

INSURANCE AUTO AUCTIONS, INC

Form S-1/A

June 17, 2009

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As filed with the Securities and Exchange Commission on June 17, 2009

Registration No. 333-158666

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No.1 to  
Form S-1 Registration Statement and Post-Effective  
Amendment No.2 to  
FORM S-1  
REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**KAR Holdings, Inc.**

And the Guarantor Registrants Listed in the Table Below

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(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>5010</b> (Primary Standard Industrial Classification Code Number) <b>13085 Hamilton Crossing Boulevard</b>  <b>Carmel, Indiana 46032</b>  <b>(800) 923-3725</b>	<b>20-8744739</b> (I.R.S. Employer Identification Number)
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(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Rebecca C. Polak, Esq.**

**Executive Vice President, General Counsel and Secretary**

**KAR Holdings, Inc.**

**13085 Hamilton Crossing Boulevard**

**Carmel, Indiana 46032 (800) 923-3725**

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

*Copies of all communication to:*

**Gregory A. Fernicola, Esq.**

**Skadden, Arps, Slate, Meagher & Flom LLP**

**Four Times Square**

**New York, New York 10036**

**(212) 735-3000**

**(212) 735-2000 (facsimile)**

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

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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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered	Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Proposed Maximum Amount of Registration Fee
Floating Rate Senior Notes Due 2014	(1)	(1)	(1)	(2)
8 3/4% Senior Notes Due 2014	(1)	(1)	(1)	(2)
10% Senior Subordinated Notes Due 2015	(1)	(1)	(1)	(2)
Guarantees of Floating Rate Senior Notes Due 2014	(1)	N/A	N/A	(3)
Guarantees of 8 3/4% Senior Notes Due 2014	(1)	N/A	N/A	(3)
Guarantees of 10% Senior Subordinated Notes Due 2015	(1)	N/A	N/A	(3)

- (1) An indeterminate amount of securities are being registered hereby to be offered solely for market-making purposes by Goldman Sachs & Co.
- (2) Pursuant to Rule 457(q) under the Securities Act of 1933, as amended, no filing fee is required.
- (3) Pursuant to Securities Act Rule 457(n), no separate registration fee is payable with respect to the guarantees.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants 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, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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<b>Name of Additional Registrant*</b>	<b>State or Other Jurisdiction of Incorporation or Formation</b>	<b>Primary Standard Industrial Classification Code Number</b>	<b>I.R.S Employer Identification Number</b>
ADESA, Inc	Delaware	5010	35-1842546
ADESA Corporation, LLC	Indiana	5010	35-1842546
A.D.E. of Ark-La-Tex, Inc	Louisiana	5010	72-1417504
A.D.E. of Knoxville, LLC	Tennessee	5010	62-1532205
ADESA Ark-La-Tex, LLC	Louisiana	5010	72-1419175
ADESA Arkansas, LLC	Delaware	5010	71-0844203
ADESA Atlanta, LLC	New Jersey	5010	58-2563132
ADESA Birmingham, LLC	Alabama	5010	63-0980470
ADESA California, LLC	California	5010	91-1811682
ADESA Charlotte, LLC	North Carolina	5010	56-1853746
ADESA Colorado, LLC	Colorado	5010	84-1555543
ADESA Dealer Services, LLC	Indiana	5010	26-1218111
ADESA Des Moines, LLC	Iowa	5010	42-1486117
ADESA Florida, LLC	Florida	5010	35-1842547
ADESA Impact Texas, LLC	Texas	5010	20-5233403
ADESA Indianapolis, LLC	Indiana	5010	35-1915228
ADESA Lansing, LLC	Michigan	5010	38-3406149
ADESA Lexington, LLC	Kentucky	5010	61-1184881
ADESA Mexico, LLC	Indiana	5010	35-1842546
ADESA Minnesota, LLC	Minnesota	5010	26-2457765
ADESA Missouri, LLC	Missouri	5010	43-1811816
ADESA Missouri Redevelopment Corporation	Missouri	5010	26-3051093
ADESA New Jersey, LLC	New Jersey	5010	22-3339600
ADESA New York, LLC	New York	5010	16-1307133
ADESA Ohio, LLC	Ohio	5010	31-1334072
ADESA Oklahoma, LLC	Oklahoma	5010	73-1607773
ADESA Pennsylvania, LLC	Pennsylvania	5010	25-1801698
ADESA Phoenix, LLC	New Jersey	5010	86-1000467
ADESA San Diego, LLC	California	5010	41-2021208
ADESA South Florida, LLC	Indiana	5010	35-1930710
ADESA Southern Indiana, LLC	Indiana	5010	35-1929359
ADESA Texas, Inc	Texas	5010	74-2757736
ADESA Virginia, LLC	Virginia	5010	20-2751571
ADESA Washington, LLC	Washington	5010	91-2069348
ADESA Wisconsin, LLC	Wisconsin	5010	39-1846227
AFC Cal, LLC	California	5010	20-8709089
Asset Holdings III, L.P	Ohio	5010	13-4284567
Auto Dealers Exchange of Concord, LLC	Massachusetts	5010	04-3165540
Auto Dealers Exchange of Memphis, LLC	Tennessee	5010	62-1401166
Automotive Finance Consumer Division, LLC	Indiana	5010	26-1218186
Automotive Finance Corporation	Indiana	5010	35-1699152
Automotive Recovery Services, Inc	Indiana	5010	35-2123607
AutoVIN, Inc	Indiana	5010	35-2086523
PAR, Inc	Indiana	5010	35-2062003
Axle Holdings, Inc	Delaware	5010	20-2835651
Insurance Auto Auctions, Inc	Illinois	5010	95-3790111
Insurance Auto Auctions Corp	Delaware	5010	95-4455113
IAA Acquisition Corp	Delaware	5010	36-4351076



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<b>Name of Additional Registrant*</b>	<b>State or Other Jurisdiction of Incorporation or Formation</b>	<b>Primary Standard Industrial Classification Code Number</b>	<b>I.R.S Employer Identification Number</b>
Auto Disposal Systems, Inc	Ohio	5010	31-0954761
ADS Ashland, LLC	Ohio	5010	31-0954761
ADS Priority Transport Ltd	Ohio	5010	31-0954761
Auto Disposal of Bowling Green, Inc.	Tennessee	5010	62-1672297
Auto Disposal of Chattanooga, Inc.	Tennessee	5010	62-1406590
Auto Disposal of Memphis, Inc.	Tennessee	5010	20-1801091
Auto Disposal of Nashville, Inc.	Tennessee	5010	62-1004467
Auto Disposal of Paducah, Inc.	Tennessee	5010	62-1799839
Salvage Disposal Company of Georgia	Georgia	5010	58-0965230
CarBuyCo, LLC	North Carolina	5010	26-4296526
Dent Demon, LLC	Indiana	5010	26-1530430
LiveBlock Auctions International, Inc.	Nevada	5010	26-2871774
Sioux Falls Auto Auction, Inc	South Dakota	5010	46-0412455
Tri-State Auction Co., Inc	North Dakota	5010	45-0255813
Zabel & Associates, Inc	North Dakota	5010	45-0446447

\* Addresses and telephone numbers of principal executive offices are the same as those of KAR Holdings, Inc.

**EXPLANATORY NOTE**

This Registration Statement contains a combined Prospectus under Rule 429 promulgated under the Securities Act of 1933, as amended, that relates to each of the several series of notes issued by KAR Holdings, Inc. and the related guarantees thereof that previously have been registered with the Securities and Exchange Commission. Each series of the notes have been registered under the Act on the registration statement bearing the following File No.: 333-149137. This Registration Statement is filed pursuant to Rule 429 to add registrants to such registration statement and to reflect the guarantees of each of the several series of notes by such additional registrants. Pursuant to Rule 429, upon effectiveness, this Registration Statement shall act as the Post-Effective Amendment No. 2 to Form S-1 Registration Statement (File No.: 333-149137).

This Registration Statement is being filed, and the Prospectus that is part hereof will be used, solely in connection with offers and sales by Goldman, Sachs & Co. related to market-making transactions. We will not receive any proceeds of such sales.

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

**Subject to Completion, Dated June 17, 2009.**

**PROSPECTUS**

**KAR HOLDINGS, INC.**

**\$150,000,000 Floating Rate Senior Notes Due 2014**

**\$450,000,000 8<sup>3</sup>/<sub>4</sub>% Senior Notes Due 2014**

**\$425,000,000 10% Senior Subordinated Notes Due 2015**

The Floating Rate Senior Notes due 2014 (the Floating Rate Senior Notes ) accrue interest at a rate per annum, reset quarterly, equal to LIBOR (as defined) plus 4.00%, and will mature on May 1, 2014. The 8<sup>3</sup>/<sub>4</sub>% Senior Notes due 2014 (the Fixed Rate Senior Notes ) bear interest at a rate of 8<sup>3</sup>/<sub>4</sub>% per annum and will mature on May 1, 2014. The 10% Senior Subordinated Notes due 2015 (the Senior Subordinated Notes ) bear interest at a rate of 10% per annum and will mature on May 1, 2015. The Floating Rate Senior Notes, the Fixed Rate Senior Notes and the Senior Subordinated Notes are collectively referred to herein as the Notes , unless the context otherwise requires.

We may redeem some or all of the Floating Rate Senior Notes at any time on or after May 1, 2009, some or all of the Fixed Rate Senior Notes at any time on or after May 1, 2010 and some or all of the Senior Subordinated Notes at any time on or after May 1, 2011. We may redeem some or all of the Floating Rate Senior Notes prior to May 1, 2009, some or all of the Fixed Rate Senior Notes prior to May 1, 2010 and some or all of the Senior Subordinated Notes prior to May 1, 2011, in each case at the redemption prices set forth in this prospectus. We may also redeem up to 35% of the Floating Rate Senior Notes, up to 35% of the Fixed Rate Senior Notes and up to 35% of the Senior Subordinated Notes at any time on or before May 1, 2010, in each case at the redemption prices set forth in this prospectus using the proceeds of certain equity offerings.

The Floating Rate and Fixed Rate Senior Notes are guaranteed, jointly and severally and fully and unconditionally, on an unsecured unsubordinated basis by each of our subsidiaries that guarantees debt under our senior credit facility. The Senior Subordinated Notes are guaranteed, jointly and severally and fully and unconditionally, on an unsecured subordinated basis by each of our subsidiaries that guarantees debt under our senior credit facility.

**See Risk Factors beginning on page 16 for a discussion of certain risks you should consider before investing in the notes.**

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

This prospectus has been prepared for and may be used by Goldman, Sachs & Co. in connection with offers and sales of the notes related to market-making transactions in the notes effected from time to time. Goldman, Sachs & Co. may act as principal or agent in these transactions. Such sales will be made at prevailing market prices at the time of sale, at prices related thereto or at negotiated prices. We will not receive any proceeds from such resales.

The date of this prospectus is \_\_\_\_\_, 2009.

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This prospectus incorporates by reference important business and financial information about us that is not included in or delivered in this document. Copies of this information are available, without charge, to any person to whom this prospectus is delivered, upon written or oral request. Written requests should be sent to:

KAR Holdings, Inc.

13085 Hamilton Crossing Boulevard

Carmel, Indiana 46032

Oral requests should be made by telephoning (800) 923-3725.

**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**



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**USE OF NON-GAAP MEASURES**

EBITDA and Adjusted EBITDA, as presented in this prospectus, 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. Adjusted EBITDA is calculated by adjusting EBITDA for the items of income and expense and expected incremental revenue and cost savings as follows: (a) gain 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. 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.

The EBITDA measure (including Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement) has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

it does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

it does not reflect changes in, or cash requirements for, our working capital needs;

it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

it does 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 this measure does not reflect any cash requirements for such replacements;

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

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

it does not reflect limitations on, or costs related to, transferring earnings from our subsidiaries to us; and

other companies in our industry may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

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Because of these limitations, our EBITDA measure (including Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement) should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as a measure 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 this measure 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.

Unless the context otherwise requires, in this prospectus, (i) we, us, our, the Company and KAR Holdings refer collectively to KAR Holdings, Inc., a Delaware corporation, and all its subsidiaries, including ADESA and IAAI; (ii) ADESA refers to ADESA, Inc. and its subsidiaries; (iii) IAAI refers to Insurance Auto Auctions, Inc. and its subsidiaries; and (iv) the Equity Sponsors refers, collectively, to GS Capital Partners VI Fund, L.P., Kelso Investment Associates VII, L.P., Parthenon Investors II, L.P. and ValueAct Capital Master Fund, L.P., which own through their respective affiliates, including, in respect of Kelso, Axle Holdings II, LLC, substantially all of our equity.

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### **SUMMARY**

*This summary highlights information appearing elsewhere in this prospectus. This summary does not contain all of the information that you should consider before making your investment decision. You should read the entire prospectus carefully, including the matters discussed under the caption Risk Factors and Unaudited Pro Forma Consolidated Financial Data and in the financial statements and related notes included elsewhere in this prospectus, as well as information incorporated by reference. On April 20, 2007, KAR Acquisition, Inc. merged with and into ADESA, with ADESA continuing as the surviving corporation (the Merger). In connection with the Merger and the related transactions described below, we completed the private offering of \$150 million aggregate principal amount of Floating Rate Senior Notes due 2014, \$450 million aggregate principal amount of 8<sup>3</sup>/<sub>4</sub>% Senior Notes due 2014 and \$425 million aggregate principal amount of 10% Senior Subordinated Notes due 2015, which we refer to collectively as the Restricted Notes. After consummation of the Merger and the related transactions, ADESA and IAAI became wholly owned subsidiaries of KAR Holdings, Inc.*

### **Our Company**

#### ***Overview***

We are the second largest provider of whole car auctions, a leading provider of salvage vehicle auctions and have the largest network of automobile auction locations in North America. Our network of whole car and salvage vehicle auctions facilitates the sale of used and salvage vehicles through physical, online and hybrid auctions, which permit Internet buyers to participate in physical auctions. We earn auction fees from both vehicle buyers and sellers for completed transactions. We also generate revenues by providing our customers with value-added ancillary services, including reconditioning, inspection and certification, titling, transportation and administrative and salvage recovery services. We facilitate the transfer of ownership directly from seller to buyer and, generally, we do not take title or ownership to vehicles sold at our auctions.

We are also a leading provider of short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. Floorplan financing typically involves the financing of dealer vehicle purchases at auction in exchange for a security interest in those vehicles. Loans are generally short-term in nature and typically repaid when the vehicle is sold by the dealer. We generate revenues from both fees and interest on these loans.

Our key competitive advantages include our leading North American market positions, broad distribution network, established relationships with a diversified customer base, comprehensive range of innovative value-added services and strong management team with significant industry experience. As of May 31, 2009, we have a network of 61 whole car auction locations, 150 salvage auction locations and 88 loan production offices in North America. Our auction locations are primarily stand-alone facilities dedicated to either whole car or salvage auctions. Nine of these locations are combination sites, which offer separate whole car and salvage auctions. We believe our extensive network and product offerings enables us to drive revenues by leveraging relationships with North American institutional vehicle providers and registered buyers of used and salvage vehicles.

#### ***Business Segments***

We operate through three business segments: ADESA Auctions, IAAI Salvage and Automotive Finance Corporation, or AFC.

#### ***ADESA Auctions***

We are the second largest provider of whole car auctions and related services in North America. We serve our customer base through whole car auction sites located throughout North America. Our whole car auction

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facilities are strategically located to draw professional sellers and buyers together and allow our buyers to physically inspect and compare vehicles, which we believe many customers in the industry demand. Our complementary online auction capabilities provide the convenience of viewing, comparing and bidding on vehicles remotely and the advantage of a potentially larger group of buyers.

Vehicles available at our auctions include vehicles from institutional customers, such as off-lease vehicles, repossessed vehicles, rental vehicles and other program fleet vehicles that have reached a predetermined age or mileage and have been repurchased by the manufacturers, as well as vehicles from dealers turning their inventory. Sellers include large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, commercial fleets and fleet management companies and independent and franchised used vehicle dealers. Buyers are primarily franchised or independent used vehicle dealers.

ADESA Auctions generates revenue primarily from auction fees paid by vehicle buyers and sellers. Generally, ADESA Auctions does not take ownership or title to vehicles sold at our auctions. Our buyer fees and dealer seller fees are typically based on a tiered structure with fees increasing with the sale price of the vehicle, while institutional seller fees are typically fixed. We also generate revenues from ancillary services, such as vehicle reconditioning and preparation, transportation and professional field information services.

### *IAAI Salvage*

We are a leading provider of salvage vehicle auctions and related services in North America. We serve our customer base through salvage auction locations throughout North America. Our salvage auctions facilitate the redistribution of damaged vehicles that are designated as total-losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions.

Salvage vehicles are primarily supplied by property and casualty insurance companies, as well as non-profit organizations, automobile dealers and vehicle leasing and rental car companies. We enjoy long-term relationships with most of the major automobile insurance companies in North America. Buyers of salvage vehicles include licensed vehicle dismantlers, rebuilders, repair shop operators and used vehicle dealers.

