjusted EBITDA per the Credit Agreement adds the pro forma impact of recent acquisitions and the pro forma cost savings per the credit agreement to Adjusted EBITDA.

The covenants contained within the senior credit facility are critical to an investor s understanding of our financial liquidity, as the violation of these covenants could result in a default and lenders could elect to declare all amounts borrowed immediately due and payable. In addition, the indentures governing our notes contain certain financial and operational restrictions on paying dividends and other distributions, making certain acquisitions or investments, incurring indebtedness, granting liens and selling assets. These covenants 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 facility at September 30, 2009.

In accordance with the terms of the credit agreement, we prepaid approximately $51.5 million of the term loan during 2008 as a result of certain asset sales. The prepayments were credited to prepay in direct order of maturity the unpaid amounts due on the next eight scheduled quarterly installments of the term loan, and thereafter to the remaining scheduled quarterly installments of the term loan on a pro rata basis. As such, there are no scheduled quarterly installments due on the term loan until March 31, 2011. On September 30, 2009, $1,497.9 million was outstanding on the term loan and there were no borrowings on the revolving credit facility or the Canadian line of credit.

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

On October 23, 2009, we entered into an amendment to the Credit Agreement. As part of the amendment, we agreed to pay an amendment fee of 25 basis points to approving lenders, based on commitments outstanding as of October 23, 2009, on the effective date of the amendment. The amendment will not become effective until the satisfaction of certain conditions precedent, including the consummation of this offering and the prepayment of $250 million or more of the term loan. If the amendment becomes effective, the amendment will (i) allow KAR LLC to own less than 100% of our outstanding capital stock, (ii) permit us to use proceeds from this offering and any future offering of common stock plus unrestricted cash on hand at the time of this offering to repay, redeem, repurchase or defease, or segregate funds with respect to, one or more of our senior subordinated notes, fixed senior notes and floating senior notes and (iii) permit us to pay accelerated management fees to our Equity Sponsors in connection with the termination of our financial advisory agreements with them. In addition, if the amendment becomes effective, the following revisions, among others, will occur:

- availability of borrowings under the revolving credit facility will be reduced by $50 million to $250 million;

- the revolving credit facility and Term Loan B interest rate will be increased to LIBOR plus a margin of 2.75% from LIBOR plus a margin of 2.25%; and

- the pricing grid of both facilities will be eliminated.

The indentures governing our notes also contain certain restrictive covenants. For a description of our senior notes and senior subordinated notes under the indentures, see Description of Certain Indebtedness Senior Notes and Description of Certain Indebtedness Senior Subordinated Notes.

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EBITDA and Adjusted EBITDA Measures

EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement, 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 as alternatives to revenues, net income (loss) or any other performance measures derived in accordance with GAAP or as alternatives to cash flow from operating activities as measures of our liquidity.

EBITDA is defined as net income (loss), plus interest expense net of interest income, income tax provision (benefit), depreciation and amortization. We calculate Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement by adjusting EBITDA for the items of income and expense and expected incremental revenue and cost savings 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 internal measures of performance used by them. Management uses the Adjusted EBITDA measure to evaluate our performance and to evaluate results relative to incentive compensation targets. Adjusted EBITDA per the Credit Agreement adds the pro forma impact of recent acquisitions and the pro forma cost savings per the credit agreement to Adjusted EBITDA. This measure is used by our creditors in assessing debt covenant compliance and management believes its inclusion is appropriate to provide additional information to investors about certain covenants required pursuant to our senior secured credit facility and the notes. EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement measures 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.

Certain of our loan covenant calculations require financial results for the most recent four consecutive fiscal quarters, with combined results for ADESA and IAAI prior to the merger. The calculation of Adjusted EBITDA per the Credit Agreement for the year ended December 31, 2007, presented below, includes a pro forma adjustment for anticipated cost savings related to the merger totaling $10.5 million net of realized cost savings. The adjustment relates to anticipated costs savings for redundant selling, general and administrative costs for the salvage operations. The following tables reconcile EBITDA, Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement to net income (loss) for the periods presented:

	Three Months Ended				**Twelve Months Ended**
(Dollars in millions)	**December 31, 2008**	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**September 30, 2009**
Net income (loss)	$ (49.3)	$ (3.5)	$ 12.8	$ 8.6	$ (31.4)
Add back:					
Income taxes	(27.3)	(3.0)	9.6	4.4	(16.3)
Interest expense, net of interest income	53.5	46.4	46.8	39.3	186.0
Depreciation and amortization	45.5	46.0	42.3	41.6	175.4
EBITDA	22.4	85.9	111.5	93.9	313.7
Nonrecurring charges	12.0	5.9	4.4	5.0	27.3
Noncash charges	22.1	4.4	(1.8)	14.2	38.9
Advisory services	1.0	0.9	1.0	0.9	3.8
Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement	$ 57.5	$ 97.1	$ 115.1	$ 114.0	$ 383.7

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(Dollars in millions)	Year Ended December 31, 2007	Year Ended December 31, 2008
Net income (loss)	$ (38.3)	$ (216.2)
Add back: ADESA 2007 net income	26.9	
Add back: ADESA 2007 discontinued operations	0.1	
Add back: IAAI 2007 net loss	(0.4)	
Income (loss) from continuing operations	(11.7)	(216.2)
Add back:		
Income taxes	(10.0)	(31.4)
ADESA 2007 income taxes	24.9	
IAAI 2007 income taxes	1.5	
Interest expense, net of interest income	156.0	213.4
ADESA 2007 interest expense, net of interest income	6.3	
IAAI 2007 interest expense, net of interest income	9.9	
Depreciation and amortization	126.6	182.8
ADESA 2007 depreciation and amortization	15.9	
IAAI 2007 depreciation and amortization	7.9	
EBITDA	327.3	148.6
Nonrecurring charges	24.2	40.8
Nonrecurring transaction charges	24.8	
Noncash charges	16.6	200.4
Advisory services	2.6	3.7
Adjusted EBITDA	395.5	393.5
Pro forma impact of recent acquisitions	4.7	2.5
Pro forma cost savings per the credit agreement	5.0	
Adjusted EBITDA per the Credit Agreement	$ 405.2	$ 396.0

Summary of Cash Flows

(Dollars in millions)	Year Ended December 31, 2007	Year Ended December 31, 2008	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2009
Net cash provided by (used for):				
Operating activities	$ 96.8	$ 224.9	$ 207.5	$ 239.1
Investing activities	(2,385.0)	(172.1)	(153.0)	(40.3)
Financing activities	2,492.0	(94.7)	(54.8)	22.5
Effect of exchange rate on cash	0.3	(3.8)	(2.6)	1.1
Net increase (decrease) in cash and cash equivalents	$ 204.1	$ (45.7)	$ (2.9)	$ 222.4

We were incorporated in the State of Delaware on November 9, 2006. However, we had no operations until the consummation of the 2007 Transactions on April 20, 2007. As such, the cash flows of ADESA and IAAI for January 1 through April 19, 2007 are not reflected in the above numbers.

Cash flow from operating activities was $224.9 million for the year ended December 31, 2008, compared with $96.8 million for the year ended December 31, 2007. Operating cash flow compared to net loss was favorably impacted by non-cash charges for the impairment of goodwill and trade name at AFC, depreciation and amortization, changes in operating assets and liabilities and amortization of debt issue costs, partially offset by our net loss and changes in deferred income taxes. The change in operating assets was driven by a decrease in finance receivables and as well as a decrease in retained interests in finance receivables sold.

Cash flow from operating activities was $239.1 million for the nine months ended September 30, 2009, compared with $207.5 million for the nine months ended September 30, 2008. The increase in operating cash flow was primarily impacted by an increase in net income for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008.

Net cash used for investing activities was $172.1 million for the year ended December 31, 2008, compared with $2,385.0 million for the year ended December 31, 2007 and is primarily representative of several acquisitions we completed for $155.3 million as well as $129.6 million that has been expended for capital items. These uses were partially offset by $80.5 million in net proceeds from the closing of the sale-leaseback transaction and the separate transaction in Fairburn, Georgia. The significant change in cash used for investing activities from 2007 to 2008 is primarily representative of the acquisition of ADESA in 2007. For a discussion of our capital expenditures, see Capital Expenditures. For a discussion of the sale-leaseback and the separate transaction, see Sale-Leaseback Transaction.

