KAR Holdings, Inc.
Form S-1/A
October 20, 2009
Table of Contents

As filed with the Securities and Exchange Commission on October 20, 2009

Registration No. 333-161907

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO.1

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

KAR Holdings, 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 Holdings, Inc.

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

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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 ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common stock, par value $0.01 per share	$500,000,000	$27,900.00

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.
(2) Includes offering price of the additional shares that the underwriters have the option to purchase.
(3) Of such amount, $22,320 was previously paid.

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.

Table of Contents

Subject to Completion. Dated October 20, 2009.

Shares

KAR Holdings, Inc.

Common Stock

This is an initial public offering of shares of common stock of KAR Holdings, 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 $ and $. We intend to apply to have the common stock listed on the New York Stock Exchange under the symbol .

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 Holdings, Inc.	$	$

To the extent that the underwriters sell more than shares of common stock, the underwriters have the option to purchase up to an additional 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.

Prospectus dated , 2009.

Table of Contents

TABLE OF CONTENTS

Prospectus

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.

Table of Contents

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 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 Holdings, 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 Holdings, 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;

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 Holdings;

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

KAR Holdings and the issuer refer to KAR Holdings, 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 to KAR Holdings $150.0 million Floating Rate Senior Notes due May 1, 2014 and $450.0 million 8$\frac{3}{4}$% Senior Notes due May 1, 2014; and

senor subordinated notes refers to KAR Holdings $425.0 million 10% Senior Subordinated Notes due May 1, 2015.

Table of Contents

COMBINATION OF ADESA AND IAAI

KAR Holdings is a holding company that was organized for the purpose of consummating a merger with ADESA and a combination of IAAI with ADESA. 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 Holdings. Both ADESA and IAAI became wholly owned subsidiaries of KAR Holdings, which was wholly-owned by KAR LLC prior to this offering. KAR Holdings 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 Holdings 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 Holdings 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 Holdings 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.

Table of Contents

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 June 30, 2009, our revenues totaled $1,722 million, and our Adjusted EBITDA was $371.8 million. For a reconciliation from Net Income to Adjusted EBITDA, 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. Nine 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

Table of Contents

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 consistent 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

Table of Contents

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, 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 $500 million of revenue at ADESA and IAAI 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

Table of Contents

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, Nissan, Santander Consumer, Toyota, VW and Wells Fargo. IAAI enjoys long-term relationships with all 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

Table of Contents

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 13 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

Table of Contents

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 $141.9 million of cash flow from operations in the six months ended June 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.

Table of Contents

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.

Table of Contents

The Offering

Common stock offered by us	shares
Common stock to be outstanding immediately after this offering	shares
Common stock to be beneficially owned by the Equity Sponsors immediately after this offering	shares. See Principal Stockholders.
Option to purchase additional shares from us	We have granted the underwriters a 30-day option to purchase up to additional shares of our common stock at the initial public offering price.
Use of proceeds	We intend to use the net proceeds of this offering, after payment of the offering-related expenses and underwriting discounts and commissions, together with up to approximately $200 million of cash on hand, (i) to repay a minimum of $250 million of outstanding borrowings under our senior secured term loan, (ii) to repay and/or repurchase additional amounts under one or more of our senior notes and senior subordinated notes, and (iii) to pay up to $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.
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.
Proposed New York Stock Exchange symbol for our common stock	
Conflict of Interest	Affiliates of Goldman, Sachs & Co. beneficially own more than 10% of our outstanding common stock. For more information, see Underwriting Conflicts of Interest; FINRA Regulations.

Except as otherwise indicated, the information in this prospectus assumes the underwriters option to purchase additional shares is not exercised and gives effect to a -for- common stock split that will be effected prior to this offering.

Information About KAR Holdings

KAR Holdings was incorporated in 2006 and commenced operations in April 2007 upon the acquisition of ADESA and combination with IAAI. 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

Table of Contents

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 Holdings 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.karholdingsinc.com. The information on, or accessible through, the website is not a part of, or incorporated by reference in, this prospectus.

Table of Contents

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 six months ended June 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 2006. 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 Holdings 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	Six Months Ended June 30, 2008 (unaudited)	Six Months Ended June 30, 2009 (unaudited)
Statement of Operations Data:					
Net revenues	$ 1,102.8	$ 1,588.9	$ 1,771.4	$ 930.6	$ 881.6
Cost of sales (excludes depreciation and amortization)	627.4	891.2	1,053.0	531.5	515.5
Gross profit	475.4	697.7	718.4	399.1	366.1
Operating expense:					
Selling, general and administrative	242.4	348.2	383.7	192.5	172.9
Depreciation and amortization	126.6	176.1	182.8	92.3	88.3
Goodwill and other intangibles impairment			164.4		
Operating income (loss)	106.4	173.4	(12.5)	114.3	104.9
Other (income) expense:					
Interest expense	162.3	226.3	215.2	109.4	93.5
Other expense (income), net	(7.6)	(9.7)	19.9	0.8	(4.5)
Income (loss) before income taxes	(48.3)	(43.2)	(247.6)	4.1	15.9
Income taxes	(10.0)	(17.4)	(31.4)	1.1	6.6
Net (loss) income from continuing operations	$ (38.3)	$ (25.8)	$ (216.2)	$ 3.0	$ 9.3
Net earnings (loss) per share basic and diluted	$ (3.59)	$ (2.42)	$ (20.23)	$ 0.28	$ 0.87
Weighted average shares outstanding					
Basic	10.7	10.7	10.7	10.7	10.7
Diluted	10.7	10.7	10.7	10.8	10.7