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

### *AFC*

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide, directly or indirectly through an intermediary, floorplan financing to independent used vehicle dealers through loan production offices located throughout North America. Typical loan terms are 30 to 60 days with an option to extend the original term of the loan. In 2008, AFC arranged over 1.1 million loan transactions, which number includes extensions or curtailments of loans. We sell the majority of our U.S. dollar denominated finance receivables without recourse to a wholly owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a bank conduit facility on a revolving basis.

Floorplan financing supports independent used vehicle dealers in North America which purchase vehicles from our auctions, independent auctions, auctions affiliated with other auction networks and non-auction purchases. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction.

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AFC generates a significant portion of its revenue from fees. These fees include origination, floorplan, curtailment and other related program fees. We collect accrued fees and interest when the loan is extended or paid in full. To secure our obligations, we typically retain possession of the title document to the vehicle, file UCC filings and receive personal guarantees from the dealer. We also maintain a close relationship with customers to assess their financial health and conduct regular inventory checks on the dealers' lots through our AutoVIN subsidiary.

### **Competitive Strengths**

#### ***Leading North American Market Positions***

We are the second largest provider of whole car auctions and a leading provider of salvage vehicle auctions and related services in North America. In 2008, the most recent date available, we had estimated market shares of approximately 19% and 35% in the whole car auction and salvage auction markets, respectively. We leverage our significant market presence to 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's broad coverage, strong brand name and longstanding customer relationships have established it as a leading provider of floorplan financing for independent used car dealers.

#### ***Broad North American Distribution Network***

Our 61 whole car and 150 salvage auction locations enable us to provide a single source solution for our customers' needs throughout North America. In addition, AFC has 88 loan production offices supporting independent dealers across North America who purchase vehicles from auctions held by ADESA Auctions, independent auctions, auctions affiliated with other auction networks and non-auction sources. Of these offices, 46 are located at ADESA Auctions sites, 33 are located strategically near auctions and 9 are located at third-party auctions. Our network enables us to maintain and develop our relationships with local sellers and buyers, while our North American presence allows institutional customers to access buyers and to redistribute vehicles to markets where demand best matches supply. Our presence in 70 of the top 75 metropolitan markets in the United States gives us an advantage over our smaller competitors, the large majority of which operate in a single market and lack scale. As our customers increasingly demand single source solutions, we believe that our scale and network will become an even more distinct advantage over our competitors. In addition, we believe our broad, established network positions us well because of the large tracts of land required to build new auction sites (our average whole car site is 75 acres and our average salvage site is 27 acres) and the need to comply with regulatory requirements, including zoning and use permits.

#### ***Established Relationships with a Diversified Customer Base***

We have established strong business relationships with dealers and institutional customers, such as vehicle manufacturers, insurers, financial institutions, rental agencies and fleet companies. We have a diverse customer base and do not have a major concentration of business with any one customer. We believe this diversity allows us to better withstand changes in the economy and market conditions. In our whole car business, we enjoy long-term relationships with all of the major vehicle manufacturers, vehicle finance companies and rental car companies in North America, including Chrysler Motors, LLC, Ford Motor Company, General Motors Corporation, American Honda Finance Corporation, Toyota Motor Credit Corporation, AmeriCredit Financial Services, Inc., Capital One Auto Finance, Chase Auto Finance Corp., Enterprise Rent-A-Car, The Hertz Corporation, Mercedes-Benz Credit Corporation, Nissan North America, Inc., VW Credit, Inc., WFS Financial and World Omni Financial Corp. In our salvage vehicle auction business, we enjoy long-term relationships with The Allstate Corporation, American Family Insurance, American International Group, The Farmers Insurance

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Group of Companies, GEICO (Government Employees Insurance Company), Nationwide Financial Services, Inc., The Progressive Corporation, State Farm and USAA (United Services Automobile Association). As of January 1, 2008, no single supplier represented more than 7.5% of our unit sales and no single buyer represented more than 1% of our unit sales.

### ***Single-Source Service Provider of Value-Added Services***

We are able to serve as a one-stop shop for our customers by offering a comprehensive range of innovative and value-added services. We offer physical auctions with Internet-bidding capabilities that enable buyers to pre-bid over the Internet, participate in person at a physical auction and bid over the Internet in real time. Through ADESA Auctions, we offer reconditioning and preparation services and customized reporting and analytical services. Through IAAI Salvage, we provide on-site facilities for insurance providers and online tools for salvage vehicle suppliers that include inventory management, salvage returns analysis and electronic data interchange of titling information. We also provide our insurance company suppliers with the capability to electronically assign and manage their salvage vehicle inventory.

### ***Strong Management Team with Significant Industry Experience***

Our senior management team has extensive experience in the automotive services industry.

*Brian Clingen*, our Chairman and Chief Executive Officer, has significant operational and investment experience in the automotive services industry. Mr. Clingen has served as a managing partner of BP Capital Management since 1998.

*Jim Hallett*, President and Chief Executive Officer of ADESA Auctions, has significant experience in the automotive auctions industry. Mr. Hallett previously served as an executive officer of ADESA from August 1996 until May 2005.

*Tom O'Brien*, President and Chief Executive Officer of IAAI Salvage, has over 30 years experience in general management of various businesses, with over 15 years in businesses that provide services to the automotive insurance industry. Mr. O'Brien has led IAAI since 2000.

*Don Gottwald*, President and Chief Executive Officer of AFC, has significant experience in the financial services industry and has served on the American Financial Services Association's board of directors.

*Eric Loughmiller*, our Chief Financial Officer, has over 25 years experience in finance and accounting and over 10 years as Chief Financial Officer of public and private companies.

*John Nordin*, our Chief Information Officer, has over 26 years of experience in IT and over 13 years as Chief Information Officer of public and private companies.

*Rebecca Polak*, our Executive Vice President, General Counsel and Secretary, has significant experience in corporate and securities law. Ms. Polak served as Associate General Counsel of ADESA from February 2005 to April 2007.

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### **Business Strategy**

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

#### ***Increase Whole Car Volume***

*Institutional.* We continue to focus on growing our whole car auction business by building stronger and more interactive relationships with our institutional customers. To the extent possible, we have aligned our managers with the types of customers that they have the most relevant experience with: vehicle manufacturers, finance companies, rental car companies, leasing companies and fleet management companies. This allows our managers to focus on the current trends for their respective institutional customer group in order to better coordinate our sales efforts and service offerings tailored to our customers' needs. In addition to our team of relationship managers, we utilize ADESA Analytical Services to provide our institutional customers with customized studies and data analysis tools to enhance their remarketing decisions, target potential buyers and determine the best market and forum for their vehicles.

*Dealers.* We have a decentralized sales and marketing approach for our dealer business with primary coverage responsibilities managed by the individual auction locations. We believe this decentralized approach enhances relationships with the dealer community and increases dealer volumes at our auctions. Dealer business is a highly market specific business and we have local relationship managers who have experience in the used car business and possess an intimate knowledge of their local market.

#### ***Realize Cost Savings and Enhance Revenues in Salvage Operations***

We continue to focus on cost savings and revenue synergies from the combination of ADESA's and IAAI's salvage operations by reducing corporate overhead of the combined salvage operations. We strive to increase performance of our salvage operations through enhancement opportunities, including reducing corporate overhead of the combined salvage operations, consolidating existing salvage sites onto existing whole car sites, opening new salvage sites on existing whole car sites, easing volume constraints through a larger branch network and implementing IAAI standard processes and information technology systems to streamline operations and improve operating efficiencies at existing ADESA salvage branches.

Over the past few years, IAAI has successfully implemented an operating model for its auction sites that streamlines numerous operating and administrative activities and standardizes processes, resulting in cost savings and improved customer service levels. We have implemented this scaleable operating model at 31 of ADESA's salvage facilities located in the United States, which we believe will result in additional cost savings, primarily by reducing headcount and personnel costs. We intend to implement the IAAI operating model at 13 of ADESA's salvage locations in Canada in 2010.

#### ***Reduce Costs and Enhance Revenues at ADESA Auctions***

We continue to focus on reducing costs and enhancing revenues at ADESA Auctions by implementing the following initiatives:

Optimize management and staffing levels for each auction

Establish standardized operating procedures and utilize technology to automate process controls for key operational areas and to improve labor efficiency

Centralize certain common functions previously performed at individual auction locations such as payables processing and general ledger entry to reduce costs and improve working capital turns

Centralize and consolidate certain procurement functions to leverage global volumes of commodities and services to gain more favorable pricing



Standardize fee structures for ancillary services

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### ***Expand through Selective Relocations, Greenfields and Acquisitions***

We continue our efforts on relocating some of our existing whole car auction facilities to new, larger facilities in markets where our existing facilities are capacity-constrained. In addition, increased demand for single source solutions by our customers may enable us to acquire smaller, less geographically diversified competitors at attractive prices. Both ADESA and IAAI have been successful in acquiring independent auction operations over the past few years. We will continue to evaluate opportunities to open new greenfield sites in markets adjacent to those in which we already have a presence, in order to effectively leverage our sales and marketing capabilities. We expect to expand our salvage operations by selectively locating new salvage auction sites at ADESA Auctions' existing auction facilities.

### ***Enhance performance at AFC***

We will continue to focus on expanding coverage and improving coordination with ADESA Auctions to capitalize on cross-selling opportunities. By encouraging a collaborative marketing effort between AFC and ADESA Auctions, we believe we can market more effectively to dealers and tailor AFC's financing products to individual dealer needs. We will continue to focus on generating additional revenues by expanding our floorplan financing business to certain IAAI Salvage buyers and by cross-selling our whole car auction services to our AFC customers that do not currently use ADESA Auctions.

### ***Continue to Invest in Information Technology***

We will continue to invest in and improve our technology infrastructure to expand service offerings and improve operating efficiencies and customer service. We are utilizing the experience gained through the recent development of IAAI's proprietary IT systems (completed in 2005) as we continue to upgrade the ADESA Auctions IT systems. We are utilizing technology to provide additional service offerings across our whole car and salvage businesses to improve customers' returns, shorten the claims processing cycle on the salvage side and lower overall transaction costs. In addition, we are enhancing our e-commerce products and services portfolio in order to better serve our whole car buyers and sellers. These information technology improvements should also allow us to reduce field staff through more efficient and reliable systems, while providing our institutional customers with quicker and better data analysis.

## **The Transactions**

On April 20, 2007, KAR Acquisition, Inc., a Delaware corporation that was a wholly owned subsidiary of KAR Holdings, merged with and into ADESA, with ADESA continuing as the surviving corporation. After completion of the Merger and related transactions described below, ADESA and IAAI became wholly owned subsidiaries of KAR Holdings.

The following transactions occurred in connection with the Merger: (i) all of ADESA's outstanding equity interests were cancelled in exchange for aggregate cash payments of approximately \$2,541.5 million; (ii) 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 approximately \$272.4 million in equity interest in IAAI; (iii) we entered into senior secured credit facilities, comprised of a \$1,565.0 million term loan facility and a \$300.0 million revolving credit facility and, each of our existing and certain future domestic subsidiaries, subject to certain exceptions, guaranteed such credit facilities; and (iv) we issued the Restricted Notes and, after the Merger, each of our restricted subsidiaries that guaranteed our senior secured credit facilities also guaranteed the Floating Rate Senior Notes and Fixed Rate Senior Notes on an unsecured senior basis and the Senior Subordinated Notes on a senior subordinated basis.

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In addition, in connection with the Merger, ADESA completed a tender offer to purchase for cash any and all of its outstanding 7<sup>5/8</sup>% senior subordinated notes due June 15, 2012, or the 2012 Notes, and a consent solicitation to amend the indenture governing the 2012 Notes to eliminate substantially all of the restrictive covenants and certain events of default and modify other provisions contained in such indenture. Also, IAAI completed a tender offer to purchase for cash any and all of its outstanding 11% senior notes due April 1, 2013, or the 2013 Notes, and a consent solicitation to amend the indenture governing the 2013 Notes to eliminate substantially all of the restrictive covenants and certain events of default and modify other provisions contained in such indenture.

The equity contributions, borrowings under our senior credit facilities, our cash on hand and the net proceeds from the offering of the Restricted Notes were used to pay the Merger consideration, consummate the tender offers and pay the related fees and expenses. In this prospectus, we refer to the Merger and the above related transactions as the Transactions.

Upon consummation of the Transactions, we also entered into agreements with the Equity Sponsors and their affiliates, pursuant to which such entities or their affiliates will provide financial and advisory services to us. See Certain Relationships and Related Party Transactions for more information regarding these agreements.

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**Our Corporate Structure**

The following chart presents our corporate structure:

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**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 over 95 transactions with an aggregate initial capitalization at closing of approximately \$31 billion.

***GS Capital Partners***

Founded in 1869, Goldman Sachs is one of the oldest and largest investment banking firms. Goldman Sachs is also a global leader in private equity and mezzanine investing. The Principal Investment Area (PIA) of Goldman Sachs has been investing in private equity since 1986, mezzanine debt securities since 1996, and senior secured loans since 2008. Goldman Sachs PIA has formed 15 investment vehicles aggregating \$86 billion of capital to date.

***ValueAct Capital***

ValueAct, with offices in San Francisco and Boston and more than \$6 billion in investments, seeks to make strategic-block value investments in a limited number of companies. ValueAct 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.

**Summary Description of the Notes**

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The Description of Senior Notes section of this prospectus contains a more detailed description of the terms and conditions of the Senior Notes and the Description of Senior Subordinated Notes section of this prospectus contains a more detailed description of the terms and conditions of Senior Subordinated Notes.

Issuer	KAR Holdings, Inc.
Notes Offered	\$150.0 million in aggregate principal amount of Floating Rate Senior Notes due 2014.
	\$450.0 million in aggregate principal amount of 8 <sup>3</sup> / <sub>4</sub> % Senior Notes due 2014.
	\$425.0 million aggregate principal amount of 10% Senior Subordinated Notes due 2015.

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Maturity Dates	<p>The Floating Rate and Fixed Rate Senior Notes mature on May 1, 2014 respectively.</p> <p>The Senior Subordinated Notes mature on May 1, 2015.</p>
Interest Payment Dates	<p>With respect to the Floating Rate Senior Notes, May 1, August 1, November 1 and February 1 of each year, commencing August 1, 2007.</p> <p>With respect to the Fixed Rate Senior Notes and the Senior Subordinated Notes, May 1 and November 1 of each year, commencing November 1, 2007.</p>
Guarantees	<p>The Floating Rate and Fixed Rate Senior Notes are guaranteed, jointly and severally and fully and unconditionally, on an unsecured unsubordinated basis by each of our subsidiaries that guarantees debt under our senior credit facility.</p> <p>The Senior Subordinated Notes are guaranteed, jointly and severally and fully and unconditionally, on an unsecured subordinated basis by each of our subsidiaries that guarantees debt under our senior credit facility.</p>
Ranking	<p>The Floating Rate and Fixed Rate Senior Notes and the respective guarantees thereof are our and the guarantors' unsecured, senior obligations and rank in right of payment:</p> <p>    pari passu with all of our and the guarantors' existing and future senior indebtedness, including any borrowings under our senior secured credit facilities and the guarantees thereof;</p> <p>    senior to all of our and our guarantors' existing and future subordinated indebtedness, including the Senior Subordinated Notes and the guarantees thereof; and</p> <p>    structurally subordinated to all existing and future liabilities, including trade and other payables, of our non-guarantor subsidiaries.</p> <p>As of March 31, 2009, the aggregate amount of liabilities of our non-guarantor subsidiaries, including trade and other payables, was \$175.3 million.</p> <p>Because the Notes are unsecured, in the event of bankruptcy, liquidation, reorganization or other winding up of our company or the guarantors or upon default in payment with respect to, or the acceleration of, any indebtedness under our senior secured credit facility or other secured indebtedness, the assets of our company and the guarantors that secure other secured indebtedness will be available to pay obligations on the Notes and the guarantees only after all indebtedness under such other secured indebtedness has been repaid in full from such assets. See Description of Other Indebtedness.</p>



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As of March 31, 2009, the Senior Notes would have been effectively subordinated to approximately \$1,497.9 million of our and the guarantors' secured debt and there would have been \$300.0 million of additional availability under our senior secured credit facilities.

The Senior Subordinated Notes and the guarantees thereof are our and the guarantors' unsecured, senior subordinated obligations and rank in right of payment:

junior to all of our and the guarantors' existing and future senior indebtedness, including the Senior Notes and the guarantees thereof and any borrowings under our senior secured credit facilities and the guarantees thereof;

pari passu with all of our and our guarantors' existing and future unsecured senior subordinated indebtedness; and

structurally subordinated to all existing and future liabilities, including trade and other payables, of our non-guarantor subsidiaries.

As of March 31, 2009, the Senior Subordinated Notes would have been (i) subordinated to \$2,097.9 million of our and the guarantors' senior debt, including the Senior Notes, and there would have been \$300.0 million of additional availability under our senior secured credit facilities and (ii) structurally subordinated to \$175.3 million of liabilities of our non-guarantor subsidiaries, including trade and other payables.