Net cash used for investing activities was $40.3 million for the nine months ended September 30, 2009, compared with $153.0 million for the nine months ended September 30, 2008. The decrease in net cash used for investing activities was the result of no acquisitions in the first nine months of 2009 compared with the 18 businesses that were acquired in the first nine months of 2008. In addition, we have spent $44.9 million less for capital items in the first nine months of 2009 compared with the first nine months of 2008. These activities were partially offset as we received $73.1 million less in proceeds from the sale of property, equipment and computer software in the first nine months of 2009 compared with the same period in 2008. For a discussion of our capital expenditures, see Capital Expenditures.

Net cash used for financing activities was $94.7 million for the year ended December 31, 2008, compared with net cash provided by financing activities of $2,492.0 million for the year ended December 31, 2007. Cash used for financing activities is primarily representative of payments on long-term debt of $59.3 million, a decrease in book overdrafts of $37.5 million and payments for debt issuance costs of $1.4 million, partially offset by borrowings on the Canadian line of credit. The significant change in financing activities from 2007 to 2008 is primarily representative of proceeds received from the issuance of long-term debt as part of the acquisition of ADESA in 2007.

Net cash provided by financing activities was $22.5 million for the nine months ended September 30, 2009, compared with net cash used by financing activities of $54.8 million for the nine months ended September 30, 2008. The increase in cash provided by financing activities was primarily attributable to us not making any principal payments on our Term Loan B in the first nine months of 2009 compared with payments of $55.7 million in the first nine months of 2008. In addition, there was a larger increase in book overdrafts for the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008. These increases were partially offset by the repayment of $4.5 million on lines of credit in the first nine months of 2009.

Capital Expenditures

Capital expenditures for the nine months ended September 30, 2009 and the year ended December 31, 2008 approximated $40.8 million and $129.6 million. Combined capital expenditures for ADESA and IAAI (excluding acquisitions and other investments) for the year ended December 31, 2007 totaled $79.4 million. 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 $70 million for fiscal year 2009, which includes approximately $50 million for maintenance capital expenditures. Anticipated expenditures are primarily attributable to ongoing information system maintenance, upkeep and improvements at existing vehicle auction facilities, improvements in information technology systems and infrastructure and expansion and relocation of existing auction sites that are at capacity. Future capital expenditures could vary substantially based on capital project timing and the initiation of new information systems projects to support our business strategies.

Sale-Leaseback Transaction

On September 4, 2008, our following subsidiaries, ADESA California, LLC, ADESA San Diego, LLC, ADESA Texas, Inc., ADESA Florida, LLC, ADESA Washington, LLC and ADESA Atlanta, LLC, or collectively, the ADESA Entities, entered into a transaction with subsidiaries of First Industrial Realty Trust, Inc., or First Industrial, to sell and simultaneously lease back to the ADESA Entities the interest of the ADESA Entities in the land (and improvements on a portion of the San Diego site) at eight vehicle auction sites. The closing of the sale-leaseback of seven of the eight locations occurred on September 4, 2008. The initial portfolio is comprised of four sites in California (Tracy, San Diego, Mira Loma and Sacramento), and single sites in Houston, Texas, Auburn, Washington and Bradenton, Florida. A separate transaction for the Fairburn, Georgia location closed on October 3, 2008. The properties continue to house ADESA s used vehicle auctions.

The aggregate sales price for the ADESA Entities interest in the subject properties was $81.9 million. We received net cash proceeds of approximately $73.1 million from the closing of the sale-leaseback of the first seven locations on September 4, 2008. In addition, we received net cash proceeds of approximately $7.4 million from the closing of the separate transaction in Fairburn, Georgia on October 3, 2008. The transactions resulted in a net loss of $10.7 million which has been recorded in Selling, general and administrative expenses on the Consolidated Statement of Operations. We utilized 50% of the net proceeds to prepay the term loan in accordance with terms of our Credit Agreement.

The initial lease term of each lease is 20 years for each property, together with additional renewal options to extend the term of each lease by up to an additional 20 years. Additionally, each lease contains a cross default provision pursuant to which a default under any other lease in the portfolio or any of the Guaranties (as defined below) shall be deemed a default under such lease; provided, however, the cross default provision shall remain in effect with respect to each lease only for such time as the lease is a part of the subject portfolio of leases and is held by First Industrial and its affiliates or a third party and its affiliates.

We entered into guaranties to guarantee the obligations of the ADESA Entities with respect to the leases. Under the guaranties, we agreed to guarantee the payment of all rent, sums and charges of every type and nature payable by the applicable tenant under its lease, and the performance of all covenants, terms, conditions, obligations and agreements to be performed by the applicable tenant under its lease.

Acquisitions

In January 2008, IAAI completed the purchase of assets of B&E Auto Auction, Inc. in Henderson, Nevada which services the Southern Nevada region, including Las Vegas. The site expands IAAI s national service coverage and provides additional geographic support to clients who already utilize existing IAAI facilities in the surrounding Western states. The purchase agreement included contingent payments related to the volume of certain vehicles sold subsequent to the purchase date. The purchased assets of the auction included accounts receivable, operating equipment and customer relationships related to the auction. In addition, we entered into an operating lease obligation related to the facility through 2023. Initial annual lease payments for the facility are approximately $1.2 million per year. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

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In February 2008, IAAI purchased the stock of Salvage Disposal Company of Georgia, Verastar, LLC, Auto Disposal of Nashville, Inc., Auto Disposal of Chattanooga, Inc., Auto Disposal of Memphis, Inc., Auto Disposal of Paducah, Inc. and Auto Disposal of Bowling Green, Inc., eleven independently owned salvage auctions in Georgia, North Carolina, Tennessee, Alabama and Kentucky, or collectively referred to as Verastar. These site acquisitions expand IAAI s national service coverage and provide additional geographic support to clients who already utilize existing IAAI facilities in the surrounding Southern states. The purchase agreement included contingent payments related to the volume of certain vehicles sold subsequent to the purchase date. The assets of the auction included accounts receivable, operating equipment and customer relationships related to the auction. In addition, we entered into operating lease obligations related to certain facilities through 2023. Initial annual lease payments for the facilities are approximately $2.6 million per year. Financial results for these acquisitions have been included in our consolidated financial statements from the date of acquisition.

In February 2008, ADESA completed the purchase of certain assets of Pennsylvania Auto Dealer Exchange, or PADE, PADE Financial Services, or PFS, and Conewago Partners, LP, an independent used vehicle auction in York, Pennsylvania. This acquisition complements our geographic presence. The auction is comprised of approximately 146 acres and includes 11 auction lanes and full-service reconditioning shops providing detail, mechanical and body shop services. The purchased assets of the auction included land, buildings, accounts receivable, operating equipment and customer relationships related to the auction. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

In February 2008, IAAI completed the purchase of certain assets of Southern A&S (formerly Southern Auto Storage Pool) in Memphis, Tennessee. During the third quarter of 2008, IAAI combined the Southern A&S business with the Memphis operation it acquired in the Verastar deal. The combined auctions were relocated to a new site, which are shared with ADESA Memphis. The purchase agreement included contingent payments related to the volume of certain vehicles sold subsequent to the purchase date. The purchased assets of the auction included accounts receivable and customer relationships related to the auction. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

In May 2008, IAAI completed the purchase of certain assets of Joe Horisk s Salvage Pool, Inc. in New Castle, Delaware. The site expands IAAI s national service coverage and provides additional geographic support to clients who already utilize existing IAAI facilities in the surrounding states. The purchased assets of the auction included accounts receivable and customer relationships related to the auction. In addition, we entered into an operating lease obligation related to the facility through 2013. Initial annual lease payments for the facility are approximately $0.1 million per year. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

In July 2008, ADESA completed the purchase of Live Global Bid, Inc., or LGB, a leading provider of Internet-based auction software and services. The LGB technology allows auction houses to broadcast their auctions through simultaneous audio and visual feeds to all participating Internet users from any location. The acquisition is expected to enhance and expand ADESA s e-business product line. ADESA has used LGB s bidding product under the name LiveBlock since 2004 and has owned approximately 18 percent of LGB on a fully diluted basis since 2005. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

In August 2008, ADESA completed the purchase of certain assets of ABC Minneapolis. This acquisition expands ADESA s presence in the Midwest and complements existing auctions at ADESA Fargo and ADESA Sioux Falls. The auction is comprised of approximately 82 acres and includes 6 auction lanes and full-service reconditioning shops providing detail, mechanical and body shop

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services. The purchased assets of the auction included accounts receivable, operating equipment and customer relationships related to the auction. In addition, we entered into an operating lease obligation related to the facility through 2026. Initial annual lease payments for the facility are approximately $0.7 million per year. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

In August 2008, ADESA completed the purchase of certain assets of ABC Nashville. This acquisition expands ADESA s presence in the South and complements existing auctions at ADESA Memphis and ADESA Knoxville. The auction is comprised of approximately 57 acres and includes 6 auction lanes and full-service reconditioning shops providing detail, mechanical and body shop services. The purchase agreement included contingent payments related to Adjusted EBITDA targets subsequent to the purchase date. The purchased assets of the auction included accounts receivable and operating equipment related to the auction. In addition, we entered into an operating lease obligation related to the facility through 2026. Initial annual lease payments for the facility are approximately $1.3 million per year. Financial results for this acquisition have been included in our consolidated financial statements from the date of acquisition.