	Year ended December 31, 2007(1)	Year ended December 31, 2008	Six Months Ended June 30, 2008 (unaudited)	Six Months Ended June 30, 2009 (unaudited)
Other Financial Data:				
EBITDA(6)	$ 327.3	$ 148.6	$ 204.4	$ 197.4
Adjusted EBITDA per the Credit Agreement(6)	405.2	396.0	236.4	212.2
Cash flow from operations	96.8	224.9	91.5	141.9
Capital expenditures	62.7	129.6	45.7	27.4
Balance Sheet Data (at end of period):				
Available cash and cash equivalents(3)	$ 99.3	$ 91.2	$ 19.6	$ 196.0
Working capital(4)	442.1	304.3	341.1	388.0
Total assets	4,530.8	4,157.6	4,608.5	4,239.3
Total debt	2,616.7	2,527.4	2,614.2	2,522.9
Total net debt(5)	2,517.4	2,436.2	2,594.6	2,326.9
Total stockholders equity	1,013.6	750.7	1,009.8	766.4

(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 Holdings 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 Holdings 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 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.

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

Table of Contents

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	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
Net (loss) income	$ (38.3)	$ (216.2)	$ 3.0	$ 9.3
Add back:				
ADESA 2007 net income	26.9			
ADESA 2007 discontinued operations	0.1			
IAAI 2007 net loss	(0.4)			
	(11.7)	(216.2)	3.0	9.3
Add back:				
Income taxes	(10.0)	(31.4)	1.1	6.6
ADESA 2007 income taxes	24.9			
IAAI 2007 income taxes	1.5			
Interest expense, net of interest income	156.0	213.4	108.0	93.2
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	92.3	88.3
ADESA 2007 depreciation and amortization	15.9			
IAAI 2007 depreciation and amortization	7.9			
EBITDA	327.3	148.6	204.4	197.4
Nonrecurring charges	24.2	40.8	18.3	10.3
Nonrecurring transaction charges	24.8			
Noncash charges	16.6	200.4	9.4	2.6
Advisory services	2.6	3.7	1.8	1.9
Adjusted EBITDA	$ 395.5	$ 393.5	$ 233.9	$ 212.2
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	$ 236.4	$ 212.2

(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;

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

Table of Contents

- 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.

Table of Contents

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 economic downturn has increased and could continue to 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. A consequence of the global economic downturn and credit crisis has been an erosion of retail demand for new and used vehicles. This has led many lenders to cut back on originations of new loans and leases and is expected to lead 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.

Since the third quarter of 2008, the trends described above have adversely affected our operating results and business. We do not currently know the full extent to which this market disruption will affect us or the markets or the industry in which we operate, and we are unable to predict the length or ultimate severity of the economic downturn. If the economic downturn persists and these trends continue, our results of operations, business and financial condition may be materially adversely affected.

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 three 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

Table of Contents

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 June 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.

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;

Table of Contents

the lenders under our senior secured credit facilities could terminate their commitments to lend us money and foreclose against the assets securing their borrowings; and

we could be forced into bankruptcy or liquidation.

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

The 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.

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

Table of Contents

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 $141.9 million and $224.9 million of cash flow from operations for the six months ended June 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.

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.

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

21

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.

Table of Contents

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.

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.

Table of Contents

Proposed future U.S. federal income tax legislation could impact the Company s 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.

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.

We intend to submit an application to have our common stock listed on the New York Stock Exchange, or the NYSE, under the symbol . However, we cannot assure you that our common stock will be approved for listing on the NYSE or, if approved, 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.

Table of Contents

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.

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 shares of common stock outstanding. There will be shares issued and outstanding if the underwriters exercise their option to purchase additional shares in full. Of our issued and outstanding shares, all the common stock sold in this offering will be

Table of Contents

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 % of our outstanding common stock (or % 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 the representatives of the underwriters. 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 our common stock held by KAR LLC. These shares will represent approximately % of our outstanding common stock after this offering. 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.

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 $ ($ if the underwriters exercise their option to purchase additional shares in full) in net tangible book deficit per share based on an assumed initial public offering price of $ 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 will 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.

Table of Contents

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 % of our common stock (or % if the underwriters exercise their option to purchase additional shares in full) 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

27

Table of Contents

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.

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.

Table of Contents

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.

Table of Contents

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; and

other risks described in Risk Factors.

Table of Contents

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, relocation and integration of 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.

Table of Contents

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock in this offering will be $ million, at an assumed initial public offering price of $ per share (the midpoint of the price range set forth on the cover of this prospectus) and after deducting offering expenses and the underwriting discount. Our net proceeds will increase by approximately $ million if the underwriters option to purchase additional shares is exercised in full. Each $1.00 increase (decrease) in the assumed initial public offering price of $ 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 $ 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 discounts and commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering, together with up to approximately $200 million of cash on hand, (i) to repay a minimum of $250 million of outstanding borrowings under our senior secured term loan, (ii) to repay and/or repurchase additional amounts under one or more of our senior notes and senior subordinated notes, and (iii) to pay up to $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. The weighted average interest rate of our senior secured term loan and our Floating Rate Senior Notes due May 1, 2014 was 6.96% and 7.29%, respectively, for the year ended December 31, 2008, and 5.43% and 5.47%, respectively, for the period ended June 30, 2009. The interest rate of our Senior Notes due May 1, 2014 and our Senior Subordinated Notes due May 1, 2015 is 8 $^{3}/4$% and 10%, respectively.

Table of Contents

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.