**Optional Redemption**

We may, at our option, redeem some or all of the Floating Rate Senior Notes at the redemption prices listed under [Description of Senior Notes](#) [Optional Redemption](#) [Floating Rate Senior Notes](#).

We may, at our option, redeem some or all of the Fixed Rate Senior Notes at the redemption prices listed under [Description of Senior Notes](#) [Optional Redemption](#) [Fixed Rate Senior Notes](#).

We may, at our option, redeem some or all of the Senior Subordinated Notes at the redemption prices listed under [Description of Senior Subordinated Notes](#) [Optional Redemption](#).

In addition, on or prior to May 1, 2010, we may, at our option, redeem up to 35% of each series of the Notes with the proceeds of certain equity offerings at the redemption price listed under [Description of Senior Notes](#) [Optional Redemption](#) and [Description of Senior Subordinated Notes](#) [Optional Redemption](#).

**Mandatory Repurchase Offer**

If we experience specific types of changes in control, we must offer to repurchase the Notes at a price equal to 101% of the principal amount





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thereof, plus accrued and unpaid interest to the date of purchase, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant payment date. See Description of Senior Notes Repurchase at the Option of Holders and Description of Senior Subordinated Notes Repurchase at the Option of Holders.

Certain Covenants

The indentures governing the Notes among other things, restrict our ability and the ability of our restricted subsidiaries to:

incur additional debt;

pay dividends and make distributions;

make certain investments;

repurchase stock;

incur liens;

enter into transactions with affiliates;

merge or consolidate; and

transfer or sell assets.

These covenants are subject to important exceptions and qualifications. For more details, see Description of Senior Notes Certain Covenants and Description of Senior Subordinated Notes Certain Covenants.

**Risk Factors**

You should carefully consider the information set forth under Risk Factors beginning on page 16 before deciding to invest in the Notes.

**Information About KAR Holdings**

We were incorporated in Delaware on November 9, 2006, but we had no operations until the consummation of the Transactions on April 20, 2007. 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](http://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 has 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 three months ended March 31, 2009 has 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 Transactions on April 20, 2007.

The summary unaudited pro forma consolidated statement of operations data and other financial data for the year ended December 31, 2007 have been prepared to give effect to the Transactions as if they had occurred on the first day of the fiscal year 2006. The summary unaudited pro forma consolidated financial data does not purport to represent what our results of operations, balance sheet data or financial information would have been if the 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 Use of Non-GAAP Measures, 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)	Year ended December 31, 2007(1)	Pro forma year ended December 31, 2007(2) (unaudited)	Year ended December 31, 2008	Three Months ended March 31, 2009 (unaudited)
<b>Statement of Operations Data:</b>				
Net revenues	\$ 1,102.8	\$ 1,588.9	\$ 1,771.4	\$ 442.5
Cost of sales (excludes depreciation and amortization)	627.4	891.2	1,053.0	268.9
Gross profit	475.4	697.7	718.4	173.6
Operating expense:				
Selling, general and administrative	242.4	348.2	383.7	85.8
Depreciation and amortization	126.6	176.1	182.8	46.0
Goodwill and other intangibles impairment			164.4	
Operating income (loss)	106.4	173.4	(12.5)	41.8
Other (income) expense:				
Interest expense	162.3	226.3	215.2	46.6
Other expense (income), net	(7.6)	(9.7)	19.9	1.7
Income (loss) before income taxes	(48.3)	(43.2)	(247.6)	(6.5)
Income taxes	(10.0)	(17.4)	(31.4)	(3.0)
Net (loss) income from continuing operations	\$ (38.3)	\$ (25.8)	\$ (216.2)	\$ (3.5)

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	Year ended December 31, 2007(1)	Year ended December 31, 2008	Three Months ended March 31, 2009 (unaudited)
<b>Other Financial Data:</b>			
EBITDA(7)	\$ 327.3	\$ 148.6	\$ 85.9
Adjusted EBITDA per the Credit Agreement (7)	405.2	396.0	97.3
Cash flow from operations	96.8	224.9	44.8
Capital expenditures	62.7	129.6	12.1
Ratio of earnings to fixed charges(3)			
<b>Balance Sheet Data (at end of period):</b>			
Available cash and cash equivalents(4)	\$ 104.3	\$ 88.9	\$ 113.1
Working capital(5)	442.1	304.3	335.9
Total assets	4,530.8	4,157.6	4,208.5
Total debt	2,616.7	2,527.4	2,522.9
Total net debt(6)	2,512.4	2,438.5	2,409.8
Total stockholders equity	1,013.6	750.7	732.9

- (1) We were incorporated on November 9, 2006, but had no operations until the consummation of the Transactions on April 20, 2007.
- (2) The amount for pro forma year ended December 31, 2007 is 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 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 Transactions on April 20, 2007.
- (3) For purposes of determining the ratio of earnings to fixed charges, earnings consist of income before income taxes and fixed charges. Fixed charges consist of interest on indebtedness, amortization of debt issuance costs which are charged to interest expense and a reasonable approximation of the interest factor related to operating leases. The amount of deficiency for the years ended December 31, 2007 and 2008 was \$48.3 million and \$247.6 million, respectively. The amount of deficiency for the three months ended March 31, 2009 was \$6.5 million.
- (4) Available cash and cash equivalents excludes cash in transit.
- (5) Working capital is defined as current assets less current liabilities.
- (6) Represents total debt less available cash and cash equivalents, which excludes cash in transit.
- (7) EBITDA and Adjusted EBITDA, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with, 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

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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

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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. 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.

Under our credit agreement and notes, we are required to maintain a **Maximum Consolidated Senior Secured Leverage Ratio** which is based on Adjusted EBITDA per the Credit Agreement. Failure to comply with the ratio covenant would result in a default under the credit agreement for our credit facility and, absent a waiver or an amendment from the lenders, permit the acceleration of all outstanding borrowings under the credit facility.

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

<b>(In millions)</b>	<b>Year ended December 31, 2007(a)</b>	<b>Year ended December 31, 2008</b>	<b>Three Months ended March 31, 2009</b>
Net (loss) income	\$ (11.8)	\$ (216.2)	\$ (3.5)
Add back: discontinued operations	0.1		
<b>(Loss) income from continuing operations</b>	<b>(11.7)</b>	<b>(216.2)</b>	<b>(3.5)</b>
Add back:			
Income taxes	16.4	(31.4)	(3.0)
Interest expense, net of interest income	172.2	213.4	46.4
Depreciation and amortization	150.4	182.8	46.0
<b>EBITDA</b>	<b>327.3</b>	<b>148.6</b>	<b>85.9</b>
Nonrecurring charges	24.2	40.8	5.9
Nonrecurring transaction charges	24.8		
Noncash charges	16.6	200.4	4.6
Advisory services	2.6	3.7	0.9
<b>Adjusted EBITDA</b>	<b>\$ 395.5</b>	<b>\$ 393.5</b>	<b>\$ 97.3</b>
Pro forma impact of recent acquisitions	4.7	2.5	
Pro forma cost savings per the credit agreement	5.0		
<b>Adjusted EBITDA per the Credit Agreement</b>	<b>\$ 405.2</b>	<b>\$ 396.0</b>	<b>\$ 97.3</b>

(a) The results of ADESA and IAAI have been combined for the period of time prior to the Transactions.



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### **RISK FACTORS**

*Investing in the Notes involves a number of risks. You should consider carefully the following information about these risks, together with the other information included in this prospectus. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. We cannot assure you that any of the events discussed in the risk factors below will not occur. If they do, our business, financial condition or results of operations could be materially and adversely affected.*

#### **Risks Related to Our Business**

*The recent financial crisis and economic downturn has negatively affected our results of operations and business, and conditions may not improve in the near future.*

The capital and credit markets have been experiencing extreme volatility and disruption for more than a year, which has led to an economic downturn in the U.S. and abroad. The ongoing financial crisis and economic downturn has increased our exposure to several risk factors, including:

*Decline in demand for used vehicles.* We have experienced a decrease in demand for used vehicles from buyers and variations in conversion rates (the number of vehicles sold as a percentage of the number of vehicles entered for sale at used vehicle auctions) due to factors underlying buyer demand such as the lack of availability of consumer credit and the decline in consumer spending and consumer confidence. Adverse credit conditions have also affected the ability of dealers to secure financing to purchase used vehicles which has further negatively affected buyer demand. In addition, a reduction in the number of franchise and independent used car dealers has negatively affected and may continue to negatively affect our ability to collect receivables and may reduce demand.

*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 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 capacity reductions by automakers in the U.S. Capacity reductions generally depress the number of vehicles received for auction in the future.

*Supply of salvage vehicles.* Due to current market conditions, the number of miles driven may continue to decrease, which may lead to a decrease in the number of salvage vehicles received at auction. In addition, decreases in commodity prices, such as steel and platinum, have negatively affected and may continue to 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, declines in the prime rate and increased loan losses as used vehicle dealers have experienced steep declines in sales over the last several months have led to reduced revenues and the narrowing of interest rate spreads at AFC. 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.

*Substantial amount of indebtedness.* Continued uncertainty in the financial markets may negatively affect our ability to access additional financing or to refinance our existing indebtedness on favorable terms or at all. While our business model has historically generated substantial operating cash flow, if a prolonged recession occurs, 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.





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The Federal Government, Federal Reserve and other governmental and regulatory bodies have taken or are currently taking certain actions to address the financial crisis. 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. We do not currently know the full extent to which this market disruption will affect it or the market in which it operates, and it is unable to predict the length or ultimate severity of the financial crisis and economic downturn.

Since the third quarter of 2008, the trends described above have adversely affected our operating results and business. If the financial crisis and economic downturn persist and these trends continue, our results of operations, business and financial condition may be materially adversely affected.

***Fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles impact auction sales volume, conversion rates and the demand for floorplan financing by independent used vehicle dealers, which may adversely affect our revenues and profitability.***

In the normal course of business we are subject to changes in general U.S. economic conditions, including but not limited to, 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 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. As manufacturers and other lenders have decreased the number of leases in the last few years and extended the lease terms of some of the leases that were written, the number of off-lease vehicles available at auction declined annually from 2003 to 2006. The number of off-lease vehicles available at auction was up modestly in 2007 and the increase continued in 2008. We are not able to predict manufacturers' and lenders' approaches to leasing and thus future volumes of off-lease vehicles may be affected based upon leasing terms and trends. 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.

We are also 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 affect the number of vehicles received include, but are not limited to, driving patterns, 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 various 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 covered by insurance companies for which a claim settlement has been made.

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### ***Our operating results may fluctuate significantly.***

Our operating results have in the past and may in the future fluctuate significantly depending on a number of factors, many of which are beyond our control. These factors include, but are not limited to:

general business conditions, including the availability and quality of used, leased and salvage vehicles and buyer attendance at our vehicle auctions;

trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;

economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;

trends in the vehicle remarketing industry;

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 we auction, including changes in the actual cash value of salvage vehicles;

competitive pricing pressures; and

costs associated with the acquisition of businesses or technologies.

As a result of the above factors, we believe that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. Furthermore, revenues for any future quarter are not predictable with any significant degree of accuracy, and our operating results may vary significantly due to our relatively fixed expense levels. Due to these factors, it is possible that in some future quarters our operating results may fall below the expectations of public market analysts and investors.

### ***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 debt. 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. Although we take steps to mitigate this risk, if we are unable to collect payments on a large number of vehicles, the resulting payment obligations and decreased fee revenues may have a material adverse effect on our results of operations and financial condition.

### ***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 receivable 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.

AFC generally charges interest on its floorplan loans based on the prime rate plus a spread. Declining interest rates decrease the interest income earned on AFC's loan portfolio.

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

High fuel prices affect the demand for sport utility and full-sized vehicles which are generally not as fuel efficient as smaller vehicles. In addition, high fuel prices could lead to a reduction in the miles driven per vehicle which may reduce accident rates. 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 for the transportation and towing of vehicles. We may not be able to pass on such higher costs to the customers who supply vehicles to our auctions.

### ***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.

### ***Capacity reductions and uncertain conditions at the major U.S. original equipment manufacturers could negatively impact the industry.***

Our financial performance depends, in part, on conditions in the automotive industry. Capacity reductions at the major U.S. original equipment manufacturers are expected to impact the industry and may result in reduced program vehicles and rental fleet sales. In addition, weak growth in or declining new vehicle sales impacts used vehicle trade-ins to dealers and auction volumes. The U.S. original equipment manufacturers have experienced declining market shares in North America and have announced significant restructuring actions in an effort to improve profitability. The U.S. automotive manufacturers are also burdened with substantial structural costs, such as pension and healthcare costs, that have impacted their profitability and labor relations and may ultimately result in severe financial difficulty, including bankruptcy. If U.S. original equipment manufacturers cannot fund their operations, or if other major customers reach a similar level of financial distress, we may incur significant write-offs of accounts receivable.

### ***We may not be able to grow if we are unable to successfully acquire and integrate other auction businesses and facilities.***

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 commonly encountered with growth through acquisitions. These risks include, but are not limited to:

incurring significantly higher capital expenditures and operating expenses;

entering new markets with which we are unfamiliar;

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incurring potential undiscovered liabilities at acquired 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.

*Litigation could have an adverse effect on us.*

There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. In addition we could incur substantial costs in defending ourselves or in asserting our rights in such actions. The costs and other effects of pending litigation and administrative actions against us cannot be determined with certainty. Although we currently believe that no such proceedings will have a material adverse effect, there can be no assurance that the outcome of such proceedings will be as expected.

*The operation of our auction facilities poses certain environmental risks which could adversely affect our results of operations and financial condition.*

Our businesses are subject to regulation by various federal, state and local authorities concerning air quality, water quality, solid wastes and other environmental matters. In the used vehicle redistribution industry, large numbers of vehicles, including wrecked vehicles at salvage auctions, are stored at auction facilities and, during that time, releases of fuel, motor oil and other fluids may occur, resulting in soil, air, surface water or groundwater contamination. In addition, certain of our facilities generate and/or store petroleum products and other hazardous materials which are contained in aboveground or underground storage tanks located at our facilities. Some of our facilities generate waste materials, such as waste solvents or used oils, that are disposed of as non-hazardous or hazardous wastes, and body shops at our facilities may release harmful air emissions associated with painting. We are subject to safety and training regulations as required by local, state and federal law. While we have an environmental and safety compliance program that is administered by our risk management department and includes monitoring, measuring and reporting compliance, establishing safety programs and training our personnel in environmental and safety matters, environmental laws and regulations could become more stringent over time and we may be subject to significant compliance costs in the future.

Any failure by us to obtain required permits or operate within regulations for, control the use of, or adequately restrict the discharge of hazardous or regulated substances or materials under present or future regulations could subject us to substantial liability, require costly cleanup or require changes in remarketing services or auction facilities. We have incurred some expenditures for preventive, investigative or remedial action with respect to contamination or the use of hazardous materials, and could in the future be exposed to additional expenditures. Any liability arising from contamination at our facilities, including contamination by previous users of acquired facilities, the disposal of waste at off-site locations and other aspects of our operations could have a material adverse effect on our operating results and financial condition.

On March 25, 2008, the United States Environmental Protection Agency ( EPA ) issued a General Notice of Potential Liability pursuant to Section 107(a) and a Request for Information pursuant to Section 104(e) of CERCLA (42 USC 9601 et.seq.) to IAAI for a Superfund site known as the Lower Duwamish Waterway Superfund Site in Seattle, Washington (the LDW ). At this time, the EPA has not demanded that IAAI pay any funds or take any action apart from responding to the Section 104(e) Information Request. IAAI s liability, if any, cannot be estimated at this time and therefore we cannot conclude that the impact will not be material. A further discussion of this matter can be found in the Legal section of this prospectus.

*We face significant competition.*

We face significant competition for the supply of used and salvage vehicles and for the buyers of those vehicles. While competition in the used vehicle inventory floorplan financing sector is diverse and fragmented, competition is also strong in that sector. We face current or potential competition from four primary sources: (i) direct competitors, (ii) potential entrants, (iii) potential new vehicle remarketing venues and dealer financing

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services and (iv) existing alternative vehicle remarketing venues. In both the vehicle auction and dealer financing businesses, both 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 car auction companies, providers of claims software to insurance companies, certain salvage buyer groups and insurance companies, some of which currently supply auto salvage to us. While most insurance companies have abandoned or reduced efforts to sell salvage vehicles without the use of service providers such as us, they may in the future decide to dispose of their salvage directly to end users. Increased competition could result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business and results of operations. There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us would not have a material adverse effect on our business and results of operations. We may not be able to compete successfully against current or future competitors, which could impair our ability to grow and achieve or sustain profitability.

***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 substantial capital investment, have significant risks associated with their execution, and could take several years to implement.