The aggregate purchase price for the 18 businesses acquired in 2008 was approximately $154.4 million. A preliminary purchase price allocation was recorded for each acquisition and the purchase price of the acquisitions was allocated to the acquired assets and liabilities based upon fair values, including $69.2 million to intangible assets, representing the fair value of acquired customer relationships, technology and noncompete agreements which will be amortized over their expected useful lives. The preliminary purchase price allocations resulted in aggregate goodwill of $68.1 million. The goodwill was assigned to both the ADESA reporting segment and the IAAI reporting segment and $63.8 million is expected to be deductible for tax purposes. Pro forma financial results reflecting these acquisitions were not materially different from those reported.

Some of our acquisitions from prior years included contingent payments typically related to the volume of certain vehicles sold subsequent to the purchase dates. We made contingent payments in 2008 totaling approximately $1.5 million pursuant to these agreements which resulted in additional goodwill.

While acquisitions have been a significant part of our historical growth, our strategy to pursue additional acquisitions is subject to several factors, some of which are outside our control, including general economic and credit market conditions.

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Contractual Obligations

The table below sets forth a summary of our contractual debt and operating lease obligations as of December 31, 2008. Some of the figures included in this table are based on management s estimates and assumptions about these obligations, including their duration, the possibility of renewal and other factors. Because these estimates and assumptions are necessarily subjective, the obligations we may actually pay in future periods could vary from those reflected in the table. The following summarizes our contractual cash obligations as of December 31, 2008 *(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					
Term loan B(a)	$ 1,497.9	$	$ 31.2	$ 1,466.7	$
Floating rate senior notes due 2014(a)	150.0				150.0
8 $^{3}/4$% senior notes due 2014(a)	450.0				450.0
10% senior subordinated notes due 2015(a)	425.0				425.0
Canadian line of credit(b)	4.5	4.5			
Capital lease obligations(c)	11.5	2.9	5.4	3.2	
Interest payments relating to long-term debt(d)	953.8	197.1	362.6	320.7	73.4
Interest rate swap(e)	16.3	16.3			
Postretirement benefit payments(f)	0.5	0.1	0.2		0.2
Operating leases(g)	709.2	65.4	119.5	100.6	423.7
Total contractual cash obligations	**$ 4,218.7**	**$ 286.3**	**$ 518.9**	**$ 1,891.2**	**$ 1,522.3**

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

(b) A C$8 million line of credit is available to ADESA Canada and matures on August 31, 2009.

(c) IAAI has entered into capital leases for furniture, fixtures and equipment. Future capital lease obligations would change if we entered into additional capital lease agreements.

(d) Interest payments on long-term debt are projected based on the contractual rates of the debt securities. Interest rates for the variable rate debt instruments were held constant at the December 31, 2008 rates due to their unpredictable nature.

(e) The fair value of the interest rate swap agreement is estimated using pricing models widely used in financial markets and represents the estimated amount we would pay to terminate the agreement at December 31, 2008. The $800 million notional amount swap agreement matured in June 2009.

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

(g) Operating leases are entered into in the normal course of business. We lease some 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.

Off-Balance Sheet Arrangements

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, or 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 bank conduit facility of up to a maximum of $750 million in undivided interests in certain eligible finance receivables subject to committed liquidity. The agreement expires on April 20, 2012. AFC Funding Corporation had committed liquidity of $450 million at September 30, 2009. Receivables that AFC Funding Corporation sells to the bank conduit facility qualify for sales accounting for financial reporting purposes pursuant to *ASC 860, Transfers and Servicing*, and as a result are not reported on our consolidated balance sheet.

On January 30, 2009, AFC and AFC Funding Corporation entered into an amendment to the Receivables Purchase Agreement with the other parties named therein. The aggregate maximum commitment of the Purchasers is $450 million. In addition, the calculation of the Purchasers participation was amended, reducing the amount received by AFC Funding Corporation upon the sale of an interest in the receivables to the Purchasers.

In light of the current economic and industry conditions, AFC has implemented a number of strategic initiatives designed to tighten credit standards and reduce risk and exposure in its portfolio of finance receivables. As a result of these initiatives along with market conditions, the size of AFC s managed portfolio of finance receivables has decreased significantly over the past year from $700.3 million at September 30, 2008 to $547.5 million at September 30, 2009. AFC s utilization of the committed liquidity under the Receivables Purchase Agreement has decreased accordingly. AFC believes the current aggregate maximum commitment of the Purchasers totaling $450 million will be adequate to meet its securitization needs until April 20, 2012, the expiration date of the bank conduit facility.

At September 30, 2009, AFC managed total finance receivables of $547.5 million, of which $460.1 million had been sold without recourse to AFC Funding Corporation. At December 31, 2008, AFC managed total finance receivables of $506.6 million, of which $436.5 million had been sold without recourse to AFC Funding Corporation. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling $318.0 million and $298.0 million at September 30, 2009 and December 31, 2008. Finance receivables include $34.3 million and $6.6 million classified as held for sale which are recorded at lower of cost or fair value, and $117.3 million and $158.6 million classified as held for investment at September 30, 2009 and December 31, 2008. Finance receivables classified as held for investment include $19.1 million and $69.8 million related to receivables that were sold to the bank conduit facility that were repurchased by AFC at fair value when they became ineligible under the terms of the collateral agreement with the bank conduit facility at September 30, 2009 and December 31, 2008. The face amount of these receivables was $20.6 million and $78.7 million at September 30, 2009 and December 31, 2008.

AFC s allowance for losses of $5.4 million and $6.3 million at September 30, 2009 and December 31, 2008 included an estimate of losses for finance receivables held for investment as well as an allowance for any further deterioration in the finance receivables after they are repurchased from the bank conduit facility. Additionally, accrued liabilities of $1.9 million and $3.0 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at September 30, 2009 and December 31, 2008. These loans were sold to a bank conduit facility with recourse to the special purpose subsidiary and will come back on the balance sheet of the special purpose subsidiary at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility.

The outstanding receivables sold, the retained interests in finance receivables sold and a cash reserve of 1 or 3 percent of total sold receivables serve as security for the receivables that have been sold to the bank conduit facility. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreement. After the occurrence of a termination event, as defined in the securitization agreement, the bank conduit facility may, and could, cause the stock of AFC Funding

Corporation to be transferred to the bank conduit facility, though as a practical matter the bank conduit 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 conduit facility are used to fund new loans to customers. AFC and AFC Funding Corporation must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of our credit facility. At September 30, 2009, we were in compliance with the covenants in the securitization agreement.

Critical Accounting Estimates

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

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

We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. In cases where management estimates are used, they are based on historical experience, information from third-party professionals, and various other assumptions believed to be reasonable. In addition, our most significant accounting polices are discussed in Note 2 and elsewhere in the Notes to the Consolidated Financial Statements for the year ended December 31, 2008, which are included elsewhere in this prospectus.

Uncollectible Receivables and Allowance for Credit Losses and Doubtful Accounts

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

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

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AFC s allowance for credit losses includes an estimate of losses for finance receivables currently held on the balance sheet of AFC and its subsidiaries. Additionally, an accrued liability is recorded for the estimated losses for loans sold by AFC s subsidiary, AFC Funding Corporation. These loans were sold to a bank conduit facility with recourse to AFC Funding Corporation and will come back on the balance sheet of AFC Funding Corporation at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility. AFC controls credit risk through credit approvals, credit limits, underwriting and collateral management monitoring procedures, which includes holding vehicle titles where permitted.