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 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), 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 June 30, 2009	
	Actual	**As Adjusted**
	(in millions)	
Debt:		
Revolving credit facility(1)	$	$
Term loan B	1,497.9	
Floating Rate Senior Notes	150.0	
8 3/4% Senior Notes	450.0	
10% Senior Subordinated Notes	425.0	
Total debt(2)	2,522.9	
Shareholders equity:		
Common stock, par value $0.01 per share, 400,000,000 shares authorized, shares issued and outstanding, actual, shares issued and outstanding, as adjusted	0.1	
Preferred stock, par value $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding, actual and as adjusted		
Additional paid-in capital(3)	1,018.0	
Retained deficit(4)	(248.4)	
Accumulated other comprehensive loss	(3.3)	
Total shareholders equity	766.4	
Total capitalization	$ 3,289.3	

(1) Provides for up to $300.0 million of borrowings. See Description of Certain Indebtedness Senior Secured Credit Facilities.

(2) As adjusted represents the proposed amounts to be outstanding after the proceeds and available cash are utilized to repay debt.

(3) Reflects the proceeds from the offering, net of $ million of estimated 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.

(4) As adjusted reflects prepayment penalty fees related to the payment of debt of $ million together with 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.

34

Table of Contents

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 June 30, 2009, was approximately $ million, or approximately $ per share based on the 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 $ 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 June 30, 2009 would have been $, or $ per share (assuming no exercise of the underwriters option to purchase additional shares). This represents an immediate and substantial dilution of $ 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	$
Net tangible book deficit per share as of June 30, 2009	
Increase in net tangible book deficit per share attributable to this offering	
Pro forma as adjusted net tangible book deficit per share after giving effect to this offering	
Dilution per share to new investors in this offering	$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share (the midpoint of the price range set forth on the cover page of this prospectus) would increase (decrease) our net tangible book deficit by $ million, the pro forma net tangible book deficit per share after this offering by $ per share and the decrease in net tangible book deficit to new investors in this offering by $ 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 June 30, 2009 would have been $ million, or $ per share, representing an immediate increase in our pro forma as adjusted net tangible book deficit to our existing stockholders of $ per share and an immediate dilution to investors participating in this offering of $ per share.

Table of Contents

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 six months ended June 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) and (ii) the application of the net proceeds of this offering as described under Use of Proceeds, assuming that such changes occurred on January 1, 2008 for purposes of the unaudited pro forma consolidated statements of operations and as of June 30, 2009 for purposes of the unaudited pro forma consolidated balance sheet.

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. The unaudited pro forma consolidated statements of operations are presented as if the recapitalization and repayment of debt had occurred on January 1, 2008. The unaudited pro forma consolidated balance sheet is presented as if the recapitalization and repayment of debt had occurred as of June 30, 2009.

Unaudited Pro Forma Consolidated Statements of Operations

For the Year Ended December 31, 2008 and the Six Months Ended June 30, 2009

	Year Ended December 31, 2008			Six Months Ended June 30, 2009		
(Dollars in millions)	**Actual**	**Pro Forma Adjustments (unaudited)**	**Pro Forma (unaudited)**	**Actual (unaudited)**	**Pro Forma Adjustments (unaudited)**	**Pro Forma (unaudited)**
Statement of Operations Data:						
Net revenues	$ 1,771.4	$	$ 1,771.4	$ 881.6	$	$ 881.6
Cost of goods sold	1,053.0		1,053.0	515.5		515.5
Gross profit	718.4		718.4	366.1		366.1
Selling, general & administrative	383.7	7.0(a)	390.7	172.9	(1.8)(b)	171.1
Depreciation & amortization	182.8		182.8	88.3		88.3
Goodwill & other intangibles impairment	164.4		164.4			
Operating (loss) income	(12.5)	(7.0)	(19.5)	104.9	1.8	106.7
Interest expense	215.2	(c)		93.5	(c)	
Other expense (income)	19.9		19.9	(4.5)		(4.5)
(Loss) Income before income taxes	(247.6)			15.9		
Income taxes	(31.4)	(d)		6.6	(d)	
Net (loss) income	$ (216.2)		$	$ 9.3		
Net earnings (loss) per share						
Basic						
Diluted						

36

(a) Represents the $10.5 million fee to be paid to the Equity Sponsors for the termination of the financial advisory agreements in connection with this offering less the $3.5 million financial advisory fee actually paid to the Equity Sponsors during the year ended December 31, 2008. We intend to use the net proceeds from this offering to, among other things, pay these termination fees. 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.

(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 repayment of $ million of debt on January 1, 2008. Assumes $ million repayment of Term Loan B, $ million repurchase of Floating Rate Senior Notes due May 1, 2014, $ million repurchase of 8¾% Senior Notes due May 1, 2014 and $ million repurchase of 10% Senior Subordinated Notes due May 1, 2015.

(d) Represents the estimated tax effect of the pro forma adjustments at an estimated tax rate of 41.5%.