For example our ability to provide cost-effective salvage vehicle processing solutions to our customers depends in part on our ability to effectively utilize technology to provide value-added services to our customers. We recently implemented a web-based operating system that allows us to offer hybrid live/Internet auctions and to provide vehicle tracking systems and real-time status reports for our insurance company customers benefit, and to support and streamline vehicle registration and tracking, financial reporting, transaction settlement, vehicle title transfer and branch/headquarters communications. Our ability to provide the foregoing services depends on our capacity to store, retrieve and process data, manage significant databases, and expand and periodically upgrade our information processing capabilities. As we continue to grow, we will need to continue to make investments in new and enhanced information and technology systems. Interruption or loss of our information processing capabilities or adverse consequences from implementing new or enhanced systems could have a material adverse effect on our operating results and financial condition. As our information system providers revise and upgrade their hardware, software and equipment technology, we may encounter difficulties in integrating these new technologies into our business.

Although we have experienced no significant breaches of network security by unauthorized persons, our systems may be subject to infiltration by unauthorized persons. If our systems or facilities were infiltrated and damaged by unauthorized persons, there could be a significant interruption to our ability to provide many of our electronic and web-based services to our customers. If that were to occur, it could have a material adverse effect on our operating results and financial condition.

***Increased use of online wholesale auctions may diminish our supply of vehicles.***

Online auctions or other methods of redistribution may diminish both the quality and quantity as well as reduce the value of vehicles sold through traditional auction facilities. Although we offer online auctions and services as part of standard service offerings, 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 facilities.

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*A portion of our net income is derived from Canada, which exposes us to foreign exchange and other risks.*

Fluctuations between U.S. and Canadian currency values may adversely affect our results of operations and financial position. 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 could 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 currencies relative to currencies in which the earnings are generated 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, where the local currency is the functional currency, are translated using period-end exchange rates, and the revenues and expenses of our Canadian operations are translated using average exchange rates during each period. Translation gains and losses are reported in Accumulated other comprehensive income/loss as a component of stockholders' equity.

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

Goodwill is 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. Declines in our profitability 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. 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.

We still have approximately \$1.5 billion of goodwill on our consolidated balance sheet that could be subject to impairment. We could be required to recognize additional impairments in the future and such an impairment charge could have a material adverse effect on the financial position and results of operations in the period of recognition.

*We are partially self-insured for certain losses.*

We self-insure a portion of employee medical benefits under the terms of our employee health insurance program, as well as a portion of our automobile, general liability and workers' compensation claims. We record an accrual for the claims expense related to our employee medical benefits, automobile, general liability and workers' compensation claims based upon the expected amount of all such claims. While we believe these estimates are reasonable based on the information currently available, 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.

*Our ability to operate successfully could be impaired if we fail to attract and retain key personnel.*

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, we may not be able to implement our business strategies and our business could suffer. We may have



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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. While we have employment agreements with certain of our executive officers, there can be no assurance that they will serve the term of their employment agreements or renew their employment agreements upon expiration. We do not currently expect to obtain key person insurance on any of our executive officers. In addition, if we fail to attract other qualified personnel, our business prospects could be materially adversely affected.

### ***We may not successfully implement our business strategies or realize our expected cost savings and revenue enhancements.***

We may not be able to fully implement our business strategies or realize our expected cost savings, in whole or in part, or within the time frames anticipated. In addition, there can be no assurance that we will achieve our expected revenue synergies, including incremental buyer payment revenue. Our cost savings, efficiency improvements and pricing strategies are subject to significant business, economic and competitive uncertainties, many of which are beyond our control. We are pursuing strategic initiatives that management considers critical to our long-term success, including substantial near-term capital investment in e-business, information technology, facility relocations and expansions, as well as operating initiatives designed to enhance overall efficiencies. These initiatives involve substantial capital investment, have significant risks associated with their execution, and could take several years to yield any direct monetary benefits. Committing a large amount of capital over a lengthy time horizon could result in significant business interruption and loss of key customers during the transitional period, as well as cost overruns and delays which may impact our results of operations. Accordingly we cannot predict whether we will succeed in implementing these strategic initiatives.

Additionally, our business strategy may change from time to time. As a result, we may not be able to achieve our expected results of operations and our actual income, operating cash flow and EBITDA may be negatively affected and may be materially lower than the results which are discussed elsewhere in this prospectus.

### ***We are dependent on good labor relations.***

We have employees located in the U.S., Canada and Mexico. In addition to the workforce of employees, we also utilize temporary labor services to assist in handling the vehicles consigned during periods of peak volume. Many of our employees, both full- and part-time, are unskilled, and in periods of strong economic growth, we may find it difficult to compete for sufficient unskilled labor. If we are unable to maintain a full- or part-time workforce or the necessary relationships with third-party providers, our operations may be adversely affected. Currently, none of our employees participate in collective bargaining agreements.

In addition, auctioneers at our auctions are highly skilled individuals who are essential to the successful operation of our auction business. Nearly all of our auctioneers are independent contractors who provide their services for a daily or weekly rate. If we are unable to retain a sufficient number of experienced auctioneers, our operations may be adversely affected.

### ***We are subject to extensive governmental regulations, including vehicle brokerage and auction laws and currency reporting obligations. Failure to comply with laws or regulations could have a material adverse effect on our operating results and financial condition.***

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. The acquisition and sale of used, leased, totaled and recovered theft vehicles is regulated by state or other local motor vehicle departments in each of the locations in which we operate. 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 to the regulation of sales and acquisitions of vehicles, we are also subject to various local zoning requirements with regard to the location of our auction and storage facilities, which requirements vary from location to location, to

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lending laws and regulations and to currency reporting obligations. Failure to comply with present or future regulations or changes in existing regulations could have a material adverse effect on our operating results and financial condition. For a further discussion of the vehicle regulations applicable to our businesses, see Business Regulation.

*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. 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.

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

ADESA and ALLETE, Inc., ADESA's former parent company, entered into a tax sharing agreement, effective on the date of the spin-off, 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 percent of any taxes that do not arise as a result of actions or inaction of either ADESA or ALLETE.

*We are, and in the future 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 their patent or intellectual property rights, and the number of these claims could increase in the future. Claims of patent infringement could require us to enter into licensing agreements on unfavorable terms, incur substantial monetary liability or be enjoined preliminarily or permanently from further use of the intellectual property in question, which could require us to change business practices and limit our ability to compete effectively. Even if we believe that the claims are without merit, the claims can be time-consuming and costly to defend and may divert management's attention and resources away from our businesses. If we are required to take any of these actions, it could have an adverse impact on our business and operating results.

*We are controlled by the Equity Sponsors, and their interests as equity holders may not be aligned with your interests.*

GS Capital Partners VI Fund, L.P., Kelso Investment Associates VII, L.P., Parthenon Investors II, L.P. and Value Act Capital Master Fund, L.P. own, through their respective affiliates, including certain affiliated private equity funds, substantially all of our equity. The Equity Sponsors can elect all of our directors, appoint new management and approve any action requiring the vote of our outstanding common stock, including amendments of our articles of incorporation, mergers or sales of substantially all assets. The directors elected by the Equity Sponsors may be able to make decisions affecting the capital structure, including decisions to issue additional capital stock and incur additional debt. The interests of the equity holders may not in all cases be aligned with the interests of our noteholders. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with your interests as a noteholder. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to our noteholders.

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**Risks Related to the Notes**

*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 and fulfill our obligations under the Notes.*

As of March 31, 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:

making it more difficult for us to satisfy our obligations with respect to the Notes;

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 borrowings, including 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.

*Restrictive covenants in agreements and instruments governing our debt, including the indentures governing the Notes, may adversely affect our ability to operate our business.*

The indentures governing the 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 restricted 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;

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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.

***Our senior secured credit facilities are secured, and our bank lenders and future secured creditors have a prior claim on our assets to the extent of the value of the collateral securing their claims. Similarly, holders of the guarantors' existing and future secured indebtedness have a prior claim on the guarantors' assets that secure such indebtedness.***

The Notes and the guarantees will not be secured by any of our assets. Holders of our secured indebtedness and the secured indebtedness of the guarantors will have claims that are prior to claims of holders of the Notes to the extent of the value of the assets securing such indebtedness. We and the guarantors, will be party to senior

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secured credit facilities, which will be secured by a significant portion of our assets, including a pledge of all of our capital stock and the capital stock of all of the direct and indirect material domestic subsidiaries and 65% of the capital stock of our first tier foreign subsidiaries. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, holders of the secured indebtedness will have prior claim to our assets that constitute their collateral. Holders of the Notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the Notes. In that event, because the Notes and the guarantees will not be secured by any of our assets, it is possible that our remaining assets might be insufficient to satisfy claims in full.

As of March 31, 2009, the aggregate amount of our senior secured indebtedness, on a consolidated basis, was approximately \$1,497.9 million, and \$300.0 million was available for additional borrowing under our senior secured credit facilities. We are permitted to borrow substantial additional secured indebtedness in the future under the terms of the indentures.

***If our subsidiaries do not make sufficient distributions, we will not be able to make payment on any of our debt, including the Notes. In addition, the structural subordination of the Notes to certain of our subsidiaries' liabilities may limit our ability to make payment on the Notes.***

We are a holding company with no business operations, sources of income or assets other than ownership interests in our subsidiaries. Because all of our operations are conducted by our subsidiaries, our cash flow and the ability to make payments on our debt, including the Notes, is dependent upon cash dividends and distributions or other transfers from our subsidiaries. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to restrictions on dividends or repatriation of earnings under applicable local law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdictions in which our subsidiaries operate, and any restrictions imposed by the current and future debt instruments of our subsidiaries.

Some of our subsidiaries, including existing and future foreign subsidiaries, will not guarantee the Notes. The Notes will be structurally subordinated to all existing or future liabilities and preferred equity of these subsidiaries that do not guarantee the Notes. In the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding with respect to any such subsidiary, we, as a common equity owner of such subsidiary, and, therefore, holders of our debt, including holders of the Notes, will be subject to the prior claims of such subsidiary's creditors, including trade creditors, and preferred equity holders. As of March 31, 2009, the aggregate amount of liabilities of our subsidiaries that will not guarantee the Notes, including trade and other payables, was \$175.3 million. For the three months ending March 31, 2009, our subsidiaries that will not guarantee the Notes represented approximately 14.2% of our total assets and approximately 16.0% of our total revenues, in each case before intercompany eliminations.

***If we default on obligations to pay our other indebtedness or otherwise fail to comply with covenants in the instruments governing our other indebtedness, we may not be able to make payments on the Notes.***

Any default under the agreements governing our indebtedness, including a default under our senior secured credit facilities that is not waived by the required lenders, could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our other indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In addition, the restrictive covenants in our senior secured credit facilities require us to maintain specified financial ratios and satisfy other financial condition tests. A breach of any these financial, operating or other covenants could result in a default. In the event of any such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder, together with accrued and unpaid interest, to be due and payable and the lenders under our senior secured credit facilities could elect to terminate all commitments to extend further credit. If we are unable to repay those amounts, such holders or lenders could institute foreclosure proceedings against our assets, which could force us into bankruptcy or liquidation.

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*We require a significant amount of cash to service all of our indebtedness, including the Notes, and to fund planned capital expenditures, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.*

Our ability to make payments on and refinance debt, including the Notes, and to fund planned capital expenditures depends on our ability to generate cash in the future. To some extent, this is subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors, some of which are beyond our control. Our business may not generate cash from operations at levels sufficient to permit us to pay principal, premium, if any, and interest on our indebtedness, and our cash needs may increase. 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, including the Notes. We may not be able to take any of these actions. 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 facilities and the indenture governing the Notes on our ability to incur additional debt and use the proceeds from asset sales. If we must sell 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 and on our ability to meet obligations under the Notes.

If we cannot make scheduled payments on our debt, we would be in default and, as a result:

our debt holders could declare all outstanding principal and interest to be due and payable;

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

we could be forced into bankruptcy or liquidation, which could result in us losing our investment in the Notes.

***The right to receive payments on the Senior Subordinated Notes is junior to our existing indebtedness and possibly all of our future borrowings. Further, the guarantees of the Senior Subordinated Notes are junior to all of our guarantors' existing indebtedness and possibly to all their future borrowings.***

The Senior Subordinated Notes and the guarantees thereof rank behind all of our and the guarantors' existing indebtedness (other than trade payables) and all of our and the guarantors' future borrowings (other than trade payables), except any future indebtedness that expressly provides that it ranks equal with, or subordinated in right of payment to, the Senior Subordinated Notes and the related subsidiary guarantees. As a result, upon any distribution to our creditors or the creditors of the guarantors in a bankruptcy, liquidation or reorganization or similar proceeding relating to us or the guarantors or our or the guarantors' property, the holders of our senior debt and that of the guarantors will be entitled to be paid in full and in cash before any payment may be made with respect to the Senior Subordinated Notes or the guarantees thereof.

In addition, all payments on the Senior Subordinated Notes and the guarantees thereof will be blocked in the event of a payment default on certain senior debt and may be blocked for up to 179 of 360 consecutive days in the event of certain non-payment defaults on certain senior debt.

In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to us or the guarantors, holders of the Senior Subordinated Notes will participate with trade creditors and all other holders of our and the guarantors' subordinated indebtedness in the assets remaining after we and the guarantors have paid all of our senior debt. However, because the indenture governing the Senior Subordinated Notes requires that amounts otherwise payable to holders of the senior subordinated notes in a bankruptcy or similar proceeding be paid to holders of senior debt instead, holders of the senior subordinated notes may receive less, ratably, than holders of trade payables in any such proceeding. In any of these cases, we and the guarantors may not have sufficient funds to pay all of our creditors and holders of senior subordinated notes may receive less, ratably, than the holders of our senior debt.

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As of March 31, 2009, we had approximately \$2,097.9 million of senior indebtedness, including the Senior Restricted Notes, and \$300.0 million was available for borrowing as additional senior debt under our senior secured credit facilities. We are permitted to borrow substantial additional indebtedness, including senior debt, in the future under the terms of the indentures.

### ***We may not be able to repurchase the Notes upon a change of control.***

Upon a change of control, as defined in the indentures, subject to certain conditions, we will be required to offer to repurchase all outstanding Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase. The source of funds for that purchase of Notes will be our available cash or cash generated from our subsidiaries' operations or other potential sources, including borrowings, sales of assets or sales of equity. We cannot assure that sufficient funds from such sources will be available at the time of any change of control to make required repurchases of Notes tendered. Further, we may be contractually restricted under the terms of our senior secured credit facilities or other future senior indebtedness from repurchasing all of the Notes tendered by holders upon a change of control. Our future debt agreements may contain similar restrictions and provisions. Accordingly, we may not be able to satisfy our obligations to purchase the Notes unless we are able to refinance or obtain waivers under our senior secured credit facilities and any such future debt agreements. Our failure to repurchase the Notes upon a change of control would cause a default under the indenture and a cross-default under our senior secured credit facilities. In addition, certain corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indentures.

### ***Fraudulent transfer statutes may limit the rights of a holder of the Notes.***

Federal and state fraudulent transfer laws permit a court, if it makes certain findings, to:

void all or a portion of our obligations to holders of the Notes;

subordinate our obligations to holders of the Notes to our other existing and future indebtedness, entitling other creditors to be paid in full before any payment is made on the Notes; and

take other action detrimental to holders of the Notes, including invalidating the Notes.

In that event, we cannot assure that the holder would ever be repaid.

Under federal and state fraudulent transfer laws, in order to take any of those actions, courts will typically need to find that, at the time the Notes were issued, we:

- (1) issued the Notes with the intent of hindering, delaying or defrauding current or future creditors; or
- (2) received less than fair consideration or reasonably equivalent value for incurring the indebtedness represented by the Notes; and
  - (a) were insolvent or were rendered insolvent by reason of the issuance of the Notes;
  - (b) were engaged, or were about to engage, in a business or transaction for which our assets were unreasonably small; or
  - (c) intended to incur, or believed or should have believed we would incur, debts beyond our ability to pay as such debts mature.

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Many of the foregoing terms are defined in or interpreted under those fraudulent transfer statutes. A court would likely find that we or a guarantor did not receive reasonably equivalent value or fair consideration for the Notes or such guarantee if we or such guarantor did not substantially benefit directly or indirectly from the issuance of the Notes or the applicable guarantee. As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or



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satisfied. A debtor will generally not be considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor.

The measure of insolvency for purposes of the foregoing considerations will vary depending on the law of the jurisdiction that is being applied in any such proceeding. Generally, a company would be considered insolvent if, at the time it incurred the debt:

the sum of its debts (including contingent liabilities) is greater than its assets, at fair valuation;

the present fair saleable value of its assets is less than the amount required to pay the probable liability on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; or

it could not pay its debts as they become due.

We cannot assure you what standard a court would apply in determining our solvency and whether it would conclude that we were solvent when we incurred our obligations under the Notes.