Goodwill and Long-Lived Assets

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

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, we assess goodwill for impairment at least annually and whenever events or circumstances indicate that the carrying amount of the goodwill may be impaired. Important factors that could trigger an impairment review include significant under-performance relative to historical or projected future operating results; significant negative industry or economic trends; and our market valuation relative to our book value. In assessing goodwill, we must make assumptions regarding estimated future cash flows and earnings, changes in our business strategy and economic conditions affecting market valuations related to the fair values of our three reporting units (which consist of our three operating and reportable business segments: ADESA, IAAI and AFC). In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing of or otherwise exiting businesses, which could result in an impairment of goodwill.

The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and we must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

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

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Self-Insurance Programs

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers compensation claims. We purchase individual stop-loss insurance coverage that limits the exposure on individual claims. We also purchase aggregate stop-loss insurance coverage that limits the total exposure to overall automobile, general liability and workers compensation claims. The cost of the stop-loss insurance is expensed over the contract periods.

We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers compensation claims based upon the expected amount of all such claims. Trends in healthcare costs could have a significant impact on anticipated claims. If actual claims are higher than anticipated, our accrual might be insufficient to cover the claims costs, which would have an adverse impact on the operating results in that period.

Legal Proceedings and Other Loss Contingencies

We are subject to the possibility of various legal proceedings and other loss contingencies, many involving litigation incidental to the business and a variety of environmental laws and regulations. Litigation and other loss contingencies are subject to inherent uncertainties and the outcomes of such matters are often very difficult to predict and generally are resolved over long periods of time. We consider the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. Estimating probable losses requires the analysis of multiple possible outcomes that often are dependent on the judgment about potential actions by third parties. Contingencies are recorded in the consolidated financial statements, or otherwise disclosed, in accordance with SFAS 5, *Accounting for Contingencies*. We accrue for an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Legal fees are expensed as incurred.

Income Taxes

All income tax amounts reflect the use of the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes.

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

We record our tax provision based on existing laws, experience with previous settlement agreements, the status of current IRS (or other taxing authority) examinations and management s understanding of how the tax authorities view certain relevant industry and commercial matters. In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than

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50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We establish reserves when we believe that certain positions may not prevail if challenged by a taxing authority. We adjust these reserves in light of changing facts and circumstances.

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162.* This release established the FASB Accounting Standards Codification (Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The codification reorganized existing U.S. accounting and reporting standards issued by the FASB and other related private sector standard setters into a single source of authoritative accounting principles arranged by topic. The Codification was effective on a prospective basis for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification changed our references to GAAP accounting standards but did not have a material impact on the consolidated financial statements.

In February 2008, the FASB issued new guidance for the accounting for nonfinancial assets and nonfinancial liabilities. The new guidance, which is now a part of Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures,* delayed the effective date by one year of the application of fair value accounting for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. The adoption of the new guidance on January 1, 2009 did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued revised guidance for the accounting for business combinations. The revised guidance, which is now a part of ASC 805, *Business Combinations,* establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in an acquisition, at their fair value as of the acquisition date and requires the expensing of acquisition-related costs as incurred. In addition, in relation to previous acquisitions, the provisions of ASC 805 require any release of existing income tax valuation allowances or recognition of previously unrecognized tax benefits initially established through purchase accounting to be included in earnings rather than as an adjustment to goodwill. This revised guidance was effective for annual reporting periods beginning after December 15, 2008. The adoption of the guidance on January 1, 2009 did not have a material impact on the consolidated financial statements. However, depending on the extent and size of future acquisitions, if any, the revised guidance may have material effects.

In December 2007, the FASB issued new guidance for the accounting for noncontrolling interests. The new guidance, which is now a part of ASC 810, *Consolidation,* establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The provisions of the new guidance were effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of the new guidance on January 1, 2009 did not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued new guidance on the disclosure of derivative instruments and hedging activities. The new guidance, which is now a part of ASC 815, *Derivatives and Hedging,* requires enhanced disclosures for derivative instruments, including those used in hedging activities.

These enhanced disclosures include information about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. The provisions of the new guidance were effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of the new guidance on January 1, 2009 did not have a material impact on the consolidated financial statements.

In May 2009, the FASB issued new guidance on subsequent events. The new guidance, which is now a part of ASC 855, *Subsequent Events,* requires the disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The provisions of the new guidance were effective for interim and annual periods ending after June 15, 2009. The adoption of the new guidance on June 30, 2009 did not have a material impact on the consolidated financial statements.

In June 2009, the FASB issued new guidance on the accounting for the transfers of financial assets. The new guidance, which was issued as Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets an Amendment of FASB Statement No. 140,* has not yet been adopted into the Codification. The release eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria and changes the initial measurement of a transferor s interest in transferred financial assets. The new guidance is effective on a prospective basis for annual periods ending after November 15, 2009. We are currently evaluating the impact that the adoption of the new guidance will have on the consolidated financial statements. At September 30, 2009, $318 million of loans sold to a bank conduit facility are not included in our balance sheet. This new guidance may require inclusion of such loans sold to a bank conduit facility and originated after December 31, 2009, in our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. In addition, there are tax inefficiencies in repatriating cash from non-U.S. subsidiaries. To the extent such repatriation is necessary for us to meet our debt service or other obligations, these tax inefficiencies may adversely affect us. We have not entered into any foreign exchange contracts to hedge changes in the Canadian or Mexican exchange rates. Canadian currency translation positively affected net income by approximately $1.0 million for the nine months ended September 30, 2009. Canadian currency translation negatively affected net loss by approximately $9.9 million for the year ended December 31, 2008, and positively affected net loss by $0.3 million for the period April 20 through December 31, 2007. Currency exposure of our Mexican operations is not material to the results of operations.

Interest Rates

We are exposed to interest rate risk on borrowings. Accordingly, interest rate fluctuations affect the amount of interest expense we are obligated to pay. We use interest rate derivative agreements to manage the variability of cash flows to be paid due to interest rate movements on our variable rate debt. We have designated our interest rate derivatives as cash flow hedges. The earnings impact of the derivatives designated as cash flow hedges are recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships is recognized in current earnings. There was no significant ineffectiveness in the first nine months of 2009 or in the years ended December 31, 2008 or 2007.

In July 2007, we entered into an interest rate swap agreement with a notional amount of $800 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility. The interest rate swap agreement matured on June 30, 2009 and effectively resulted in a fixed LIBOR interest rate of 5.345% on $800 million of the Term Loan B credit facility.

In May 2009, we entered into an interest rate swap agreement with a notional amount of $650 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility. The interest rate swap agreement had an effective date of June 30, 2009, matures on June 30, 2012 and effectively results in a fixed LIBOR interest rate of 2.19% on $650 million of the Term Loan B credit facility.

In May 2009, we also purchased an interest rate cap for $1.3 million with a notional amount of $250 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility when one-month LIBOR exceeds 2.5%. The interest rate cap relates to a portion of the variable rate debt that is not covered by an interest rate swap agreement. The interest rate cap agreement had an effective date of June 30, 2009 and matures on June 30, 2011.

The fair values of the interest rate derivatives are estimated using pricing models widely used in financial markets and represent the estimated amounts we would receive or pay to terminate the agreements at the reporting date. At September 30, 2009 and December 31, 2008, the fair value of the interest rate swaps was a $9.7 million unrealized loss and a $16.3 million unrealized loss recorded in Other accrued expenses on the consolidated balance sheet. In addition, at September 30, 2009, the fair value of the interest rate cap was a $0.9 million asset recorded in Other assets on the consolidated balance sheet. Changes in the fair value of the interest rate derivatives designated as cash flow hedges are recorded net of tax in Other comprehensive income. Unrealized gains or losses on the interest rate derivatives are included as a component of Accumulated other comprehensive income. At September 30, 2009, there was a net unrealized loss totaling $6.2 million, net of tax benefits of $3.8 million. At December 31, 2008, there was a net unrealized loss totaling $10.3 million, net of tax benefits of $6.0 million. We are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. We have only partially hedged our exposure to interest rate fluctuations on our variable rate debt. A sensitivity analysis of the impact on our variable rate debt instruments to a hypothetical 100 basis point increase in short-term rates for the nine months ended September 30, 2009, the year ended December 31, 2008 and the period April 20 through December 31, 2007, would have resulted in an increase in interest expense of approximately $6.9 million, $8.9 million and $7.4 million, respectively.