Table of Contents

Unaudited Pro Forma Consolidated Balance Sheet

As of June 30, 2009

(Dollars in millions)	Actual (unaudited)	Pro Forma Adjustments (unaudited)		Pro Forma (unaudited)
Assets				
Cash and cash equivalents	$ 264.1	$	(d)	$
Restricted cash	13.8			13.8
Trade receivables, net of allowances	315.9			315.9
Finance receivables, net of allowances	136.6			136.6
Retained interests in finance receivables sold	65.9			65.9
Deferred income tax assets	38.6			38.6
Other current assets	43.5			43.5
Total current assets	878.4			
Goodwill	1,526.0			1,526.0
Customer relationships, net of accumulated amortization	776.6			776.6
Other intangible assets, net of accumulated amortization	265.3			265.3
Unamortized debt issuance costs	62.9		(e)	
Other assets	17.9			17.9
Property and equipment, net of accumulated depreciation	712.2			712.2
Total assets	4,239.3			
Liabilities and Stockholders Equity				
Accounts payable	357.4			357.4
Accrued employee benefits and compensation expenses	47.0			47.0
Accrued interest	14.9			14.9
Other accrued expenses	69.2			69.2
Income taxes payable	1.9		(f)	
Current maturities of long-term debt				
Total current liabilities	490.4			
Long-term debt	2,522.9		(g)	
Deferred income tax liabilities	330.2			330.2
Other liabilities	129.4			129.4
Total stockholders equity	766.4		(h)	
Total liabilities and stockholders equity	$ 4,239.3			

(d) Represents proceeds of $500.0 million less transaction fees and sponsor fees totaling $ million, less the $ million of cash used for repayment of debt, of which $ million represents prepayment penalties.
(e) Represents $ million in deferred debt issuance costs related to amendment fees for the term loan debt.
(f) Represents accrued income taxes in relation to the prepayment penalties and sponsor termination fees.
(g) Represents the use of proceeds and available cash to repay $ million of principal debt.
(h) Represents additional APIC of $500.0 million related to the offering less $ million of underwriting and transaction fees and $ million net loss related to the prepayment penalties and termination fees to our Equity Sponsors, net of tax.

Table of Contents

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 Holdings 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 Holdings

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

Ended June 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 agreement, IAAI was combined with ADESA. Both ADESA and IAAI became our wholly owned subsidiaries.

(Dollars in millions except per share amounts)	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Six Months Ended June 30, 2008 (unaudited)	Six Months Ended June 30, 2009 (unaudited)
Operations:				
Operating revenues				
ADESA	$ 677.7	$ 1,123.4	$ 576.3	$ 567.8
IAAI	330.1	550.3	290.6	277.0
AFC	95.0	97.7	63.7	36.8
Total operating revenues	$ 1,102.8	$ 1,771.4	$ 930.6	$ 881.6
Operating expenses (exclusive of depreciation and amortization and impairment charges)	869.8	1,436.7	724.0	688.4
Goodwill and other intangibles impairment		164.4		
Operating profit (loss)	106.4	(12.5)	114.3	104.9
Interest expense	162.3	215.2	109.4	93.5
(Loss) income from continuing operations	(38.3)	(216.2)	3.0	9.3
Net (loss) income	(38.3)	(216.2)	3.0	9.3
Net earnings (loss) per share, basic and diluted	(3.59)	(20.23)	0.28	0.87
Weighted average shares outstanding				
Basic	10.7	10.7	10.7	10.7
Diluted	10.7	10.7	10.8	10.7

	At December 31, 2007	At December 31, 2008	At June 30, 2008 (unaudited)	At June 30, 2009 (unaudited)
Financial Position:				
Working capital(2)	$ 442.1	$ 304.3	$ 341.1	$ 388.0
Total assets	4,530.8	4,157.6	4,608.5	4,239.3
Total debt	2,616.7	2,527.4	2,614.2	2,522.9
Total stockholders equity	1,013.6	750.7	1,009.8	766.4

	Year Ended December 31, 2007(1)	Year Ended December 31, 2008	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009

			(unaudited)	(unaudited)
Other Financial Data:				
Net cash provided by operating activities	$ 96.8	$ 224.9	$ 91.5	$ 141.9
Capital expenditures	62.7	129.6	45.7	27.4
Depreciation and amortization	126.6	182.8	92.3	88.3

(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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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. 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, 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 consistent population of cars on the road as opposed to the more volatile annual new vehicle sales. We believe, for the foreseeable future, that the annual number of used vehicle sales at whole car auctions in North America will be consistent with the range of vehicles sold from 1999 to 2008.

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

Table of Contents

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.

The overall economy and in particular the automotive finance industries continue to face pressures which have 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 have recently 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 has been impacted to some degree by the volatility in the vehicle pricing market. To the extent these trends continue, they could have a material impact on AFC s results of operations. However, the used vehicle market did show some signs of improvement in the second quarter of 2009 as month-over-month and year-over-year retail used vehicle sales increased and vehicle pricing improved.

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.

Effect of 2007 Transactions

The 2007 Transactions resulted in a new basis of accounting under SFAS No. 141. This change resulted in many differences between reporting for KAR Holdings 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 Holdings post-acquisition in the balance sheets and statements of operations. In addition, KAR Holdings 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

Table of Contents

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 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.

Table of Contents

Results of Operations

Overview of Results of KAR Holdings for the Six Months Ended June 30, 2008 and 2009:

(Dollars in millions)	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
Revenues		
ADESA	$ 576.3	**$ 567.8**
IAAI	290.6	**277.0**
AFC	63.7	**36.8**
Total revenues	930.6	**881.6**
Cost of services*	531.5	**515.5**
Gross profit*	399.1	**366.1**
Selling, general and administrative	192.5	**172.9**
Depreciation and amortization	92.3	**88.3**
Operating profit	114.3	**104.9**
Interest expense	109.4	**93.5**
Other (income) expense, net	0.8	**(4.5)**
Income before income taxes	4.1	**15.9**
Income taxes	1.1	**6.6**
Net income	$ 3.0	**$ 9.3**

* Exclusive of depreciation and amortization

For the six months ended June 30, 2009, we had revenue of $881.6 million compared with revenue of $930.6 million for the six months ended June 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.