Our obligations under the Notes are guaranteed by all of our direct and indirect restricted subsidiaries that guarantee indebtedness under our senior secured credit facilities, and the guarantees may also be subject to review under various laws for the protection of creditors. It is possible that creditors of the guarantors may challenge the guarantees as a fraudulent transfer or conveyance. The analysis set forth above would generally apply, except that the guarantees could also be subject to the claim that, because the guarantees were incurred for the benefit of the issuer, and only indirectly for the benefit of the guarantors, the obligations of the guarantors thereunder were incurred for less than reasonably equivalent value or fair consideration. A court could void a guarantor's obligation under its guarantee, subordinate the guarantee to the other indebtedness of a guarantor, direct that holders of the Notes return any amounts paid under a guarantee to the relevant guarantor or to a fund for the benefit of its creditors, or take other action detrimental to the holders of Notes. In addition, the liability of each guarantor under the indenture will be limited to the amount that will result in its guarantee not constituting a fraudulent conveyance or improper corporate distribution, and there can be no assurance as to what standard a court would apply in making a determination as to what would be the maximum liability of each guarantor.

***We do not know if a market will be sustained for the Notes.***

We have not and do not intend to apply for listing or quotation of any series of Notes on any securities exchange or stock market. The liquidity of any market for the Notes depends on a number of factors, including:

the number of holders of Notes;

our operating performance and financial condition;

the market for similar securities;

the interest of securities dealers in making a market in the Notes; and

prevailing interest rates.



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**FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of federal securities laws and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, and similar expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; strategic initiatives such as selective relocations, 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;

weather;

general business conditions; and

other risks described from time to time.

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.

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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.

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**USE OF PROCEEDS**

This prospectus is delivered in connection with offers and sales of notes by Goldman, Sachs & Co. in market-making transactions. We will not receive any proceeds from these transactions.

**RATIO OF EARNINGS TO FIXED CHARGES**

The table below sets forth our ratio of earnings to fixed charges on a historical and pro forma basis for the periods indicated. The ratios below show the extent to which our business generates enough earnings after the payment of all expenses after interest to make required interest payments on our debt. For purposes of computing the ratio of earnings to fixed charges, earnings consist of income from continuing operations before taxes and fixed charges. Fixed charges consist of interest, whether expensed or capitalized, amortization of expenses related to indebtedness and an estimate of the interest within rental expense.

**KAR Holdings**

Year ended	Pro forma year ended	Year ended	Three Months ended
December 31, 2007 (1)	December 31, 2007 (1)	December 31, 2008 (1)	March 31, 2009 (1)

**ADESA<sup>(2)</sup>**

Year ended December 31,	Year ended December 31,	Year ended December 31,	January 1, 2007 to April 19, 2007
2004 6.5x	2005 6.2x	2006 6.8x	6.1x
<b>Insurance Auto Auctions, Inc.<sup>(3)</sup></b>			

Year ended December 31,	December 27, 2004 through May 25,	May 26, 2005 through December 25,	Year ended December 31,	January 1, 2007 to April 19, 2007
2004 3.0x	2005 2.1x	2005 (4)	2006 (5)	1.1x

(1) The amount of deficiency was \$48.3 million, \$43.2 million and \$247.6 million for the year ended December 31, 2007, the pro forma year ended December 31, 2007, and the year ended December 31, 2008, respectively. The amount of deficiency was \$6.5 million for the three months ended March 31, 2009.

(2) Fixed charges for 2005 include incremental interest expense compared to 2004 of \$7.9 million incurred in the first half of 2005 resulting from ADESA's recapitalization and transition to an independent public company in 2005. Fixed charges for 2004 include incremental interest expense compared to 2003 of \$8.7 million resulting from ADESA's recapitalization in June 2004.

- (3) On February 22, 2005, IAAI entered into a merger agreement with Axle Merger Sub, Inc. and Axle Holdings, Inc. On May 25, 2005, Axle Merger Sub, Inc. merged with and into IAAI, with IAAI continuing as the surviving corporation, and IAAI became a direct wholly owned subsidiary of Axle Holdings, Inc., which is owned by Axle Holdings II, LLC (which is controlled by affiliates of Kelso). This merger and the related transactions resulted in additional debt and a new basis of accounting under SFAS 141. The ratio of earnings to fixed charges for periods ending on or prior to May 25, 2005 generally will not be comparable with the ratio for periods after that date.
- (4) The amount of deficiency was \$6.8 million.
- (5) The amount of deficiency was \$8.9 million.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2009. 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.

	<b>As of March 31, 2009 (in millions)</b>
<b>Debt:</b>	
Revolving credit facility(1)	
Term loan B	1,497.9
Floating Rate Senior Notes	150.0
8 <sup>3</sup> / <sub>4</sub> % Senior Notes	450.0
10% Senior Subordinated Notes	425.0
<b>Total debt</b>	<b>2,522.9</b>
Total shareholders' equity	732.9
<b>Total capitalization</b>	<b>\$ 3,255.8</b>

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



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**UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA**

The following unaudited pro forma consolidated financial data for the year ended December 31, 2007 is based on ADESA and IAAI's audited financial statements for the periods from January 1, 2007 to April 19, 2007 and KAR Holdings' audited financial statements for the period from January 1, 2007 to December 31, 2007, as adjusted to give effect to the Transactions. The unaudited pro forma consolidated statement of operations data for the year ended December 31, 2007 give effect to the Transactions as if they had been consummated on January 1, 2006.

The unaudited pro forma consolidated statement of operations data for the year ended December 31, 2006 give effect to the Transactions as if they had been consummated on January 1, 2006. The following unaudited pro forma consolidated financial data for the year ended December 31, 2006 is based on the consolidated financial statements appearing elsewhere in this prospectus, as adjusted to give effect to the Transactions.

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. The unaudited pro forma consolidated financial statements do not purport to represent what results of operations would have been had the Transactions 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 statement of operations.

**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	Transactions Pro Forma Adjustments	Combined Pro Forma January 1, 2007 to December 31, 2007
<b>Statement of Operations Data:</b>					
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 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 Transactions on April 20, 2007.

**Table of Contents****Unaudited Pro Forma Consolidated Statement of Operations****For the Year Ended December 31, 2006**

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

(a) Reflects adjustment of finance receivables to fair value.

(b) Represents legal and professional fees associated with the Transactions, an aircraft charge at ADESA and an increase in the annual sponsor financial advisory fees.

(c) Represents pro forma depreciation and amortization resulting from our revalued assets.

(d) Represents pro forma interest expense resulting from our new capital structure.

(e) Represents a loss on the early extinguishment of debt at IAAI.

(f) Represents the estimated tax effect of the pro forma adjustments.

Note: KAR Holdings, Inc. was incorporated on November 9, 2006, but had no operations until the consummation of the Transactions on April 20, 2007.

**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, Unaudited Pro Forma Consolidated Financial Data, 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 Three Months Ended March 31, 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 where otherwise noted.)*

	Year ended December 31, 2007(1)	Year ended December 31, 2008	Three Months ended March 31, 2009 (unaudited)
<b>Operations:</b>			
Operating revenues			
ADESA Auction Services	\$ 677.7	\$ 1,123.4	\$ 288.3
IAAI Salvage Services	330.1	550.3	138.0
AFC	95.0	97.7	16.2
Total operating revenues	\$ 1,102.8	1,771.4	442.5
Operating expenses (exclusive of depreciation and amortization and impairment charges)	869.8	1,436.7	354.7
Goodwill and other intangibles impairment		164.4	
Operating profit (loss)	106.4	(12.5)	41.8
Interest expense	162.3	215.2	46.6
Loss from continuing operations	(38.3)	(216.2)	(3.5)
Net loss	(38.3)	(216.2)	(3.5)
	At December 31, 2007	At December 31, 2008	At March 31, 2009 (unaudited)
<b>Financial Position:</b>			
Working capital	\$ 442.1	\$ 304.3	\$ 335.9
Total assets	4,530.8	4,157.6	4,208.5
Total debt	2,616.7	2,527.4	2,522.9
Total stockholders' equity	1,013.6	750.7	732.9

	Year ended December 31, 2007(1)	Year ended December 31, 2008	Three Months ended March 31, 2009
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				(unaudited)
<b>Other Financial Data:</b>				
Net cash provided by operating activities	\$ 96.8	\$ 224.9	\$ 44.8	
Capital expenditures	62.7	129.6	12.1	
Depreciation and amortization	126.6	182.8	46.0	

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

**Table of Contents****Selected Historical Data of 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 our 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.

In 2006, ADESA incurred a charge representing a reduction of ownership interests in aircraft and other costs associated with the termination of a Joint Aircraft and Ownership Management Agreement with ALLETE. In the fourth quarter 2006, ADESA incurred transaction expenses consisting primarily of legal and professional fees associated with the merger. In addition, ADESA incurred various charges and incremental expenses in 2004 and 2005 related to its initial public offering of its common stock and a registered public offering of its unsecured 7<sup>5/8</sup>% senior subordinated notes, subsequent separation from ALLETE and subsequent restructuring of its debt that affect the comparability of its reported results of operations. As a result of these transactions and the transition to an independent public company, 2004, 2005 and 2006 operating results may not be comparable to previous periods or ongoing operations. See the footnotes below for the amounts and descriptions of the various transactions and incremental expenses incurred by ADESA in 2004, 2005 and 2006.

*(Dollars in millions except where otherwise noted.)*

	For the year ended December 31,			January 1 -
	2004(1)	2005(2)	2006(3)	April 19, 2007
<b>Operations:</b>				
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	\$
		December 31,		April 19,
	2004	2005	2006	2007
<b>Financial Position:</b>				
Working capital (deficit)	\$ 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

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	For the year ended December 31,			January 1 - April 19,
	2004	2005	2006	2007
<b>Other Financial Data:</b>				
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
Ratio of earnings to fixed charges(4)	6.5x	6.2x	6.8x	6.1x

## (1) 2004 operations include:

Transaction costs totaling \$3.0 million (\$1.8 million after-tax). Transaction costs consist primarily of legal and professional fees associated with ADESA's initial public offering and separation from ALLETE.

Loss on extinguishment of debt totaling \$14.0 million (\$8.5 million after-tax). The loss on extinguishment of debt consists of an early termination penalty related to the prepayment of ADESA's senior notes and the write-off of related unamortized debt issuance costs.

Incremental corporate expenses compared to 2003, of \$11.9 million (\$7.3 million after-tax). Incremental corporate expenses consist of salaries, benefits and other expenses due to the addition of corporate level personnel, professional fees, incremental insurance and other costs necessary to support an independent public company.

Incremental interest expense compared to 2003, of \$8.7 million (\$5.3 million after-tax) resulting from ADESA's recapitalization in June of 2004.

## (2) 2005 operations include:

Loss on extinguishment of debt totaling \$2.9 million (\$1.8 million after-tax). The loss on extinguishment of debt consists of a charge for the write-off of certain unamortized debt issuance costs associated with ADESA's June 2004 credit facility and certain expenses related to the amended and restated credit facility.

Gain on termination of swap of \$0.5 million (\$0.3 million after-tax). The interest rate swap agreement related to ADESA's former Term Loan B facility was terminated in the third quarter of 2005.

Incremental corporate expenses compared to 2004, of \$3.9 million (\$2.4 million after-tax). Incremental corporate expenses were incurred in the first half of 2005 and consisted of salaries, benefits and other expenses due to the addition of corporate level personnel, professional fees, incremental insurance and other costs necessary to support an independent public company.

Incremental interest expense compared to 2004, of \$7.9 million (\$4.8 million after-tax) incurred in the first half of 2005 resulting from ADESA's recapitalization and transition to an independent public company.

(3) 2006 operations include:

Loss on termination of aircraft agreement with ALLETE totaling \$3.4 million (\$2.1 million after-tax). ADESA received notice of ALLETE's election to terminate the Joint Aircraft Ownership and Management Agreement on November 2, 2006. As a result, ADESA recorded a non-cash pretax charge of \$3.4 million representing a reduction of ownership interests in the aircraft and other costs associated with the termination of the agreement.

Transaction expenses totaling \$6.1 million (\$5.1 million after-tax). In 2006, ADESA entered into a merger agreement to be acquired by a group of private equity funds. The transaction expenses consist primarily of legal and professional fees associated with the pending merger.



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- (4) For purposes of determining the ratio of earnings to fixed charges, earnings consist of income before income taxes and fixed charges. Fixed charges consist of interest on indebtedness, amortization of debt issuance costs which are charged to interest expense and a reasonable approximation of the interest factor related to operating leases. Fixed charges for 2005 include incremental interest expense compared to 2004 of \$7.9 million incurred in the first half of 2005 resulting from ADESA's recapitalization and transition to an independent public company. Fixed charges for 2004 include incremental interest expense compared to 2003 of \$8.7 million resulting from ADESA's recapitalization in June 2004.

**Table of Contents****Selected Historical Data of 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 (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.

	Predecessor		Successor		January 1, - April 19, 2007
	December 26, 2004	December 27, 2004 - May 24, 2005	May 25, 2005 - December 25, 2005	December 31, 2006	
(dollars in thousands)					
<b>Selected Statement of Operations Data:</b>					
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)

	Predecessor		Successor	
	2004	2005	2006	April 19, 2007
(dollars in thousands)				
<b>Selected Balance Sheet Data (at period end):</b>				
Cash and cash equivalents	\$ 13,325	\$ 25,882	\$ 14,040	\$ 13,039
Working capital	16,881	52,002	49,973	53,798
Total assets	298,979	514,860	588,021	582,751
Total debt(1)	24,642	265,022	344,842	344,242
Current debt(1)	14,606	1,510	2,247	2,167
Long-term debt(1)	10,036	263,512	342,595	342,075
Total shareholders' equity	202,651	144,024	137,576	139,927

(1) Includes capital leases

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

The following discussion and analysis of 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 and analysis of financial condition and results of operations 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 forward-looking statements for various reasons including those discussed in Risk Factors and Forward-Looking Statements. Refer to Risk Factors for a further discussion of some of the factors that affect or could affect the business, operating results and financial condition.

The Transactions, as described in Summary The Transactions, resulted in a new basis of accounting under SFAS No. 141. This change creates many differences between reporting for KAR Holdings post-merger, as successor, and ADESA and IAAI independently pre-merger. The ADESA and IAAI financial data for periods ending on or prior to April 19, 2007, generally will not be comparable to the successor financial data for periods after that date. The merger resulted in us having an entirely new capital structure, which results in significant differences between ADESA and IAAI pre-merger and KAR Holdings post-merger in the stockholders' equity sections of the financial statements. In addition, the successor incurred debt issuance costs and \$2,590 million of debt in connection with the merger. The \$662.6 million of debt related to ADESA's and IAAI's credit facilities and notes was paid off in connection with the merger and contribution (\$318.0 million for ADESA and \$344.6 million for IAAI). As a result, interest expense, debt and debt issuance costs are not comparable between the pre-merger and the post-merger companies. Certain 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, has resulted in changes to amortization and depreciation expense amounts.

**KAR Holdings, Inc.**

**Executive Overview**

***Business***

We are the only auction services provider in North America with leading market positions in both the whole car auction and salvage auction markets. The business is divided into three reportable business segments that are integral parts of the vehicle redistribution industry: ADESA Auctions, IAAI and AFC. The ADESA Auctions segment consists primarily of ADESA's used vehicle auctions and is the second largest used vehicle auction network in North America with 61 ADESA sites as of May 31, 2009. ADESA Auctions also provides services such as inbound and outbound logistics, reconditioning, vehicle inspection and certification, titling and administrative services.

The IAAI segment consists of salvage vehicle auctions and related services in North America and is a leading provider with 150 sites. The salvage auctions facilitate the redistribution of damaged vehicles that are designated as total losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions. The salvage auction business specializes in providing services such as inbound and outbound logistics, titling and settlement administrative services.

The AFC segment is primarily engaged in the business of providing short-term, inventory-secured financing, known as floorplan financing, to predominantly independent used vehicle dealers. AFC conducts business at 88 loan production offices in the U.S. and Canada.

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The holding company is maintained separately from the three reportable segments and includes expenses associated with the corporate office, such as salaries, benefits, and travel costs for the corporate management team, certain human resources, information technology and accounting costs, and 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.

We believe we are well positioned in both the used vehicle auction and salvage auction industries which have demonstrated long-term stability. We are one of the top three players in most markets in which we operate in an industry with high barriers (facilities, technology and expertise) to entry. ADESA Auctions and IAAI are able to serve the diverse and multi-faceted needs of customers through the wide range of services offered at their facilities. Our business model consistently generates substantial operating cash flow, which can be used to fund growth initiatives with minimal inventory risk.