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BUSINESS

Overview

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace providing auction services for sellers of used, or whole car, vehicles and salvage vehicles through our 214 physical auction locations and multiple proprietary Internet venues. In 2008, we facilitated the sale of over 3.2 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers as well as by providing value-added ancillary services, including inspections, storage, transportation, reconditioning, salvage recovery, titling, and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and we do not take title or ownership to substantially all vehicles sold at our auctions. We currently have over 150,000 registered buyers at our auctions.

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA s auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. IAAI, our salvage auction services business, is one of the two largest providers of salvage auction services in North America. Vehicles at our salvage auctions are typically damaged or low value vehicles that are sold primarily by automobile insurance companies, non-profit organizations, automobile dealers, vehicle leasing companies and rental car companies to licensed dismantlers, rebuilders, scrap dealers or qualified public buyers. An important component of ADESA s and, to a lesser extent, IAAI 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.

We have a network of 62 whole car auction locations and 152 salvage auction locations. Our auction locations are primarily stand-alone facilities dedicated to either whole car or salvage auctions. Eleven of our locations are combination sites, which offer both whole car and salvage auction services. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with North American providers and buyers of used and salvage vehicles.

Our Corporate History

KAR Auction Services (formerly KAR Holdings, Inc.) was incorporated in 2006 and commenced operations in April 2007 upon the acquisition of ADESA and the consummation of transactions that resulted in ADESA and IAAI becoming, directly or indirectly, wholly owned subsidiaries of the Company. On November 3, 2009, we changed our name from KAR Holdings, Inc. to KAR Auction Services, Inc. ADESA entered the vehicle redistribution industry in 1989 and first became a public company in 1992. In 1994, ADESA acquired AFC, our floorplan financing business. ADESA remained a public company until 1995 when ALLETE purchased a majority of its outstanding equity interests. In June 2004, ALLETE sold 20% of ADESA to the public and then spun off their remaining 80% interest to shareholders in September 2004. ADESA was acquired by affiliates of the Equity Sponsors in April 2007. IAAI entered the vehicle salvage business in 1982, and first became a public company in 1991. After growing through a series of acquisitions, IAAI was acquired by affiliates of Kelso & Company and Parthenon Capital in 2005. Affiliates of Kelso & Company and Parthenon Capital and certain members of IAAI management contributed IAAI to KAR Auction Services in connection with the 2007 Transactions.

Our Industry

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

Stable Whole Car Industry Volumes

During the period from 1999 to 2008, approximately 9.2 to 10.0 million used vehicles per year were sold in North America through whole car auctions. The stable number of vehicles sold at auction in North America is primarily dependent upon the total population of cars on the road as opposed to the more volatile annual new vehicle sales. Positive trends which should influence future demand for used vehicles include increases in the number of households with more than one vehicle, improvements by manufacturers that have extended vehicle lifespan and the affordability of used vehicles relative to new vehicles.

Growing Salvage Auction Industry Volumes

During the period of 2004 through 2008, we believe that the North American salvage vehicle auction industry volumes increased at an estimated annual growth rate of 2%. Vehicles deemed a total loss by the insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicles become more complex with additional enhancements, such as airbags and electrical components, they are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. This trend, along with increases in miles driven and vehicles per household, has contributed to the growth in salvage vehicle volumes.

Consolidated Whole Car and Salvage Auction Markets

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA represent approximately 50% and over 21% of the market, respectively, and no other competitor represents more than 3%. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, Copart and IAAI, representing an estimated 37% and 35% of the market, respectively, and no other competitor representing more than 10%.

High Barriers to Entry

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

Our Competitive Strengths

Leading Provider of Both Whole Car and Salvage Vehicle Auctions

We are the second largest provider of both whole car and salvage vehicle auctions and related services in North America, with estimated market shares of over 21% and 35% in the whole car and salvage auction markets, respectively. We have 62 whole car and 152 salvage auction locations and are the only company in North America with a top two market share position in both the whole car and salvage auction markets. Our market presence in the 75 largest metropolitan markets in the United States and Canada enables us to attract large whole car and salvage sellers while simultaneously maintaining strong relationships with local franchised and independent automobile dealers. Our auctions attract a high volume of vehicles, thereby ensuring sufficient supply to create the successful marketplaces that buyers and sellers demand. We also have a leading market position in the floorplan financing industry. AFC has 87 branches primarily supporting over 10,000 independent dealers across North America who purchase vehicles primarily from whole car auctions.

Differentiated Internet-Based Auction Services Complement Physical Presence

All of our services are augmented by state-of-the-art information technology solutions enabling our buyers and sellers to maximize exposure and salability of inventory at all points in the remarketing lifecycle. For our whole car customers, we complement the physical auction with LiveBlock (real-time simulcast of the physical auction via the Internet), DealerBlock® (24/7 interactive, virtual auctions) and customized private label solutions that allow our institutional consignors to offer vehicles via the Internet prior to arrival at the physical auction. In addition, our Internet services allow buyers to search inventory, review vehicle condition reports, receive electronic notifications of successful vehicle searches, determine market values and purchase vehicles via the Internet. ADESA owns LAI, which we believe is a leading provider of software that facilitates the simulcast of physical auctions on the Internet in real time allowing buyers to bid from any location. Our handheld condition reporting technology provided through our wholly owned subsidiary, AutoVin, prepares standard vehicle inspection reports, including pictures, for all vehicles sold via the Internet or at physical auction. For our salvage buyers, we complement the physical auctions with i-Bid LIVE℠ (real-time simulcast of the physical auction via the Internet) and a newly designed website that allows buyers to search inventory, review photos, set up alerts and purchase vehicles. In addition, our insurance company suppliers can manage inventory, perform salvage return analyses and electronically assign vehicles to our auctions via the Internet using CSA Today, a proprietary software product developed by IAAI.

Provider of Comprehensive Vehicle Auction Services

We offer a full range of integrated pre- and post-auction services aimed at assisting our customers in the redistribution of their vehicles in an efficient and cost-effective manner. In 2008, we generated a combined total of more than $600 million of revenue from pre- and post-auction services. Pre-auction services include inspections, storage, transportation, reconditioning (such as detailing, body repairs and light mechanical repairs), titling and other administrative services. Post-auction services include the clearing of auction proceeds and collections, floorplan financing, ownership transfer, storage, vehicle delivery, post-sale inspections, reconditioning and customized reporting and analyses. The combination of our physical auction locations, Internet-based solutions and ancillary services offers our customers a single vendor solution to meet all of their vehicle redistribution needs.

Longstanding Customer Relationships and Diversified Customer Base

We have established long-term customer relationships with franchised and independent vehicle dealers and large institutional customers. Our combined whole car and salvage buyer base exceeds 150,000 registered buyers in over 100 countries. No single customer accounted for more than 4% of our consolidated revenue in 2008. We believe this diversity allows us to better withstand changes in the economy and market conditions. ADESA enjoys long-term relationships with all of the major vehicle manufacturers, vehicle finance companies, vehicle fleet companies and rental car companies in North America, including, but not limited to, AmeriCredit, Capital One Auto Finance, Chase Auto Finance, Chrysler, Enterprise Rent-A-Car, Ford, GE Capital, General Motors, Hertz, Honda, Mercedes-Benz, Santander Consumer, Toyota, VW and Wells Fargo. IAAI enjoys long-term relationships with most of the top automobile insurers, including, but not limited to, Allstate, American Family Insurance, Farmers Insurance, GEICO, Nationwide, Progressive, State Farm and USAA.

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Low Capital Intensity Financial Model

Our low maintenance capital expenditures and working capital requirements enable the business to generate strong cash flows. We do not take title to or bear the risk of loss for substantially all vehicles sold at whole car or salvage auctions. Furthermore, 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. These requirements contribute to limited inventory and accounts receivable exposure. Our low capital intensity financial model should allow us to produce significant free cash flow in the future enabling us to continue to reduce debt.

Strong Management Team with Track Record of Driving Growth and Improving Efficiency

Since 2007, our senior management team has implemented a series of successful initiatives resulting in auction services revenue growth and gross profit expansion. Through a better coordination of corporate sales efforts and local auction operations, in addition to numerous strategic Internet initiatives, we have organically grown our volumes and revenues at auction. Furthermore, the management team implemented a disciplined expansion strategy, acquiring or building numerous auction locations since the consummation of the 2007 Transactions. We believe our integration experience and cost discipline will continue to be a competitive advantage as we grow both organically and through selective acquisitions. In addition, we have reduced costs through the integration of operating systems and introduction of standard operating practices across all auction sites, resulting in improved operating efficiencies, reduced headcount and improved operating profit at existing and acquired sites.