Interest Expense

Interest expense decreased $15.9 million, or 15%, to $93.5 million for the six months ended June 30, 2009, compared with interest expense of $109.4 million for the six months ended June 30, 2008. The decrease in interest expense was the result of payments on Term Loan B of $59.3 million during 2008 which decreased the outstanding principal balance of our debt. In addition, a decrease in interest rates over the past twelve months has also reduced interest expense for our variable rate debt instruments.

Other (Income) Expense

Other income was $4.5 million for the six months ended June 30, 2009 compared with other expense of $0.8 million for the six months ended June 30, 2008, representing an increase of $5.3 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 a tax rate of 26.8% for the six months ended June 30, 2008 to 41.5% for the six months ended June 30, 2009. Before the effect of discrete adjustments for state income taxes, the effective tax rates for the six months ended June 30, 2008 and June 30, 2009 were

Table of Contents

61% and 44%, respectively. The decrease in the rate before one time adjustments was primarily due to our mix of pre-tax profits and losses of our business segments, lower taxes on our international operations and the effect of expenses that are not deductible for tax purposes.

ADESA Results

(Dollars in millions)	Six Months Ended June 30, 2008	2009
ADESA revenue	$ 576.3	**$ 567.8**
Cost of services*	330.1	**322.0**
Gross profit*	246.2	**245.8**
Selling, general and administrative	117.2	**105.0**
Depreciation and amortization	46.1	**45.8**
Operating profit	$ 82.9	**$ 95.0**

* Exclusive of depreciation and amortization

Revenue

Revenue from ADESA decreased $8.5 million, or 1%, to $567.8 million for the six months ended June 30, 2009, compared with $576.3 million for the six months ended June 30, 2008. The decrease in revenue was primarily a result of a 1% decrease in revenue per vehicle sold for the six months ended June 30, 2009, compared with the six months ended June 30, 2008.

The 1% decrease in revenue per vehicle sold resulted in decreased auction revenue of approximately $6.5 million. The decrease in revenue per vehicle sold reflects fluctuations in the Canadian exchange rate which decreased revenue by approximately $20.6 million for the six months ended June 30, 2009 compared with the six months ended June 30, 2008. Partially offsetting the impact of the Canadian exchange rate was a net increase in ancillary services such as transportation and other services which resulted in increased ADESA revenue of approximately $4.2 million. The higher transportation and other ancillary services revenues also resulted in corresponding increases in cost of services. Incremental fee income related to higher used vehicle values and selective fee increases resulted in increased ADESA revenue of approximately $9.9 million.

The total number of used vehicles sold at ADESA decreased less than 1% for the six months ended June 30, 2009 compared with the six months ended June 30, 2008, resulting in a decrease in ADESA revenue of approximately $2.0 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, increased to 69.4% for the six months ended June 30, 2009 compared with 61.5% for the six months ended June 30, 2008. The increase in conversion rates was representative of a reduced supply of vehicles at auction.

Gross Profit

For the six months ended June 30, 2009, gross profit in the ADESA segment decreased $0.4 million, or less than 1%, to $245.8 million. Gross margin for ADESA was 43.3% of revenue for the six months ended June 30, 2009 compared with 42.7% of revenue for the six months ended June 30, 2008.

Table of Contents

Selling, General and Administrative

Selling, general and administrative expenses for the ADESA segment decreased $12.2 million, or 10%, to $105.0 million for the six months ended June 30, 2009 compared with the six months ended June 30, 2008, primarily due to a $5.9 million decrease in marketing costs, a $2.7 million decrease in professional fees, a $2.7 million decrease in bad debt expense, a $1.4 million decrease in supplies expense and a $3.1 million decrease related to fluctuations in the Canadian exchange rate, partially offset by a $2.7 million increase in costs at acquired sites and a $1.0 million increase in severance costs and related employee benefit costs.

IAAI Results

	Six Months Ended June 30,	
(Dollars in millions)	2008	2009
IAAI revenue	$ 290.6	**$ 277.0**
Cost of services*	183.5	**178.1**
Gross profit*	107.1	**98.9**
Selling, general and administrative	34.4	**30.7**
Depreciation and amortization	31.2	**29.6**
Operating profit	$ 41.5	**$ 38.6**

* Exclusive of depreciation and amortization

Revenue

Revenue from IAAI decreased $13.6 million, or 5%, to $277.0 million for the six months ended June 30, 2009, compared with $290.6 million for the six months ended June 30, 2008. The decrease in revenue was primarily a result of a decline in average selling price for vehicles sold at salvage auctions and a decrease in the number of same store salvage vehicles sold during the six months ended June 30, 2009. IAAI s decrease in average selling price was due primarily to the sharp decline in steel scrap and used car prices. We expect the average selling price of salvage vehicles to return to levels experienced prior to the fourth quarter of 2008.

Gross Profit

For the six months ended June 30, 2009, gross profit at IAAI decreased to $98.9 million, or 36% of revenue, compared with $107.1 million, or 37% of revenue, for the six months ended June 30, 2008. The gross profit decrease was primarily the result of the decrease in revenue. 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 supplies, travel, advertising 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 $3.7 million, or 11%, to $30.7 million for the six months ended June 30, 2009, compared with $34.4 million for the six months ended June 30, 2008. The decrease in selling, general and administrative expenses was attributable to decreases in integration expenses, incentive compensation based on the performance of IAAI, supplies and travel, partially offset by higher legal expenses.