### ***Overview of 2008 Performance***

The unprecedented economic issues that surfaced in 2008 affected us and our subsidiaries. Specifically, we experienced a decline in the demand for used vehicles, a change in the mix of vehicles sold, reduced revenues and the narrowing of interest rate spreads at AFC and fluctuating salvage vehicle values as a result of changing commodity prices and lower used car values. Despite the uncertain and challenging operating environment, we achieved some noteworthy accomplishments during 2008:

Acquired 18 businesses, expanding our North American operations for both ADESA and IAAI;

Annual revenues exceeded \$1.77 billion;

Experienced growth in the number of used and salvage vehicles sold;

Continued to invest in and grow e-business opportunities;

Completed a sale-leaseback transaction generating net cash proceeds of approximately \$80.5 million;

### ***Industry Outlook and Trends***

According to ADESA Analytical Services, the number of used vehicles auctioned in North America was down over 8% for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. Retail used vehicle sales were down 5.2% for the three months ended March 31, 2009 as compared with the same period in 2008. New vehicle sales experienced a decline of over 38% for the three months ended March 31, 2009 compared with the three months ended March 31, 2008. A decline in new vehicle sales generally results in a reduction in trade-in volumes at automobile dealers and subsequently used vehicle auction volumes from those dealers. Despite the decline in North American auction volumes and the decline in new and retail used vehicle sales, we experienced an increase in demand and sales volumes. We believe that the retail used vehicle market is impacted by many factors including new and used vehicle pricing and the overall economy.

Wholesale used vehicle prices averaged \$9,880 in March 2009 as compared with \$10,027 in March 2008, according to ADESA Analytical Services' monthly analysis of Wholesale Used Vehicle Prices by Vehicle Model Class. However, full-size SUVs, full-size pickups, full-size cars and mid-size cars all registered year-over-year average price increases and March represented the 5<sup>th</sup> consecutive month of increasing average wholesale used vehicle prices versus the previous month.

Salvage vehicle supplies were stable throughout the industry during the first quarter of 2009. We believe increased complexity in vehicles contributes to a larger number of insurance claims resulting in a total loss. The percentage of claims resulting in total losses continues at a high level of 14%. Auction selling prices increased during the first quarter of 2009, driven by stronger used car and scrap prices since the fourth quarter of 2008.

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AFC is a leading provider of floorplan financing to independent used vehicle dealers. The overall economy and in particular the automotive finance industries continue to face severe pressures which have negatively impacted AFC and its customer dealer base. In excess of 4,100 independent dealers closed their doors during

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2008, almost a 10 percent reduction in the independent dealer base. During the second half of 2008 and in the first quarter of 2009, used vehicle dealers experienced a significant decline in sales which has resulted in a decrease in loan originations and an increased number of dealers defaulting on their loans and thus increased credit losses for both loans held and sold. The value of recovered collateral on defaulted loans has been impacted to some degree by the volatility in the vehicle pricing market.

AFC has 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. 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 \$857.6 million at March 31, 2008 to \$437.6 million at March 31, 2009. We believe these actions will best position AFC to maintain its strong competitive position and ultimately maintain its leadership in the industry. In the first three months of 2009, the delinquency rates at AFC have stabilized and improved compared to 2008.

In 2008 and to date, significant changes have occurred in the economy which are impacting all of our business segments. A lack of availability of consumer credit for retail used vehicle buyers, a decline in consumer spending, a reduction in the number of independent used vehicle dealers in the United States, reduced miles driven and decreases in commodity prices such as steel and platinum have all negatively impacted us. These trends adversely affected our operating results and business throughout the fourth quarter of 2008 and the first three months of 2009.

Changes in the business environment for U.S. automotive manufacturers have resulted in a number of initiatives to reduce costs in the auto industry. Chrysler LLC (Chrysler) and General Motors Corporation (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 impact of the reduced number of franchised dealerships is not expected to have a material impact on our financial performance.

The availability of financing to franchised dealerships and consumers from the original equipment manufacturers' captive finance companies and their respective remarketing programs may 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 and ADESA's profitability on the sale of vehicles.

On April 30, 2009, Chrysler, the nation's third-largest automaker, filed for bankruptcy protection and on June 1, 2009, GM, the nation's largest automaker, filed for bankruptcy protection. For the year ended December 31, 2008, vehicles remarketed by Chrysler and GM represented approximately 4% and 3%, respectively, of the used vehicles sold by us. At the time of bankruptcies, we had less than \$1 million in accounts receivable from Chrysler and GM.

## **Financial Information about Segments**

Comparative segment revenues and related financial information pertaining to ADESA, IAAI and AFC for the year ended December 31, 2008 and for the period April 20, 2007 through December 31, 2007 are presented in the tables in Note 15, Segment Information, to the consolidated financial statements of KAR Holdings, which is included in this prospectus. Comparative segment revenues and related financial information pertaining to ADESA, IAAI and AFC for the three months ended March 31, 2009 and 2008 are presented in the tables in Note 9, Segment Information, to the unaudited consolidated financial statements of KAR Holdings, which is included in this prospectus.

## **Seasonality**

The volume of vehicles sold at our auctions generally fluctuates from quarter to quarter. This seasonality is affected by several factors including weather, the timing of used vehicles available for sale from selling customers, the availability and quality of salvage vehicles, holidays, and the seasonality of the retail market for used vehicles, which affects the demand side of the auction industry. Used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions. In addition, mild weather conditions and

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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.

**Results of Operations**

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 expenses 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 payroll and related costs, sales and marketing, information technology services and professional fees.

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. Concurrent with the Transactions, we established three reportable business segments: ADESA Auctions, 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.

**Operating Results Summary for the Three Months Ended March 31, 2009**

The following table sets forth operations data for the periods indicated (*in millions*):

	Three Months Ended March 31,	
	2008	2009
Revenues		
ADESA Auction Services	\$ 285.1	\$ 288.3
IAAI Salvage Services	142.1	138.0
AFC	34.9	16.2
<b>Total revenues</b>	<b>462.1</b>	<b>442.5</b>
Cost of services*	265.6	268.9
<b>Gross profit*</b>	<b>196.5</b>	<b>173.6</b>
Selling, general and administrative	95.9	85.8
Depreciation and amortization	47.3	46.0
<b>Operating profit</b>	<b>53.3</b>	<b>41.8</b>
Interest expense	57.6	46.6
Other expense, net	2.6	1.7
<b>Loss before income taxes</b>	<b>(6.9)</b>	<b>(6.5)</b>
Income taxes	(3.7)	(3.0)
<b>Net loss</b>	<b>\$ (3.2)</b>	<b>\$ (3.5)</b>

\* Exclusive of depreciation and amortization



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For the three months ended March 31, 2009, we had revenue of \$442.5 million compared with revenue of \$462.1 million for the three months ended March 31, 2008, a decrease of 4%. 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 \$11.0 million, or 19%, to \$46.6 million for the three months ended March 31, 2009, compared with interest expense of \$57.6 million for the three months ended March 31, 2008. The decrease in interest expense was the result of payments on Term Loan B of \$59.3 million throughout 2008 which decreased the outstanding principal balance of our debt. In addition, a decrease in interest rates over the past twelve months has reduced interest expense for our variable rate debt instruments.

*Other (Income) Expense*

Other expense was \$1.7 million for the three months ended March 31, 2009 compared with other expense of \$2.6 million for the three months ended March 31, 2008, representing a decrease of \$0.9 million. The change in other (income) expense is primarily representative of smaller foreign currency transaction losses in 2009 as well as a decrease in interest income resulting from a decrease in interest rates in 2009 compared with 2008.

*Income Taxes*

Our effective tax rate decreased from a benefit of 53.6% for the three months ended March 31, 2008 to a benefit of 46.2% for the three months ended March 31, 2009. The decrease in the tax rate is primarily attributable to lower state taxes and taxes on our international operations.

**ADESA Auctions Results**

(In millions)	Three Months Ended March 31,	
	2008	2009
ADESA Auction Services revenue	\$ 285.1	\$ 288.3
Cost of services*	165.7	169.0
Gross profit*	119.4	119.3
Selling, general and administrative	57.7	52.7
Depreciation and amortization	23.7	24.3
Operating profit	\$ 38.0	\$ 42.3

\* Exclusive of depreciation and amortization

*Revenue*

Revenue from ADESA Auctions increased \$3.2 million, or 1%, to \$288.3 million for the three months ended March 31, 2009, compared with \$285.1 million for the three months ended March 31, 2008. The increase in revenue was primarily a result of a 2% increase in the number of vehicles sold, offset by a 1% decrease in revenue per vehicle sold for the three months ended March 31, 2009, compared with the three months ended March 31, 2008.

The 1% decrease in revenue per vehicle sold resulted in decreased auctions revenue of approximately \$0.6 million. The decrease in revenue per vehicle sold was primarily attributable to fluctuations in the Canadian

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exchange rate which decreased revenue by approximately \$11.4 million for the three months ended March 31, 2009 compared with the three months ended March 31, 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 Auctions revenue of approximately \$7.3 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 Auctions revenue of approximately \$3.5 million. The decrease in revenue per vehicle sold was also impacted by lower auction revenues in relation to lower wholesale prices and a decrease in reconditioning services due to a change in the mix of vehicles entered. Although the revenue per vehicle sold decreased, overall revenue increased based on higher volumes.

The total number of used vehicles sold at ADESA Auctions increased 2% for the three months ended March 31, 2009 compared with three months ended March 31, 2008, resulting in an increase in ADESA Auctions revenue of approximately \$3.8 million. The volume sold increase was attributable to acquisitions.

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 71.5% for the three months ended March 31, 2009 compared with 63.1% for the three months ended March 31, 2008. The increase in conversion rates is representative of stronger demand and a change in the mix of vehicles sold toward more institutional vehicles which convert at a higher rate.

*Gross Profit*

For the three months ended March 31, 2009, gross profit in the ADESA Auctions segment decreased \$0.1 million, or less than 1%, to \$119.3 million. Gross margin for ADESA Auctions was 41.4% of revenue for the three months ended March 31, 2009 compared with 41.9% of revenue for the three months ended March 31, 2008.

*Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA Auctions segment decreased \$5.0 million, or 9%, to \$52.7 million for the three months ended March 31, 2009 compared with the three months ended March 31, 2008, primarily due to a \$3.2 million decrease in marketing costs, a \$1.9 million decrease related to fluctuations in the Canadian exchange rate, a \$1.4 million decrease in bad debt expense and a \$1.1 million decrease in professional fees, partially offset by a \$1.3 million increase in severance costs and related employee benefit costs and a \$1.1 million increase in costs at acquired sites.

*Insurance Auto Auctions, Inc. ( IAAI ) Results*

(In millions)	Three Months Ended March 31,	
	2008	2009
IAAI Salvage Services revenue	\$ 142.1	\$ 138.0
Cost of services*	91.1	91.8
Gross profit*	51.0	46.2
Selling, general and administrative	17.8	15.0
Depreciation and amortization	15.6	15.1
Operating profit	\$ 17.6	\$ 16.1

\* Exclusive of depreciation and amortization

**Table of Contents***Revenue*

Revenue from IAAI decreased \$4.1 million, or 3%, to \$138.0 million for the three months ended March 31, 2009, compared with \$142.1 million for the three months ended March 31, 2008. The decrease in revenue was primarily a result of a decline in average selling price for vehicles sold at auction. This was partially offset by a 5% increase in salvage vehicles sold during the three months ended March 31, 2009. The increase in salvage vehicles sold was a result of volumes provided by acquisitions and greenfields.

*Gross Profit*

For the three months ended March 31, 2009, gross profit at IAAI decreased to \$46.2 million, or 33% of revenue, compared with \$51.0 million, or 36% of revenue, for the three months ended March 31, 2008. The gross profit decrease was primarily the result of the decrease in revenue. Cost of services increased due to increases related to acquisitions and greenfields and costs associated with the increased volumes. In addition, IAAI experienced a \$2.2 million increase in tow costs primarily due to increased fuel costs and related tow charges and an increase in the number of vehicles towed. These increases were partially offset by cost reductions in supplies, travel, advertising, and auction costs.

*Selling, General and Administrative*

Selling, general and administrative expenses at IAAI decreased \$2.8 million, or 16%, to \$15.0 million for the three months ended March 31, 2009, compared with \$17.8 million for the three months ended March 31, 2008. The decrease in selling, general and administrative expenses was attributable to decreases in integration expenses and incentive compensation based on the performance of IAAI.

*AFC Results*

(In millions except volumes and per loan amounts)	Three Months Ended March 31,	
	2008	2009
AFC revenue		
Securitization income	\$ 14.8	\$ 4.9
Interest and fee income	19.6	11.8
Other revenue	1.4	0.1
Provision for credit losses	(0.9)	(0.6)
Total AFC revenue	34.9	16.2
Cost of services*	8.8	8.1
Gross profit*	26.1	8.1
Selling, general and administrative	5.4	2.7
Depreciation and amortization	6.6	6.2
Operating profit (loss)	\$ 14.1	\$ (0.8)
Loan transactions	311,285	204,076
Revenue per loan transaction	\$ 112	\$ 80

\* Exclusive of depreciation and amortization

*Revenue*

For the three months ended March 31, 2009, AFC revenue decreased \$18.7 million, or 54%, to \$16.2 million, compared with \$34.9 million for the three months ended March 31, 2008. The decrease in revenue was the result of a 29% decrease in revenue per loan transaction for the three months ended March 31, 2009, compared with the same period in 2008 and a 34% decrease in loan transactions to 204,076 for the three months ended March 31, 2009.



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Revenue per loan transaction, which includes both loans paid off and loans curtailed, decreased \$32, or 29%, primarily as a result of an increase in credit losses for both loans held and sold, a decrease in the average loan value and a decrease in other revenue.

*Gross Profit*

For the three months ended March 31, 2009, gross profit for the AFC segment decreased \$18.0 million, or 69%, to \$8.1 million primarily as a result of a 54% decrease in revenue.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses at AFC decreased \$2.7 million, or 50%, for the three months ended March 31, 2009, compared with the three months ended March 31, 2008. The decrease was primarily the result of decreased compensation and related employee benefit costs as well as decreased travel and other miscellaneous expenses.

***Holding Company Results***

(In millions)	Three Months Ended March 31,	
	2008	2009
Selling, general and administrative	\$ 15.0	\$ 15.4
Depreciation and amortization	1.4	0.4
Operating loss	\$ (16.4)	\$ (15.8)

*Selling, General and Administrative Expenses*

For the three months ended March 31, 2009, selling, general and administrative expenses at the holding company increased \$0.4 million, or 3%, to \$15.4 million, primarily as a result of an increase in maintenance contract costs on recently acquired information technology.

***Operating Results Summary for the Year Ended December 31, 2008***

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

The following unaudited pro forma condensed results of operations for the year ended December 31, 2007 are based on the combined 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 Transactions as if they had occurred on January 1, 2006. 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 condensed results do not purport to represent what our results of operations would have been had the 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 condensed combined results of operations for the year ended December 31, 2007 should be read in conjunction with the information contained in Summary The Transactions 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

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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.

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

(In millions)	Year ended December 31,	
	2007 (Pro Forma)	2008
<b>Revenues</b>		
ADESA Auction Services	\$ 965.5	\$ 1,123.4
IAAI Salvage Services	482.5	550.3
AFC	140.9	97.7
<b>Total revenues</b>	<b>1,588.9</b>	<b>1,771.4</b>
Cost of services*	891.2	1,053.0
<b>Gross profit*</b>	<b>697.7</b>	<b>718.4</b>
Selling, general and administrative	348.2	383.7
Depreciation and amortization	176.1	182.8
Goodwill and other intangibles impairment		164.4
<b>Operating profit (loss)</b>	<b>173.4</b>	<b>(12.5)</b>
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.

**Table of Contents***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.

*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 Auctions Results**

(In millions)	Year ended December 31,	
	2007 (Pro Forma)	2008
ADESA Auction Services 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 Auctions 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 Auctions 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 Auctions 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 Auctions increased 10% for the year ended December 31, 2008 compared with year ended December 31, 2007, resulting in an increase in ADESA Auctions 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.





**Table of Contents***Gross Profit*

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

*Insurance Auto Auctions, Inc. ( IAAI ) Results*

(In millions)	Year ended December 31,	
	2007 (Pro Forma)	2008
IAAI Salvage Services 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 Transactions.

*Automotive Finance Corporation ( AFC ) Results*

(In millions except volumes and per loan amounts)	Year ended December 31,	
	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 ( 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



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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 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*

(In millions)	Year ended December 31,	
	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.

*Operating Results Summary for the Year Ended December 31, 2007*

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

The following unaudited pro forma condensed results of operations for the years ended December 31, 2007 and 2006 are based on the combined financial statements of ADESA and IAAI, appearing elsewhere in prospectus, as adjusted to combine the financial statements of ADESA Impact and IAAI and to illustrate the estimated pro forma effects of the Transactions as if they had occurred on January 1, 2006. KAR Holdings commenced operations on April 20, 2007.

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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 condensed results do not purport to represent what our results of operations would have been had the 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 condensed combined results of operations for the years ended December 31, 2007 and 2006 should be read in conjunction with the information contained in the financial statements and related notes thereto, appearing elsewhere in this prospectus. The pro forma adjustments inherent in the segment results presented below include: pro forma interest expense resulting from the new capital structure; pro forma depreciation and amortization expense resulting from the new basis of property and equipment and intangible assets; and adjustments to selling, general and administrative expenses for the annual sponsor advisory fees. In addition, certain human resources and information technology costs that ADESA had historically allocated to its segments and certain professional fees historically recorded at the segments were reclassified to the holding company for all periods presented. Transaction expenses, representing legal and professional fees as well as accelerated incentive compensation costs, were also removed from 2007 operating results.