Our Business Strategy

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

Grow Market Share and Unit Volume in Our Whole Car and Salvage Auction Businesses

We are continuing to implement new initiatives to grow our market share in our whole car and salvage businesses. Through the coordinated efforts of ADESA and IAAI, we have achieved significant market share and volume gains in each of these businesses by providing customers with a comprehensive offering of services that we believe increase customer value. In addition to continuing to grow our institutional volumes, our other specific major initiatives for continuing to increase our market share include:

- **Grow our dealer consignment business.** The dealer consignment business is a highly market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have recently augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team will assist the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share. Our sales representatives will also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our auctions.

- **Grow our non-insurance salvage auction customer base.** More than 14 million vehicles are de-registered annually, but only approximately 3.5 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of that unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers. ADESA s strong customer relationships with rental car, captive finance and fleet companies provide an advantage in accessing these segments as these customers already use ADESA s whole car auction services.

Selective acquisitions and greenfield expansion. Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire smaller, less geographically diverse competitors. Both ADESA and IAAI have a strong record of acquiring and integrating independent auction operations and improving profitability. We will continue to evaluate opportunities to open and acquire new sites in selected markets in order to effectively leverage our sales and marketing capabilities and expand our geographic presence for both ADESA and IAAI. Finally, we expect to expand our salvage operations by operating additional salvage auction sites at certain of ADESA s existing whole car auction facilities.

Continue to Grow Revenue per Vehicle

From 2004 through 2008, we grew our whole car and salvage revenue per vehicle at compound annual growth rates of 7.1% and 4.7%, respectively. Increased utilization of ancillary services, selective fee increases and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. Wholecar revenue per vehicle generally consists of auction fees and fees from ancillary services. In 2006, 2007, 2008 and for the nine months ended September 30, 2009, revenue per vehicle was $485 ($292 auction fees/$193 ancillary services fees), $522 ($307 auction fees/$215 ancillary services fees), $552 ($311 auction fees/$241 ancillary services fees) and $538 ($316 auction fees/$222 ancillary services fees), respectively. We plan to further grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services through such initiatives as increasing the number of vehicles offered both online and at physical auctions and by expanding other services such as LAI and AutoVIN.

Improve Customer Experience through Internet Initiatives

Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. IAAI is the only national salvage auction company that offers buyers both live and Internet purchasing opportunities. ADESA provides online solutions to sell vehicles directly from a dealership or other interim storage location (upstream selling) and also offers vehicles for sale while in transit to auction locations (midstream selling). We are focused on enhancing our Internet solutions in all of the key channels (upstream, midstream and at auction) and we will continue to invest in our technology platforms to ensure that we can capitalize on new opportunities.

Increase Our International Presence

We believe we are well positioned to grow internationally and are continuing to identify opportunities to expand certain of our service offerings globally. We currently license our LAI online bidding software to auction customers internationally. We plan to further capitalize on the international appeal of our proprietary technologies, such as LAI s bidding software and AutoVIN s inspection technology, through licensing and other arrangements with third parties. In both our whole car and salvage vehicle businesses, we have experience managing international relationships with buyers in over 100 countries. We will continue to assess acquisition and greenfield expansion opportunities in selective markets. For example, we have successfully grown our ADESA Mexico City auction and recently opened our Guadalajara auction.

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Use Excess Cash Flow to Reduce Debt

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, low maintenance capital expenditures and limited working capital requirements. We generated $224.9 million of cash flow from operations for the year ended December 31, 2008, and have generated $239.1 million of cash flow from operations in the nine months ended September 30, 2009. Management is committed to utilizing a significant portion of excess cash generated by the business for debt reduction for the foreseeable future.

Leverage AFC s Products and Services at ADESA and IAAI

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

Continue to Improve Operating Efficiency

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. We successfully implemented IAAI s standard processes and technology systems at 28 of ADESA s legacy salvage auction sites and 14 salvage sites acquired since the 2007 Transactions, streamlining operations and improving operating efficiencies. As a result, IAAI has achieved gross margin expansion of 3.0% over the last two fiscal years. Subsequent to the 2007 Transactions, ADESA implemented Project PRIDE, an initiative to identify best practices at its whole car auction sites, standardize auction operating processes and improve efficiency in the delivery of services. We recently introduced a personnel management system to actively monitor and manage staffing levels in conjunction with Project PRIDE and have begun to realize significant labor efficiency gains. Through Project PRIDE, we expect to achieve gross profit margin expansion at ADESA similar to that realized at IAAI. Additionally, we continue to focus on consolidating selective administrative and overhead functions.

Our Business Segments

We operate as three reportable business segments: ADESA, IAAI and AFC. Our revenues for the year ended December 31, 2008 were distributed as follows: ADESA 63%, IAAI 31% and AFC 6%.

ADESA

Overview

We are the second largest provider of whole car auctions and related services in North America. We serve our customer base throughout North America, with auction facilities that are strategically located to draw professional sellers and buyers together and allow the buyers to physically inspect and compare vehicles, which we believe many customers in the industry demand. Our complementary online auction capabilities provide our sellers with a potentially larger group of buyers who have the convenience of viewing, comparing and bidding on vehicles remotely.

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Vehicles available at our auctions include vehicles from institutional customers such as off-lease vehicles, repossessed vehicles, rental vehicles and other program fleet vehicles that have reached a predetermined age or mileage and have been repurchased by the manufacturers, as well as vehicles from dealers turning their inventory. The number of vehicles offered for sale 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 redistribution process.

Our whole car auctions strive to maximize returns for the sellers of used vehicles by effectively and efficiently providing value-enhancing ancillary services and quickly transferring the vehicles and ownership to the buyer and net funds to the seller. Auctions are typically held at least weekly at most locations and provide real-time wholesale market prices for the used vehicle redistribution industry as large populations of dealers seek to fill their inventory for resale to their retail customers.

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

Customers

Suppliers of vehicles to our whole car auctions primarily include (i) large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, and commercial fleets and fleet management companies; and (ii) franchised and independent used vehicle dealers. For the year ended December 31, 2008, no single supplier accounted for more than 6% of our revenues.

Buyers of vehicles at our whole car auctions primarily include franchised and independent used vehicle dealers. For the year ended December 31, 2008, no single buyer accounted for more than 1% of our revenues.

Services

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

Services	***Description***
Auction Related Services	ADESA provides marketing and advertising for the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, post-sale inspections, security for consigned inventory, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers.
Transportation	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.
Reconditioning Services	Our ADESA auctions provide detailing, body work, paintless dent repair (PDR), light mechanical work, glass repair, tire and key replacement and upholstery repair.

Services	*Description*
Inspection Services Provided By AutoVIN	AutoVIN provides vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. The same technology is utilized at our whole car auction locations and we believe that the expanded utilization of comprehensive vehicle condition reports with pictures will significantly increase the penetration of the Internet as a method of sourcing vehicles for buying dealers.
Title and Repossession Administration and Remarketing Services Provided By PAR	PAR provides end-to-end management of the remarketing process including titling, repossession administration, inventory management, auction selection, pricing and representation of the vehicles at auction for those customers seeking to outsource all or just a portion of their remarketing needs.
ADESA Analytical Services	ADESA Analytical Services provides value-added market analysis to our customers, the media and the investment community. These services include access to publications and custom analysis of wholesale market trends for ADESA s customers, including peer group and market benchmarking studies, analysis of the benefits of reconditioning, site selection for optimized remarketing of vehicles, portfolio analysis of auction sales and computer-generated mapping and buyer analysis.

Sales and Marketing

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

Managers of individual auction locations are ultimately responsible for providing services to the institutional customers whose vehicles are directed to the auctions by the corporate sales team. Developing and servicing the largest possible population of buying dealers for the vehicles consigned for sale at each auction is integral to maximizing value for our vehicle suppliers. We also provide market analysis to our customers through our ADESA Analytical Services department. We market this service to institutional customers as they favorably use analytical techniques in making their remarketing decisions.