Table of Contents

AFC Results

(Dollars in millions except loan volumes and per loan amounts)	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
AFC revenue		
Securitization income	$ 26.8	**$ 14.3**
Interest and fee income	36.7	**23.0**
Other revenue	1.6	**0.1**
Provision for credit losses	(1.4)	**(0.6)**
Total AFC revenue	63.7	**36.8**
Cost of services*	17.9	**15.4**
Gross profit*	45.8	**21.4**
Selling, general and administrative	8.9	**5.5**
Depreciation and amortization	13.0	**12.3**
Operating profit	$ 23.9	**$ 3.6**
Loan transactions	614,941	**389,250**
Revenue per loan transaction	$ 104	**$ 95**

* Exclusive of depreciation and amortization

Revenue

For the six months ended June 30, 2009, AFC revenue decreased $26.9 million, or 42%, to $36.8 million, compared with $63.7 million for the six months ended June 30, 2008. The decrease in revenue was the result of a 37% decrease in loan transactions to 389,250 for the six months ended June 30, 2009 as well as a 9% decrease in revenue per loan transaction for the six months ended June 30, 2009.

The decrease in loan transactions, which includes both loans paid off and loans curtailed, compared to the six months ended June 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 41% decrease in the size of AFC s managed portfolio of finance receivables compared to June 30, 2008.

Revenue per loan transaction decreased $9, or 9%, primarily as a result of decreases in the average portfolio duration and the average loan value, a decrease in other revenue, and an increase in credit losses for both loans held and sold. The average portfolio duration decreased almost 3 days compared to the six months ended June 30, 2008 while the average loan value decreased approximately 13% compared to June 30, 2008.

Gross Profit

For the six months ended June 30, 2009, gross profit for the AFC segment decreased $24.4 million, or 53%, to $21.4 million primarily as a result of a 42% decrease in revenue.

Selling, General and Administrative

Selling, general and administrative expenses at AFC decreased $3.4 million, or 38%, for the six months ended June 30, 2009, compared with the six months ended June 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.

48

Table of Contents

Holding Company Results

(Dollars in millions)	Six Months Ended June 30, 2008	2009
Selling, general and administrative	$ 32.0	**$ 31.7**
Depreciation and amortization	2.0	**0.6**
Operating loss	$ (34.0)	**$ (32.3)**

Selling, General and Administrative

For the six months ended June 30, 2009, selling, general and administrative expenses at the holding company decreased $0.3 million, or 1%, to $31.7 million, primarily as a result of a decrease in compensation and related employee benefit costs as well as decreases in travel and supply expenses, partially offset by an increase in professional fees and an increase in maintenance contract costs on recently acquired information technology.

Operating Results Summary for the Years Ended December 31, 2008, 2007 and 2006

The following sections discuss our historical consolidated results of operations prepared in accordance with GAAP. We had no operations prior to the 2007 Transactions on April 20, 2007. 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. 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.

Overview of Results of KAR Holdings for the Years ended December 31, 2006, 2007 and 2008

(Dollars in millions)	Year ended December 31, 2006	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

Table of Contents

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.

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)	**2006**	**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.

Table of Contents

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 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)	**2006**	**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, as well as the impact of acquisitions and greenfields.

Table of Contents

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 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 attributable to a full-year 2008 compared with the period April 20, 2007 through December 31, 2007, as well as increased costs from acquisitions.

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

	Year ended December 31,		
(Dollars in millions except volumes and per loan amounts)	**2006**	**2007**	**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 Holdings 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)	**2006**	**2007**	**2008**
Selling, general and administrative	$	$ 44.0	**$ 54.8**
Depreciation and amortization		4.2	**2.7**
Operating loss	$	$ (48.2)	**$ (57.5)**

Table of Contents

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.

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, 2007 and 2006 .

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, 2007. 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 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, 2007. KAR Holdings 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.

Table of Contents

Unaudited Pro Forma Consolidated Statement of Operations

For the Year Ended December 31, 2007

(Dollars in millions)	KAR Holdings 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.

Table of Contents

Overview of Results of KAR Holdings for the Year ended December 31, 2008 and Pro Forma Results for the Year ended December 31, 2007

(Dollars in millions)	**Year Ended December 31, 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.

56

Table of Contents

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

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.

Table of Contents

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 Holdings that offers finance and insurance solutions to independent used vehicle dealers and the headcount

Table of Contents

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 following supplemental discussion includes pro forma information for the year ended December 31, 2007. The following supplemental discussion also includes the combined results of ADESA and IAAI for the year ended December 31, 2006. In addition, within the Overview of Results for the Years Ended December 31, 2007 and 2006 the results of ADESA Impact have been reclassified from ADESA and combined with the results of IAAI for the year ended December 31, 2006. We believe that the pro forma and combined data presented below facilitate a meaningful discussion and analysis of our operating results and make the periods more comparable. The pro forma and combined 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, 2007 and 2006.

Unaudited Combined Consolidated Statement of Operations

For the Year Ended December 31, 2006

	December 31, 2006		
(Dollars in millions)	**ADESA**	**IAAI**	**Combined**
Statement of Operations Data:			
Net revenues	$ 1,103.9	$ 332.0	$ 1,435.9
Cost of services*	563.8	235.8	799.6
Gross profit*	540.1	96.2	636.3
Selling, general and administrative	268.7	43.0	311.7
Depreciation and amortization	46.5	23.9	70.4
Loss related to flood		3.5	3.5
Operating profit	224.9	25.8	250.7
Interest expense	27.4	30.6	58.0
Other (income) expense	(6.9)	4.0	(2.9)
Income (loss) before income taxes	204.4	(8.8)	195.6
Income taxes	77.6	(1.6)	76.0
Net income (loss) from continuing operations	$ 126.8	$ (7.2)	$ 119.6