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

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

\* Exclusive of depreciation and amortization

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



**Table of Contents***Pro Forma ADESA Auctions Results*

(In millions)	Pro Forma Year Ended December 31,	
	2006	2007
ADESA Auction Services revenue	\$ 853.8	\$ 965.5
Cost of services*	468.6	541.5
Gross profit*	385.2	424.0
Selling, general and administrative	179.9	200.7
Depreciation and amortization	92.5	89.5
Operating profit	\$ 112.8	\$ 133.8

\* Exclusive of depreciation and amortization

*Revenue*

Revenue from ADESA Auctions 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 Auctions 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 Auctions 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 Auctions increased 5% in the year ended December 31, 2007 compared with year ended December 31, 2006, resulting in an increase in ADESA Auctions revenue of approximately \$40.2 million.

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

*Gross Profit*

For the year ended December 31, 2007, gross profit in the ADESA Auctions 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 Auctions 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 Auctions segment. Cost of services also increased due to the costs associated with handling additional used vehicles entered for sale at our used vehicle auctions for the year ended December 31, 2007 compared with the year ended December 31, 2006. Fluctuations in the Canadian exchange rate increased cost of services at the ADESA Auctions segment by approximately \$7.4 million.

*Selling, General and Administrative*

Selling, general and administrative expenses for the ADESA Auctions segment increased \$20.8 million, or 12%, to \$200.7 million for the year ended December 31, 2007 compared with the prior year, primarily due to





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increases in compensation and related employee benefit costs, consulting and travel costs related to process improvement initiatives, marketing costs and costs at acquired sites. These increases were partially offset by a \$2.7 million pretax charge in 2006 related to unreconciled balance sheet differences concealed by a former employee at ADESA's Kitchener, Ontario, auction facility.

**Pro Forma Insurance Auto Auctions, Inc. ( IAAI ) Results**

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

\* Exclusive of depreciation and amortization  
Revenue

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

**Gross Profit**

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

**Selling, General and Administrative**

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

**Table of Contents****Pro Forma Automotive Finance Corporation ( AFC ) Results**

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

\* Exclusive of depreciation and amortization  
Revenue

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

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

*Gross Profit*

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

*Selling, General and Administrative Expenses*

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

**Table of Contents***Pro Forma Holding Company Results*

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

*Selling, General and Administrative Expenses*

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

**Liquidity and Capital Resources**

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

The indentures governing the Notes and the agreement governing our senior secured credit facilities contain various provisions that limit our ability and the ability of our restricted 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;

create restrictions on dividends or 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.

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For a description of the covenants under the indenture see, Description of Senior Notes and Description of Senior Subordinated Notes. For a description of our senior secured credit facilities, see Description of Other Indebtedness.

(Dollars in millions)

	Year ended December 31, 2007(1)	Year ended December 31, 2008	Three Months ended March 31, 2009
Cash and cash equivalents	\$ 204.1	\$ 158.4	\$ 196.5
Restricted cash	16.9	15.9	12.8
Working capital	442.1	304.3	335.9
Amounts available under credit facility(2)	300.0	300.0	300.0
Cash flow from operations	96.8	224.9	44.8

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

(2) There were related outstanding letters of credit totaling approximately \$17.5 million, \$29.3 million and \$29.3 million at December 31, 2007, December 31, 2008 and March 31, 2009, respectively, which reduce the amount available under the senior 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 loan production office. Most of the financial institutions place a temporary hold on the availability of the funds deposited that 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**

We have a \$300 million revolving line of credit as part of our \$1,865 million Credit Agreement, which was undrawn as of March 31, 2009. There were related outstanding letters of credit totaling approximately \$29.3 million at March 31, 2009, which reduce the amount available under the senior credit facility. In addition, our Canadian operations have a C\$8 million line of credit which was undrawn as of March 31, 2009. There were related letters of credit outstanding totaling approximately \$1.6 million at March 31, 2009, which reduce the amount available under the Canadian line of credit, but do not impact amounts available under our senior credit facility.

On April 20, 2007, we entered into a \$1,865 million senior credit facility, pursuant to the terms and conditions of a credit agreement (the Credit Agreement) with Bear Stearns Corporate Lending Inc., as administrative agent, and a syndicate of lenders. The Credit Agreement has a six and one-half year term that expires on October 19, 2013. Under the terms of the Credit Agreement, the lenders committed to provide



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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, capital expenditures and acquisitions permitted under the Credit Agreement and for other corporate purposes.

The Credit Agreement provides for a six and one-half year \$1,565 million term loan and a six year \$300 million 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.

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 March 31, 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 March 31, 2009 the applicable margin was 125 basis points. The term loan facility 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 March 31, 2009, our term loan facility margin was 225 basis points.

The Credit Agreement contains certain restrictive loan covenants, including, among others, financial covenants requiring a maximum consolidated senior secured leverage ratio, provided there are revolving loans outstanding, and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, be acquired, dispose of assets, pay dividends, make capital expenditures and make investments. The leverage ratio covenants are 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.

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 cause a default and lenders could elect to declare all amounts borrowed 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 financial 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 March 31, 2009.

In accordance with the terms in the Credit Agreement, we prepaid approximately \$11.3 million of the term loan in August 2008 with proceeds received from a securitization sale of certain U.S. dollar denominated receivables and related assets. In addition, we prepaid approximately \$36.6 million of the term loan in September 2008 and another \$3.6 million in October 2008 with proceeds received from the sale-leaseback transaction. For a discussion of the sale-leaseback transaction, see [Sale-Leaseback Transaction](#). 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



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March 31, 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 cash and cash equivalents on hand, working capital, cash provided by operating activities, and availability under the senior 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.

**EBITDA and Adjusted EBITDA**

EBITDA and Adjusted EBITDA, as presented herein, are supplemental measures of our performance that are not required by, or presented in accordance with, generally accepted accounting principles in the United States ( 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 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 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:

(In millions)	Three Months Ended				Twelve Months
	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	Ended March 31, 2009
<b>Net income (loss)</b>	\$ 6.2	\$ (169.9)	\$ (49.3)	\$ (3.5)	\$ (216.5)
Add back:					
Income taxes	4.8	(5.2)	(27.3)	(3.0)	(30.7)
Interest expense, net of interest income	51.2	51.9	53.5	46.4	203.0
Depreciation and amortization	45.0	45.0	45.5	46.0	181.5
<b>EBITDA</b>	107.2	(78.2)	22.4	85.9	137.3
Nonrecurring charges	11.5	10.2	12.3	5.9	39.9
Noncash charges	3.0	168.9	22.1	4.6	198.6
Advisory services	0.9	0.9	1.0	0.9	3.7
<b>Adjusted EBITDA and Adjusted EBITDA per the Credit Agreement</b>	\$ 122.6	\$ 101.8	\$ 57.8	\$ 97.3	\$ 379.5

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(In millions)	Three Months Ended				Year Ended
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	December 31, 2008
<b>Net income (loss)</b>	\$ (3.2)	\$ 6.2	\$ (169.9)	\$ (49.3)	\$ (216.2)
Add back:					
Income taxes	(3.7)	4.8	(5.2)	(27.3)	(31.4)
Interest expense, net of interest income	56.8	51.2	51.9	53.5	213.4
Depreciation and amortization	47.3	45.0	45.0	45.5	182.8
<b>EBITDA</b>	97.2	107.2	(78.2)	22.4	148.6
Nonrecurring charges	6.8	11.5	10.2	12.3	40.8
Noncash charges	6.4	3.0	168.9	22.1	200.4
Advisory services	0.9	0.9	0.9	1.0	3.7
<b>Adjusted EBITDA</b>	111.3	122.6	101.8	57.8	393.5
Pro forma impact of recent acquisitions	2.5				2.5
<b>Adjusted EBITDA per the Credit Agreement</b>	\$ 113.8	\$ 122.6	\$ 101.8	\$ 57.8	\$ 396.0

(In millions)	Three Months Ended				Year Ended
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	December 31, 2007
<b>Net income (loss)</b>	\$ 38.4	\$ (7.3)	\$ (8.6)	\$ (34.3)	\$ (11.8)
Add back: discontinued operations	0.1				0.1
<b>Income (loss) from continuing operations</b>	38.5	(7.3)	(8.6)	(34.3)	(11.7)
Add back:					
Income taxes	24.6	4.6	3.7	(16.5)	16.4
Interest expense, net of interest income	13.3	46.6	56.3	56.0	172.2
Depreciation and amortization	18.8	32.2	39.6	59.8	150.4
<b>EBITDA</b>	95.2	76.1	91.0	65.0	327.3
Nonrecurring charges	1.2	5.7	4.9	12.4	24.2
Nonrecurring transaction charges	2.4	22.4			24.8
Noncash charges	5.2	1.0	0.9	9.5	16.6
Advisory services	0.1	0.8	0.9	0.8	2.6
<b>Adjusted EBITDA</b>	104.1	106.0	97.7	87.7	395.5
Pro forma impact of recent acquisitions	1.5	1.7	1.5		4.7
Pro forma cost savings per the credit agreement				5.0	5.0
<b>Adjusted EBITDA per the credit agreement</b>	\$ 105.6	\$ 107.7	\$ 99.2	\$ 92.7	\$ 405.2

**Summary of Cash Flows**

(In millions)	Year Ended		Three Months	
	December 31, 2007	December 31, 2008	Ended March 31, 2008	Ended March 31, 2009

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Net cash provided by (used for):				
Operating activities	\$ 96.8	\$ 224.9	\$ 20.5	\$ 44.8
Investing activities	(2,385.0)	(172.1)	(142.6)	(8.1)
Financing activities	2,492.0	(94.7)	93.8	1.7
Effect of exchange rate on cash	0.3	(3.8)	(1.9)	(0.3)
Net increase (decrease) in cash and cash equivalents	\$ 204.1	\$ (45.7)	\$ (30.2)	\$ 38.1

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We were incorporated in the State of Delaware on November 9, 2006. However, we had no operations until the consummation of the 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 tradename 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 \$44.8 million for the three months ended March 31, 2009, compared with \$20.5 million for the three months ended March 31, 2008. The increase in operating cash flow was primarily impacted by changes in operating assets and liabilities. The change in operating assets was driven by a smaller increase in trade receivables and other assets for the three months ended March 31, 2009 compared with the three months ended March 31, 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. 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 \$8.1 million for the three months ended March 31, 2009, compared with \$142.6 million for the three months ended March 31, 2008. The decrease in net cash used for investing activities is the result of no acquisitions in the first three months of 2009 compared to the 14 auctions that were acquired in the first three months of 2008. In addition, we have spent \$8.4 million less for capital items in the first three months of 2009 compared with the first three 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.

Net cash provided by financing activities was \$1.7 million for the three months ended March 31, 2009, compared with \$93.8 million for the three months ended March 31, 2008. The decrease in cash provided by financing activities was primarily attributable to a smaller increase in book overdrafts for the three months ended March 31, 2009 compared with the three months ended March 31, 2008. In addition, we repaid \$4.5 million on its lines of credit in the first three months of 2009 compared to borrowing \$27.7 million on the lines of credit in the first three months of 2008.

**Capital Expenditures**

Capital expenditures for the three months ended March 31, 2009 approximated \$10.7 million, excluding \$1.4 million of capital expenditures related to the relocation of ADESA Kansas City, which is expected to be financed in 2009. Capital expenditures for the year ended December 31, 2008 approximated \$91.6 million, excluding \$38.0 million of capital expenditures related to the relocation of ADESA Kansas City, which is expected to be financed in 2009. 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

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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 (collectively the ADESA Entities ), entered into a transaction with subsidiaries of First Industrial Realty Trust, Inc. ( 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 (the Guaranties ) to guarantee the obligations of the ADESA Entities with respect to the leases. Under the Guaranties, we agreed to guarantee the payment of all rent, sums and charges of every type and nature payable by the applicable tenant under its lease, and the performance of all covenants, terms, conditions, obligations and agreements to be performed by the applicable tenant under its lease.

### **Acquisitions**

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

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In February 2008, IAAI purchased the stock of Salvage Disposal Company of Georgia, Verastar, LLC, Auto Disposal of Nashville, Inc., Auto Disposal of Chattanooga, Inc., Auto Disposal of Memphis, Inc., Auto Disposal of Paducah, Inc. and Auto Disposal of Bowling Green, Inc., eleven independently owned salvage auctions in Georgia, North Carolina, Tennessee, Alabama and Kentucky (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 ( PADE ), PADE Financial Services ( 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. ( 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.

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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 has been 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 Auctions reporting segment and the IAAI reporting segment and \$63.8 million is expected to be deductible for tax purposes. Pro forma financial results reflecting these acquisitions were not materially different from those reported.

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

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

**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*):

Contractual Obligations	Total	Payments Due by Period			
		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 <sup>3</sup> / <sub>4</sub> % 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
<b>Total contractual cash obligations</b>	<b>\$ 4,218.7</b>	<b>\$ 286.3</b>	<b>\$ 518.9</b>	<b>\$ 1,891.2</b>	<b>\$ 1,522.3</b>

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- (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 matures in June 2009.
- (f) Estimated future benefit payments for certain health care and death benefits for the retired employees of Underwriters Salvage Company ( USC ). IAAI assumed the obligation in connection with the acquisition of the capital stock of USC in 1994.
- (g) Operating leases are entered into in the normal course of business. We lease some of our auction facilities, as well as other property and equipment under operating leases. Some lease agreements contain options to renew the lease or purchase the leased property. Future operating lease obligations would change if the renewal options were exercised and/or if we entered into additional operating lease agreements.

**Off-Balance Sheet Arrangements**

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary ( 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 March 31, 2009. Receivables that AFC Funding 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 entered into an amendment to the Receivables Purchase Agreement with the other parties named therein. The aggregate maximum commitment of the Purchasers was reduced from \$600 million to \$450 million. In addition, the calculation of the Purchasers' participation was amended, reducing the amount received by AFC Funding upon the sale of an interest in the receivables to the Purchasers. Certain of the covenants in the Receivables Purchase Agreement that are tied to the performance of the finance receivables portfolio were also modified.

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 \$857.6 million at March 31, 2008 to \$437.6 million at March 31, 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 lending requirements until April 20, 2012, the expiration date of the bank conduit facility.

At March 31, 2009, AFC managed total finance receivables of \$437.6 million, of which \$367.2 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

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Corporation. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling \$243.0 million and \$298.0 million at March 31, 2009 and December 31, 2008. Finance receivables include \$27.2 million and \$6.6 million classified as held for sale which are recorded at lower of cost or fair value, and \$107.6 million and \$158.6 million classified as held for investment at March 31, 2009 and December 31, 2008. Finance receivables classified as held for investment include \$25.1 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 March 31, 2009 and December 31, 2008. The face amount of these receivables was \$29.9 million and \$78.7 million at March 31, 2009 and December 31, 2008.

AFC's allowance for losses of \$6.5 million and \$6.3 million at March 31, 2009 and December 31, 2008, includes 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 \$2.6 million and \$3.0 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at March 31, 2009 and December 31, 2008. These loans were sold to a bank conduit facility with recourse to the special purpose subsidiary and will come back on the balance sheet of the special purpose subsidiary at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility.

The outstanding receivables sold, the retained interests in finance receivables sold and a cash reserve of 1 or 3 percent of total sold receivables serve as security for the receivables that have been sold to the bank conduit facility. The amount of the cash reserve depends on circumstances which are set forth in the securitization agreement. After the occurrence of a termination event, as defined in the securitization agreement, the bank conduit facility may, and could, cause the stock of AFC Funding Corporation to be transferred to the bank conduit facility, though as a practical matter the bank conduit facility would look to the liquidation of the receivables under the transaction documents as their primary remedy.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC and AFC Funding Corporation must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of our credit facility. At March 31, 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.

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. The following summarizes those accounting policies that are most subject to important estimates and assumptions and are most critical to the reported results of operations and financial condition.

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### ***Uncollectible Receivables and Allowance for Credit Losses and Doubtful Accounts***

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

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

AFC's allowance for credit losses includes an estimate of losses for finance receivables 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 Auctions, 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

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price allocation, in accordance with FASB Statement No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

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

### ***Self-Insurance Programs***

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

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

### ***Legal Proceedings and Other Loss Contingencies***

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

### ***Income Taxes***

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

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

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We record our tax provision based on existing laws, experience with previous settlement agreements, the status of current IRS (or other taxing authority) examinations and management's understanding of how the tax authorities view certain relevant industry and commercial matters. In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, we recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We establish reserves when we believe that certain positions may not prevail if challenged by a taxing authority. We adjust these reserves in light of changing facts and circumstances.