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

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Online Solutions

Our current ADESA online solutions include:

Proprietary ADESA Technology	*Description*
ADESA LiveBlock	Our live auction Internet bidding solution, ADESA LiveBlock, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. ADESA LiveBlock provides real-time streaming audio and video from the live auction and still images of vehicles and other data. Buyers inspect and evaluate the vehicle and listen to the live call of the auctioneer while viewing the physical auction that is underway.
ADESA DealerBlock®	Provides for either real-time or round-the-clock bulletin-board type online auctions of consigned inventory not scheduled for active bidding. This platform is also utilized for upstream and midstream selling, which facilitates the sale of vehicles prior to their arrival at a physical auction site.
ADESA Run List®	Provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory and vehicle condition reports prior to an auction event.
ADESA Market Guide®	Provides wholesale auction prices, auction sales results, market data and vehicle condition information.
ADESA Virtual Inventory	Subscription-based service to allow dealers to embed ADESA s search technology into a dealer s website to increase the number of vehicles advertised by the dealer.
ADESA Notify Me	E-mail notification service for dealers looking for particular vehicles being run at physical or online auctions.

Competition

In the whole car auction industry, we compete with Manheim, a subsidiary of Cox Enterprises, Inc., as well as several smaller chains of auctions and independent auctions, some of which are affiliated through their membership in industry associations. Due to our national presence, competition is strongest with Manheim for the supply of used vehicles from national institutional customers. The supply of vehicles from dealers is dispersed among all of the auctions in the used vehicle market.

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

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

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IAAI

Overview

We are one of the top two leading providers of salvage vehicle auctions and related services in North America. We operate under the Insurance Auto Auctions brand name in the U.S and Impact Auto Auctions in Canada and serve our customer base through salvage auction locations throughout North America. We facilitate the redistribution of damaged vehicles that are designated as total-losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. Our auctions provide buyers with the salvage vehicles they need to fulfill their replacement part or vehicle rebuild requirements. We earn fees for our services from both suppliers and buyers of salvage vehicles.

We process salvage vehicles primarily under two consignment methods: fixed fee and percentage of sale. Under these methods, in return for agreed upon fees, we sell vehicles on behalf of insurance companies, which continue to own the vehicles until they are sold to buyers at auction. In addition to auction fees, we generally charge fees to vehicle suppliers for various services, including towing, title processing and other administrative services. Under all methods of sale, we also charge the buyer of each vehicle fees based on a tiered structure that increase with the sale price of the vehicle and fixed fees for other services.

Auctions are typically held weekly at most locations. Vehicles are marketed at each respective auction site as well as via an online auction list that allows prospective bidders to preview vehicles prior to the actual auction event. Our online Auction Center feature provides Internet buyers with an open, competitive bidding environment that reflects the dynamics of the live salvage auction. The Auction Center includes such services as comprehensive auction lists featuring links to digital images of vehicles available for sale, an Auto Locator function that promotes the search for specific vehicles within the auction system and special Flood or other catastrophe auction notifications. Higher returns are generally driven by broader market exposure and increased competitive bidding.

We have developed online tools to assist customers in redistributing their vehicles and establishing salvage vehicle values, in addition to offering an alternative to physically attending an auction. Through our hybrid auction model vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVE^{SM}. We believe our hybrid auction capabilities maximize auction proceeds and returns to our customers. First, our physical auctions allow buyers to inspect and compare the vehicles, thus enabling them to make fully-informed bidding decisions. These physical auction abilities are an important part of the bidding process. Second, our Internet auction capabilities allow buyers to participate in a greater number of auctions than if physical attendance was required. Online inventory browsing and e-mail-based inventory alerts reduce the time required to acquire vehicles.

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Services

We also offer a comprehensive suite of auction, logistics and claims services, which aims to maximize salvage returns, lower administrative costs, shorten the claims process and increase the predictability of returns to vehicle suppliers, while simultaneously expanding our ability to handle an increasing proportion of the total salvage and claims-processing function as a one-stop shop for insurers. Each of the services may be purchased independently from the auction process, including:

Services	***Description***
Hybrid Auction Model	Through our hybrid auction model vehicles are offered simultaneously to live and online buyers in a live auction format utilizing i-Bid LIVE^{SM}. We believe this exposes the vehicles to the maximum number of potential buyers.
Titling Services	After a totaled vehicle is received at one of our facilities, it remains in storage but cannot be auctioned until transferable title has been submitted to and processed by us. We provide management reports to the insurance company suppliers, including an aging report of vehicles for which title documents have not been provided. We utilize our title services to expedite the processing of titles, thereby reducing the time in which suppliers receive their salvage proceeds, in addition to decreasing their administrative expenses. We then process the title documents in order to comply with Department of Motor Vehicles (DMV) requirements for these vehicles. Wherever possible, we interface electronically with the DMV. In addition, we customarily offer the insurance companies staff training for each state s DMV document processing procedures.
Temporary Storage and Vehicle Inspection Centers	We maintain vehicle inspection centers, or VICs, at many of our facilities. A VIC is a temporary storage and inspection facility located at one of our sites that is operated by the insurance company. Some of these VIC sites are formalized through temporary license agreements with the insurance companies that supply the vehicles. VICs minimize vehicle storage charges incurred by insurance company suppliers at the temporary storage facility or repair shop and also improve service time for the policyholder.
Transportation and Towing	Inbound and outbound logistics administration with actual services typically provided by third party carriers.
Settlement Package Express	IAAI utilizes a proprietary, in-house salvage title administration product, Settlement Package Express. By providing our customers with this product, we are able to streamline the title procurement process for their vehicles, thereby reducing processing cycle times while potentially eliminating salvage pool storage fees.

Customers

We obtain the majority of our supply of vehicles from insurance companies, non-profit organizations, automobile dealers and vehicle leasing and rental car companies. We enjoy long-term relationships with all of the major automobile insurance companies, many of whom have been customers for years. For the year ended December 31, 2008, no single supplier accounted for more than 5% of our revenues.

Buyers of salvage vehicles include automotive body shops, rebuilders, used car dealers, automotive wholesalers, exporters, dismantlers, recyclers, brokers, and where allowed, non-licensed (public) buyers. For the year ended December 31, 2008, no single buyer accounted for more than 3% of our revenues.

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Sales and Marketing

We solicit prospective vehicle providers at the national, regional and local levels through our IAAI sales force. Branch managers execute customer service requests and address customer needs at the local level. We also participate in a number of local, regional and national trade show events that further promote the benefits of our products and services.

In addition to providing insurance companies and certain non-insurance company suppliers with a means of disposing of salvage vehicles, we offer a comprehensive suite of services which aim to maximize salvage returns and shorten the claims process. We seek to become integrated within our suppliers salvage processes, and we view such mutually beneficial relationships as an essential component of our effort to attract and retain suppliers.

By analyzing historical industry and customer data, we provide suppliers with a detailed analysis of their current salvage returns and a proposal detailing methods to improve salvage returns, reduce administrative costs and provide proprietary turn-key claims processing services.

We also seek to expand our supplier relationships through recommendations from individual insurance company branch offices to other offices of the same insurance company. We believe that our existing relationships and the recommendations of branch offices play a significant role in our marketing of services within national insurance companies. As we have expanded our geographic coverage, we have been able to market our services to insurance company suppliers on a national basis or within an expanded geographic area.

Online Solutions

Our current IAAI online solutions include:

Proprietary IAAI Technology	*Description*
i-Bid LIVE^{SM}	Our live auction Internet bidding solution, i-Bid LIVE^{SM}, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Potential buyers bid online in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. i-Bid LIVE^{SM} provides real-time streaming audio from the live auction and images of salvage vehicles and other data. Buyers inspect and evaluate the salvage vehicle and listen to the auction while it is underway.
CSA Today	The process of salvage disposition through our system begins at the first report of loss or when a stolen vehicle has been subsequently recovered. An insurance company representative consigns the vehicle to us, either by phone, facsimile or electronically through our online proprietary data management system, CSA Today .
	CSA Today enables insurance company suppliers to enter vehicle data electronically and then track and manage the progress of salvage vehicles in terms of both time and salvage recovery dollars. With this tool, vehicle providers have 24-hour access to their total-loss data. The information provided through this system ranges from the details associated with a specific total-loss vehicle, to comprehensive management reports for an entire claims center or geographic region. Additional features of this system include inventory management tools and a powerful new Average Salvage Calculator that helps customers

Proprietary IAAI Technology	Description
	determine the approximate salvage value of a potential total-loss vehicle. This tool is helpful to adjusters when evaluating the repair vs. total decision. The management tools provided by CSA Today enable claims personnel to monitor and manage total-loss salvage more effectively. Insurance company suppliers can also use CSA Today to view original garage receipts, verify ignition key availability, view settlement documents and images of the vehicles and receive updates of other current meaningful data.
Automated Salvage Auction Processing ***(ASAP)***	We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. ASAP provides salvage vehicle suppliers with 24-hour online access to powerful tools to manage the salvage disposition process, including inventory management, salvage returns analysis and electronic data interchange of titling information.
	Significantly, our other information systems, including our i-Bid LIVE^{SM} and CSA Today systems, are integrated with our ASAP product, facilitating seamless auction processes and information flow with internal operational systems. Our technology platform is a significant competitive advantage that allows us to efficiently manage our business, improve customer returns, shorten customers claims processing cycle and lower our customers administration costs.