* Exclusive of depreciation and amortization

Overview of Results for the Years Ended December 31, 2007 and 2006

	Year Ended December 31,	
	2006	**2007**
(Dollars in millions)	***(Combined)***	***(Pro Forma)***
Revenues		
ADESA	$ 853.8	$ 965.5
IAAI	438.1	482.5
AFC	144.0	140.9
Total revenues	1,435.9	1,588.9
Cost of services*	799.6	891.2
Gross profit*	636.3	697.7
Selling, general and administrative	311.7	348.2
Depreciation and amortization	70.4	176.1
Loss related to flood	3.5	

Operating profit	250.7	173.4
Interest expense	58.0	226.3
Other (income) expense	(2.9)	(9.7)
Income (loss) before income taxes	195.6	(43.2)
Income taxes	76.0	(17.4)
Net income (loss) from continuing operations	$ 119.6	$ (25.8)

* Exclusive of depreciation and amortization

Table of Contents

For the year ended December 31, 2007, we had pro forma revenue of $1,588.9 million compared with combined revenue of $1,435.9 million for the year ended December 31, 2006, an increase of 11%. Included in the combined 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.

ADESA Results

(Dollars in millions)	Year Ended December 31, **2006**	**2007** *(Pro Forma)*
ADESA revenue	$ 853.8	$ 965.5
Cost of services*	468.6	541.5
Gross profit*	385.2	424.0
Selling, general and administrative	201.4	200.7
Depreciation and amortization	37.8	89.5
Operating profit	$ 146.0	$ 133.8

* Exclusive of depreciation and amortization

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 the Company s used vehicle auctions, was 60.0% for the year ended December 31, 2007 compared with 60.4% for the year ended December 31, 2006.

Table of Contents

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 was a leading driver of the $35.3 million 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 the Company s 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 decreased $0.7 million, or less than 1%, to $200.7 million for the year ended December 31, 2007 compared with the prior year. Selling, general and administrative expenses were down as 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 in 2007. Offsetting the decrease were increases in compensation and related employee benefit costs, consulting and travel costs related to process improvement initiatives, marketing costs and costs at acquired sites.

Depreciation and Amortization

The $51.7 million increase in depreciation and amortization is the result of the 2007 Transactions as a new basis of property and equipment and intangible assets was established.

IAAI Results

(Dollars in millions)	Year Ended December 31, 2006	Year Ended December 31, 2007 (Pro Forma)
IAAI revenue	$ 438.1	**$ 482.5**
Cost of services*	302.6	**317.9**
Gross profit*	135.5	**164.6**
Selling, general and administrative	57.6	**67.8**
Depreciation and amortization	28.3	**58.6**
Loss related to flood	3.5	
Operating profit	$ 46.1	**$ 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.

63

Table of Contents

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 negotiated a number of tow contracts in 2007 resulting in lower tow costs per vehicle towed. In addition, the Company reduced its auction yard costs in 2007 due to the elimination of costs associated with Hurricane Katrina related vehicles.

Selling, General and Administrative

Selling, general and administrative expenses at IAAI increased $10.2 million, or 18%, to $67.8 million for the year ended December 31, 2007, compared with $57.6 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.

Depreciation and Amortization

The $30.3 million increase in depreciation and amortization is the result of the 2007 Transactions as a new basis of property and equipment and intangible assets was established.

AFC Results

	Year Ended December 31,	
(Dollars in millions except volumes and per loan amounts)	**2006**	**2007 *(Pro Forma)***
AFC revenue		
Securitization income	$ 75.1	**$ 74.2**
Interest and fee income	68.4	**65.8**
Other revenue	0.7	**2.4**
Provision for credit losses	(0.2)	**(1.5)**
Total AFC revenue	144.0	**140.9**
Cost of services*	28.4	**31.8**
Gross profit*	115.6	**109.1**
Selling, general and administrative	21.2	**16.2**
Depreciation and amortization	3.5	**25.3**
Operating profit	$ 90.9	**$ 67.6**
Loan transactions	1,151,702	**1,205,865**
Revenue per loan transaction	$ 125	**$ 117**

* Exclusive of depreciation and amortization

Revenue

For the year ended December 31, 2007, AFC pro forma revenue decreased $3.1 million, or 2%, to $140.9 million, compared with $144.0 million for the year ended December 31, 2006. A 5% increase in the number of loan transactions was offset by a 6% 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.

Table of Contents

Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased $8, or 6%, 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 $6.5 million, or 6%, to $109.1 million as a result of the 12% increase in cost of services and the $3.1 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

Selling, general and administrative expenses at AFC decreased $5.0 million, or 24%, for the year ended December 31, 2007 compared with the year ended December 31, 2006. Selling, general and administrative expenses decreased as 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 in 2007. In addition, there were decreases in compensation costs.

Depreciation and Amortization

The $21.8 million increase in depreciation and amortization is the result of the 2007 Transactions as a new basis of property and equipment and intangible assets was established.

Holding Company Results

	Year Ended December 31,	
(Dollars in millions)	**2006**	**2007 *(Pro Forma)***
Selling, general and administrative	$ 31.5	**$ 63.5**
Depreciation and amortization	0.8	**2.7**
Operating loss	$ (32.3)	**$ (66.2)**

Selling, General and Administrative

For the year ended December 31, 2007, selling, general and administrative expenses at the holding company increased $32.0 million, or 102%, to $63.5 million. Selling, general and administrative expenses increased as 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 in 2007. In addition, there were increases in compensation and related employee benefit costs as well as professional and consulting fees.