Competition

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

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

AFC

Overview

We are a leading provider of floorplan financing to independent used vehicle dealers. Through AFC, we provide, directly or indirectly through an intermediary, short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through branches throughout North America. In 2008, AFC arranged over 1.1 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 bank conduit facility on a revolving basis. 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.

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Customers and Locations

Floorplan financing supports independent used vehicle dealers in North America which purchase vehicles from our auctions, other auctions and non-auction purchases. In 2008, approximately 86% of the vehicles floorplanned by AFC were vehicles purchased by dealers at auction. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction. We service auctions through our branches 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.

Of AFC s 87 branches in North America, 55 are physically located at auction facilities, including 46 at the auction facilities of ADESA. Each of the remaining 32 AFC offices is strategically located in close proximity to at least one of the auctions that it serves. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days. 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, 2008, AFC had over 7,500 active dealers (those accounts with financing for at least one vehicle outstanding), with an average line of credit of approximately $127,000 and no one dealer representing greater than 2.2% of our portfolio. An average of approximately ten vehicles per active dealer was floorplanned with an approximate average value of $7,200 per vehicle at the end of 2008. Our strong national relationships with institutional customers provide a significant and stable source of late model used vehicles and salvage vehicles into our auctions. The integration of our information technology systems with those of our major institutional customers creates strong relationships and improves customer retention. Additionally, the long-standing presence of auctions and branches in regional markets has created strong relationships with local franchised and independent dealers.

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 AFC branch managers or AFC branch personnel. AFC s corporate-level team also provides sales and marketing support to AFC field personnel by helping to identify target dealers and coordinating both promotional activity with auctions and other vehicle supply sources.

Credit

Our procedures and proprietary computer-based system enable us to manage our credit risk by tracking each vehicle from origination to payoff, while expediting services through our branch network. Typically, we assess a floorplan fee at the inception of a loan and we collect all accrued fees and interest when the loan is extended or repaid in full. In addition, AFC generally holds the title or other evidence of ownership to all vehicles which are floorplanned. Typical loan terms are 30 to 60 days, each with a possible loan extension. For an additional fee, this loan extension allows the dealer to extend the duration of the loan beyond the original term for another 30 to 60 days if the dealer makes payment towards principal and pays accrued interest and fees.

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The extension of a credit line to a dealer starts with the underwriting process. Credit lines up to $250,000 are extended using a proprietary scoring model developed internally by AFC with no requirement for financial statements. Credit lines in excess of $250,000 may be extended using underwriting guidelines which require dealership and personal financial statements and tax returns. The underwriting of each line of credit requires an analysis, write-up and recommendation by the credit department and, in case of credit lines in excess of $250,000, final review by a credit committee.

Collateral Management

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

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

Securitization

AFC sells the majority of its U.S. dollar denominated finance receivables without recourse to AFC Funding Corporation, a wholly owned bankruptcy remote special purpose entity established for the purpose of purchasing AFC s finance receivables. AFC s securitization conduit has been in place since 1996. AFC Funding Corporation had $600 million of committed liquidity at December 31, 2008. On January 30, 2009, the securitization agreement was amended and committed liquidity was reduced to $450 million. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling $318 million at September 30, 2009. Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. The securitization agreement expires on April 20, 2012.

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 Manheim Automotive Financial Services (MAFS), Dealer Services Corporation (DSC), other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks and credit unions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions.

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

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Geographic Information

Most of the Company s operations outside the U.S. are in Canada. Information regarding the geographic areas of the Company s operations is set forth below:

(Dollars in millions)	Year Ended December 31, 2008	For the Period April 20 December 31, 2007
Operating revenues		
U.S.	**$ 1,468.5**	$ 898.9
Foreign	**302.9**	203.9
	$ 1,771.4	$ 1,102.8

	December 31, 2008	December 31, 2007
Long-lived assets		
U.S.	**$ 3,157.8**	$ 3,291.1
Foreign	**247.1**	301.4
	$ 3,404.9	$ 3,592.5

Regulation

Vehicle and Lending Regulation

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

The acquisition and sale of used, leased, totaled and recovered theft vehicles are regulated by state or other local motor vehicle departments in each of the locations in which we operate.

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

In many states and provinces, regulations require that a salvage vehicle be forever branded with a salvage notice in order to notify prospective purchasers of the vehicle s previous salvage status.

Some state, provincial and local regulations limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts only.

AFC is subject to laws in certain states and in Canada which regulate commercial lending activities and interest rates and, in certain jurisdictions, require AFC or one of its subsidiaries to be licensed.

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.

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.

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Environmental Regulation

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

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

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

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

Employees

At November 1, 2009, we had a total of 12,777 employees, of which 9,825 were located in the U.S. and 2,952 were located in Canada and Mexico. Approximately 68% of our workforce consists of full-time employees. Currently, none of our employees participate in collective bargaining agreements.

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

Properties

Our corporate headquarters are located in Carmel, Indiana. Our corporate headquarters for ADESA and AFC also are located in Carmel, Indiana. Our corporate headquarters are leased properties, with office space being leased in each case through 2019. Properties utilized by the ADESA business segment include 62 used vehicle auction facilities in North America, which are either owned or leased. Each auction is generally a multi-lane, drive-through facility, and may have additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles. The ADESA auction facilities vary in size based on the market demographics and offer anywhere from 1 to 16 auction lanes, with an average of approximately 7 lanes per location.

IAAI is headquartered in Westchester, Illinois, with office space being leased through 2016. Properties utilized by the IAAI business segment include 152 salvage vehicle auction facilities in the U.S. and Canada, most of which are leased. Salvage auctions are generally smaller than used vehicle auctions in terms of acreage and building size and some locations share facilities with ADESA. The IAAI properties are used primarily for auction and storage purposes consisting on average of approximately 27 acres of land.

Of AFC s 87 branches in North America, 55 are physically located at auction facilities (including 46 at ADESA). Each of the remaining 32 AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its branches.

We believe our existing properties are adequate to meet current needs and that suitable additional space will be available as needed to accommodate any expansion of operations and additional offices on commercially acceptable terms.

Legal

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

IAAI Lower Duwamish Waterway

On March 25, 2008, the United States Environmental Protection Agency, or EPA, issued a General Notice of Potential Liability pursuant to Section 107(a), and a Request for Information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation, and Liability Act, or CERCLA, to IAAI for a Superfund site known as the Lower Duwamish Waterway Superfund Site in Seattle, Washington, or LDW. As of the date of this prospectus, the EPA has not demanded that IAAI pay any funds or take any action apart from responding to the Section 104(e) Information Request. The EPA has advised IAAI that, to date, it has sent out approximately 60 general notice letters to other parties, and has sent Section 104(e) Requests to more than 250 other parties. A remedial investigation has been conducted for this site by some of the potentially responsible parties, who have also commenced a feasibility study pursuant to CERCLA. IAAI is aware that certain authorities may wish to bring Natural Resource Damage claims against potentially responsible parties. In addition, the Washington State Department of Ecology is working with the EPA in relation to LDW, primarily to investigate and address sources of potential contamination contributing to LDW. IAAI and the owner and predecessor at their Tukwila location, which is adjacent to the LDW, are currently in discussion with the Department of Ecology concerning possible source control obligations, including an investigation of the water and soils entering the stormwater system, an analysis of the source of any contamination identified within the system and possible repairs and upgrades to the stormwater capture and filtration system.

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MANAGEMENT

Directors and Executive Officers

Our directors are each elected to serve a term of one year and hold office until a successor is elected or qualified or until his earlier death, resignation or removal. Currently, our board of directors consists of 10 members, all of which have been designated by our Equity Sponsors, indirectly through KAR LLC. Shortly before the pricing of this offering, our board of directors expects to increase the size of the board of directors to 13 members and appoint Robert M. Finlayson, Peter R. Formanek and Jonathan P. Ward as directors. We expect our board of directors to determine that Messrs. Finlayson, Formanek and Ward will satisfy the listing standards for independence of the NYSE. After the con