Depreciation and Amortization

The $1.9 million increase in depreciation and amortization is the result of the 2007 Transactions as a new basis of property and equipment and intangible assets was established.

Table of Contents

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	June 30, 2009
Cash and cash equivalents	$ 204.1	$ 158.4	$ 264.1
Restricted cash	16.9	15.9	13.8
Working capital	442.1	304.3	388.0
Amounts available under credit facility(2)	300.0	300.0	300.0
Cash flow from operations	96.8	224.9	141.9

(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 June 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 June 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 June 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 June 30, 2009, our term loan margin was 225 basis points.

Our $300 million revolving line of credit was undrawn as of June 30, 2009. There were related outstanding letters of credit totaling approximately $31.3 million at June 30, 2009, which reduce the amount available for borrowings under our revolving credit facility. In addition, our Canadian operations have a C$8 million line of credit which was undrawn as of June 30, 2009. There were related letters of credit outstanding totaling approximately $1.6 million at June 30, 2009, which reduce the amount available for borrowings 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 June 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 June 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.

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.

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 twelve months 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

Table of Contents

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 June 30,**
(Dollars in millions)	**September 30, 2008**	**December 31, 2008**	**March 31, 2009**	**June 30, 2009**	**2009**
Net income (loss)	$ (169.9)	$ (49.3)	$ (3.5)	$ 12.8	$ (209.9)
Add back:					
Income taxes	(5.2)	(27.3)	(3.0)	9.6	(25.9)
Interest expense, net of interest income	51.9	53.5	46.4	46.8	198.6
Depreciation and amortization	45.0	45.5	46.0	42.3	178.8
EBITDA	(78.2)	22.4	85.9	111.5	141.6
Nonrecurring charges	10.2	12.3	5.9	4.4	32.8
Noncash charges	168.9	22.1	4.6	(2.0)	193.6
Advisory services	0.9	1.0	0.9	1.0	3.8
Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement	$ 101.8	$ 57.8	$ 97.3	$ 114.9	$ 371.8

(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

Table of Contents

Summary of Cash Flows

(Dollars in millions)	Year Ended December 31, 2007	2008	Six Months Ended June 30, 2008	2009
Net cash provided by (used for):				
Operating activities	$ 96.8	$ 224.9	$ 91.5	$ 141.9
Investing activities	(2,385.0)	(172.1)	(179.3)	(30.3)
Financing activities	2,492.0	(94.7)	33.2	(6.1)
Effect of exchange rate on cash	0.3	(3.8)	(2.0)	0.2
Net increase (decrease) in cash and cash equivalents	$ 204.1	$ (45.7)	$ (56.6)	$ 105.7

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 $141.9 million for the six months ended June 30, 2009, compared with $91.5 million for the six months ended June 30, 2008. The increase in operating cash flow was primarily impacted by changes in operating assets and liabilities which were reflective of our working capital initiatives. The change in operating assets was driven by a smaller increase in trade receivables and other assets as well as a larger increase in accounts payable and accrued expenses for the six months ended June 30, 2009 compared with the six months ended June 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 $30.3 million for the six months ended June 30, 2009, compared with $179.3 million for the six months ended June 30, 2008. The decrease in net cash used for investing activities is the result of no acquisitions in the first six months of 2009 compared with the 15 auction sites that were acquired in the first six months of 2008. In addition, we have spent $18.3 million less for capital items in the first six months of 2009 compared with the first six months of 2008. For a discussion of our capital expenditures, see Capital Expenditures below.

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 used by financing activities was $6.1 million for the six months ended June 30, 2009, compared with net cash provided by financing activities of $33.2 million for the six months ended June 30, 2008. The decrease in cash provided by financing activities was primarily attributable to a smaller increase in book overdrafts for the six months ended June 30, 2009 compared with the six months ended June 30, 2008. In addition, we repaid $4.5 million on our lines of credit in the first six months of 2009 compared with net borrowings of $5.4 million on the lines of credit in the first six months of 2008. These decreases were partially offset as a result of us not making any principal payments on our Term Loan B in the first six months of 2009 compared with payments of $7.8 million in the first six months of 2008.

Capital Expenditures

Capital expenditures for the six months ended June 30, 2009 and the year ended December 31, 2008 approximated $27.4 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 $75 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.

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 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.

Table of Contents

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.

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

Table of Contents

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 June 30, 2009. Receivables that AFC Funding Corporation sells to the bank conduit facility qualify for sales accounting for financial reporting purposes pursuant to SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, 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 $809.8 million at June 30, 2008 to $477.4 million at June 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 June 30, 2009, AFC managed total finance receivables of $477.4 million, of which $395.3 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 $269.0 million and $298.0 million at June 30, 2009 and December 31, 2008. Finance receivables include $27.7 million and $6.6 million classified as held for sale which are recorded at lower of cost or fair value, and $114.8 million and $158.6 million classified as held for investment at June 30, 2009 and December 31, 2008. Finance receivables classified as held for investment include $22.1 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 June 30, 2009 and December 31, 2008. The face amount of these receivables was $24.4 million and $78.7 million at June 30, 2009 and December 31, 2008.

AFC s allowance for losses of $5.9 million and $6.3 million at June 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 $1.7 million and $3.0 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at June 30, 2009 and December 31, 2008. These loans were sold to a bank conduit facility with recourse to the special

Table of Contents

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 June 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.

Table of Contents

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

AFC s allowance for credit losses includes an estimate of losses for finance receivables 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.

Table of Contents

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

Self-Insurance Programs

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers compensation claims. We 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 a