**New Accounting Standards**

Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, establishes a hierarchy based on the observability of inputs used to measure fair value and requires expanded disclosures about fair value measurements. We adopted the provisions of SFAS 157 on January 1, 2008, with respect to financial assets and liabilities measured at fair value. In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date by one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, at least annually. The adoption of FSP FAS 157-2 on January 1, 2009 did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*. The statement establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed and any noncontrolling interest in an acquisition, at their fair value as of the acquisition date. In addition, in relation to previous acquisitions, the provisions of SFAS 141(R) will require any release of existing income tax valuation allowances or recognition of previously unrecognized tax benefits initially established through purchase accounting to be included in earnings rather than as an adjustment to goodwill. This standard is effective for annual reporting periods beginning after December 15, 2008. We adopted SFAS 141(R) on January 1, 2009. The adoption of SFAS 141(R) did not have a material impact on the consolidated financial statements. However, depending on the extent and size of future acquisitions, if any, the adoption may have material effects.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements - an Amendment of Accounting Research Bulletin No. 51*. The statement amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We adopted SFAS 160 on January 1, 2009. The adoption of SFAS 160 did not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. These enhanced disclosures include information about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. This standard is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We adopted SFAS 161 on January 1, 2009. The adoption of SFAS 161 did not have a material impact on the consolidated financial statements.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. The statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with

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generally accepted accounting principles in the United States. This standard is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not expect the adoption of SFAS 162 to have a material impact on the consolidated financial statements.

**Quantitative and Qualitative Disclosures About Market Risk*****Foreign Currency***

Our foreign currency exposure is limited and arises from transactions denominated in foreign currencies, particularly intercompany loans, as well as from translation of the results of operations from our Canadian and, to a much lesser extent, Mexican subsidiaries. However, fluctuations between U.S. and non-U.S. currency values may adversely affect our results of operations and financial position. In addition, there are tax inefficiencies in repatriating cash from non-U.S. subsidiaries. To the extent such repatriation is necessary for us to meet our debt service or other obligations, these tax inefficiencies may adversely affect us. We have not entered into any foreign exchange contracts to hedge changes in the Canadian or Mexican exchange rates. Canadian currency translation negatively affected net loss by approximately \$2.4 million and \$9.9 million for the three months ended March 31, 2009 and the year ended December 31, 2008, and positively affected net loss by \$0.3 million for the period April 20 through December 31, 2007. Currency exposure of our Mexican operations is not material to the results of operations.

***Interest Rates***

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

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

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 receive or pay to terminate the agreement at the reporting date. At March 31, 2009 and December 31, 2008, the fair value of the interest rate swap agreement was an \$8.3 million unrealized loss and a \$16.3 million unrealized loss recorded in Other accrued expenses, on the Consolidated Balance Sheet. Changes in the fair value of interest rate swap agreements designated as cash flow hedges are recorded in Other comprehensive income. Unrealized gains or losses on the interest rate swap agreement are included as a component of Accumulated other comprehensive income. At March 31, 2009, there was a net unrealized loss totaling \$5.2 million, net of tax benefits of \$3.1 million. At December 31, 2008, there was a net unrealized loss totaling \$10.3 million, net of tax benefits of \$6.0 million. We are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated. We have only partially hedged our exposure to interest rate fluctuations on our variable rate debt. A sensitivity analysis of the impact on our variable rate debt instruments to a hypothetical 100 basis point increase in short-term rates for the three months ended March 31, 2009, the year ended December 31, 2008 and the period April 20 through December 31, 2007 would have resulted in an increase in interest expense of approximately \$2.1 million, \$8.9 million and \$7.4 million, respectively.

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**ADESA, Inc.**

**For the Years Ended December 31, 2005 and 2006**

**Executive Overview**

***Overview of 2006 Performance***

The volume of used vehicles coming to auction increased in 2006. However, wholesale used vehicle prices were soft in 2006 as a result of ongoing weakness in retail used vehicle sales. The continued relative weakness in retail demand for used vehicles was reflected in ADESA's used vehicle conversion percentage, which decreased from 63.1 percent in 2005 to 60.4 percent in 2006. Despite the challenging operating environment, ADESA achieved several noteworthy accomplishments during 2006:

Achieved record annual revenues of \$1.1 billion, representing growth of 14 percent;

Achieved all-time record loan transaction volume of 1.2 million, representing growth of over 5 percent;

Acquired a used vehicle auction in Sarasota, Florida, three salvage auctions in Texas and a salvage auction in Pennsylvania;

Organically added two salvage auctions: Impact Syracuse and Impact South Pittsburgh;

Offered over 1.4 million vehicles for sale on LiveBlock<sup>®</sup>, ADESA's real-time interactive Internet bidding system;

Completed the U.S. roll-out of Auction Access dealer registration program and Salesforce.com;

Teamed with First Look to provide used vehicle dealers with custom auction and inventory optimization tools;

Reduced debt by \$80 million, including a discretionary payment of \$50 million; and

Paid a total of \$27 million in dividends.

For the year ended December 31, 2006, ADESA reported record annual revenue of \$1.1 billion and income from continuing operations of \$126.8 million, compared with revenue of \$968.8 million and income from continuing operations of \$126.1 million for 2005. Results for 2006 included a \$2.1 million after-tax charge representing a reduction of ownership interests in aircraft and other costs associated with the termination of the Joint Aircraft Ownership and Management Agreement with ALLETE. In addition, results for 2006 included \$5.1 million in after-tax expenses consisting of legal and professional fees associated with the Transactions. Results for 2005 included a net \$1.5 million after-tax charge related to the refinancing of ADESA's senior credit facility. Cash provided by operations was \$190.9 million for the year ended December 31, 2006, compared with \$136.5 million for 2005.

**Seasonality**

Generally, the volume of vehicles sold at ADESA's auctions is highest in the first and second calendar quarters of each year and slightly lower in the third quarter. Fourth quarter volume of vehicles sold is generally lower than all other quarters. This seasonality is affected by several factors including weather, the timing of used vehicles available for sale from selling customers, holidays, and the seasonality of the retail market for

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used vehicles, which affect the demand side of the auction industry. Used vehicle auction volumes tend to decline during prolonged periods of winter weather conditions. In addition, mild weather conditions and decreases in traffic volume can each lead to a decline in the available supply of salvage vehicles because fewer traffic accidents occur, resulting in fewer damaged vehicles overall. As a result, revenues and operating expenses related to volume will fluctuate accordingly on a quarterly basis, and ADESA's earnings are generally highest in the second calendar quarter. The fourth calendar quarter typically has the lowest earnings as a result of the lower auction volume and additional costs associated with the holidays and winter weather.



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The following table sets forth operations data for the periods indicated (*dollars in millions*):

	Year ended December 31,		Change	
	2005	2006	\$	%
<b>Operations Data:</b>				
Auction services group revenue				
U.S.	\$ 661.2	\$ 738.9	\$ 77.7	12%
Canada	181.6	221.0	39.4	22%
Dealer services group revenue				
U.S.	117.2	131.5	14.3	12%
Canada	8.8	12.5	3.7	42%
Total revenue	968.8	1,103.9	135.1	14%
Cost of services*	473.5	563.8	90.3	19%
Selling, general and administrative	227.1	259.2	32.1	14%
Depreciation and amortization	40.8	46.5	5.7	14%
Aircraft charge		3.4	3.4	
Transaction expenses		6.1	6.1	
Operating profit	227.4	224.9	(2.5)	(1)%
Net income	\$ 125.5	\$ 126.3	\$ 0.8	1%

\* Exclusive of depreciation and amortization

The following table sets forth operations data as a percentage of total revenue for the periods indicated:

	Year ended December 31,	
	2005	2006
<b>Operations Data:</b>		
Auction services group revenue	87.0%	87.0%
Dealer services group revenue	13.0%	13.0%
Total revenue	100.0%	100.0%
Cost of services*	48.9%	51.1%
Selling, general and administrative	23.4%	23.5%
Depreciation and amortization	4.2%	4.2%
Aircraft charge		0.2%
Transaction expenses		0.6%
Operating profit	23.5%	20.4%

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\* Exclusive of depreciation and amortization

ADESA's revenue is derived from auction fees and related services at its auction facilities and dealer financing services at AFC. Although auction revenues only include the auction and related fees, ADESA's 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. Operating expenses for ADESA consist of cost of services, selling, general and administrative expenses and depreciation and amortization. Cost of services is composed of payroll and related costs, subcontract services, supplies, insurance,

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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.

In 2006, ADESA implemented several organizational realignment and management changes intended to better position ADESA to serve its diverse customer bases, accommodate anticipated growth and realize operational efficiencies across all business lines. The former auction and related services or ARS segment is now referred to as Auction Services Group, or ASG. The former dealer financing segment is now referred to as Dealer Services Group, or DSG. ADESA's operations are grouped into three operating segments: used vehicle auctions, Impact salvage auctions and AFC. ADESA aggregates its three operating segments into two reportable business segments: ASG and DSG. The realignment had no impact on aggregation of financial information at the reportable segment level.

ASG encompasses all wholesale and salvage auctions throughout North America (U.S. and Canada). ADESA's used vehicle auctions and Impact salvage auctions are included in the ASG segment. In addition to providing auctions for the exchange of ownership between the sellers and buyers of the vehicles, ASG also provides related services that include vehicle reconditioning, inbound and outbound logistics, vehicle inspections, titling, salvage recovery services, and outsourcing of various other administrative functions.

DSG includes the AFC finance business as well as other businesses and ventures ADESA may enter into, focusing on providing ADESA's independent used vehicle dealer customers with value-added ancillary services and products. AFC is engaged in the business of providing short-term, inventory-secured financing to independent, used vehicle dealers. AFC conducts business primarily at wholesale vehicle auctions in the U.S. and Canada.

**Year Ended December 31, 2006***Operating Revenue*

## Auction Services Group

(dollars in millions except volumes and per vehicle amounts)

	Year ended December 31,		Growth
	2005	2006	
Auction services group revenue	\$ 842.8	\$ 959.9	14%
Vehicles sold			
Used	1,732,519	1,760,012	2%
Salvage	201,312	247,908	23%
Total vehicles sold	1,933,831	2,007,920	4%
Used vehicles entered (excludes salvage)	2,746,095	2,913,904	6%
Used vehicle conversion percentage	63.1%	60.4%	
Revenue per vehicle sold	\$ 436	\$ 478	10%

Revenue from ASG increased \$117.1 million, or 14 percent, to \$959.9 million for the year ended December 31, 2006, compared with \$842.8 million for the year ended December 31, 2005. The 14 percent increase in revenue was a result of a 10 percent increase in revenue per vehicle sold during the year and a 4 percent increase in vehicles sold.

For the year ended December 31, 2006, revenue per vehicle sold increased \$42, or 10 percent, compared with the year ended December 31, 2005. The 10 percent increase in revenue per vehicle sold resulted in increased ASG revenue of approximately \$89.0 million. The increase in revenue per vehicle sold was primarily attributable

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to an increase in lower margin services such as transportation, reconditioning and other ancillary services resulting from a 7 percent increase in the number of institutional vehicles entered as well as a salvage vehicle mix shift. These factors resulted in increased ASG revenue of approximately \$48.6 million. The higher transportation, reconditioning and other ancillary services revenues, as well as the change in mix of salvage vehicles sold, 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 ASG revenue of approximately \$26.3 million. Fluctuations in the Canadian exchange rate increased revenue by approximately \$14.1 million for the year ended December 31, 2006, compared with the year ended December 31, 2005.

While the number of retail used vehicles sold was the lowest in a decade, the total number of wholesale vehicles sold at ADESA auctions increased 4 percent in 2006 compared with 2005, resulting in an increase in ASG revenue of approximately \$28.1 million. The increase in vehicles sold was primarily the result of added volumes from recent acquisitions.

The used vehicle conversion percentage, calculated as the number of vehicles sold as a percentage of the number of vehicles entered for sale at ADESA's used vehicle auctions, declined to 60.4 percent for the year ended December 31, 2006 from 63.1 percent for the year ended December 31, 2005, reflecting a relatively weak retail used vehicle market for 2006 compared to 2005. The decline in the used vehicle conversion percentage negatively impacted ASG revenues, cost of sales and operating profit for the year ended December 31, 2006 compared with the year ended December 31, 2005.

## Dealer Services Group

*(dollars in millions except volumes and per loan amounts)*

	Year ended December 31,		% Change
	2005	2006	
Dealer services group revenue			
Securitization income	\$ 69.3	\$ 75.1	8%
Interest and fee income	56.2	68.4	22%
Other revenue	0.5	0.7	NM
Provision for credit losses		(0.2)	NM
Total dealer services group revenue	\$ 126.0	\$ 144.0	14%
Loan transactions	1,096,432	1,151,702	5%
Revenue per loan transaction	\$ 115	\$ 125	9%

For the year ended December 31, 2006, DSG revenue increased to \$144.0 million compared with \$126.0 million for the year ended December 31, 2005. The 14 percent increase in Dealer Services Group revenue was driven by a 9 percent increase in revenue per loan transaction and a 5 percent increase in the number of loan transactions for the year ended December 31, 2006, compared with the year ended December 31, 2005. The increase in loan transactions to 1,151,702 for the year ended December 31, 2006 was primarily the result of an increase in floorplan utilization by AFC's existing dealer base.

Revenue per loan transaction, which includes both loans paid off and loans curtailed, increased \$10, or 9 percent, primarily driven by increases in interest rates and increases in both the average values of vehicles floored as well as the average portfolio duration. These factors contributed to the increase in securitization income of \$5.8 million and increased fee and interest income of \$12.2 million. The Federal Funds rate has increased approximately 100 basis points since December 31, 2005.

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**Table of Contents***Cost of Services*

For the year ended December 31, 2006, cost of services increased \$90.3 million, or 19 percent, compared with the year ended December 31, 2005. Weak used vehicle demand resulted in a decrease in the used vehicle conversion rate from 63.1 percent for the year ended December 31, 2005 to 60.4 percent for the year ended December 31, 2006. Cost of services was significantly impacted by an increase in lower margin services such as transportation, reconditioning and other ancillary services, as well as costs associated with handling an additional 168,000 used vehicles entered for sale at ADESA's auctions in 2006 compared with 2005. Fluctuations in the Canadian exchange rate increased cost of services by approximately \$7.4 million.

For the year ended December 31, 2006, cost of services at the ASG segment increased \$87.1 million, or 19 percent, to \$535.4 million. A \$22.2 million increase in transportation costs, which includes fuel costs, was a leading driver increasing cost of services. Increases in reconditioning and other ancillary services costs totaling \$21.2 million, primarily resulting from a 7.4 percent increase in the number of institutional vehicles entered, also impacted cost of services for the ASG segment. Cost of services increased significantly due to the costs associated with handling an additional 168,000 used vehicles entered for sale at ADESA's used vehicle auctions in 2006 compared with 2005. The addition of the acquired used vehicle and salvage auctions over the last twelve months further contributed to the increase in cost of services, along with a change in mix of salvage vehicles sold. Fluctuations in the Canadian exchange rate increased cost of services at the ASG segment by approximately \$7.2 million.

For the year ended December 31, 2006, cost of services at the DSG segment increased \$3.2 million, or 13 percent, to \$28.4 million, primarily due to increased compensation and related employee benefit costs.

*Selling, General and Administrative Expenses*

For the year ended December 31, 2006, selling, general and administrative expenses increased \$32.1 million, or 14 percent, compared with the year ended December 31, 2005. This increase was primarily due to compensation and related employee benefit cost increases, the impact of 2005 and 2006 acquisitions and an increase of \$2.8 million associated with fluctuations in the Canadian exchange rate. For the year ended December 31, 2006, ADESA incurred \$5.8 million of pretax stock-based compensation expense, of which \$3.4 million was incremental as a result of the adoption of SFAS 123(R), Share-Based Payment. In addition, selling, general and administrative expenses for 2006 included 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 acquired in June 2000. The unreconciled differences accumulated and were concealed over a period of five to six years between 2000 and 2006. Approximately one-half of the amounts concealed date back to fiscal years prior to 2003. Management has implemented changes to its internal control processes and systems and has concluded that the matters related to the \$2.7 million charge, individually or in the aggregate, did not give rise to or arise from a material weakness due to the nature of the items and compensating controls. In addition, management has concluded that the corrections were not material to either the current or any prior period financial statements.

Selling, general and administrative expenses at the ASG segment increased \$30.0 million, or 16 percent, to \$215.9 million for the year ended December 31, 2006 primarily due to increases in compensation and related employee benefits costs totaling \$10.3 million, which included severance and other separation costs related to the departure of a senior executive. Selling, general and administrative expenses increased \$4.5 million in 2006 due to acquisitions of new auctions. The ASG segment also incurred \$2.3 million of incremental stock-based compensation and the \$2.7 million pretax Kitchener charge. In addition, there was an increase of \$2.7 million resulting from changes in the Canadian exchange rate.

Selling, general and administrative expenses at the DSG segment decreased \$0.2 million, or 1 percent, to \$21.2 million for the year ended December 31, 2006, as a result of a decrease in compensation and related employee benefits offset by certain professional fees, as well as employee training and travel costs.

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For the year ended December 31, 2006, selling, general and administrative expenses at the holding company increased \$2.3 million, or 12 percent, to \$22.1 million, primarily due to increases in compensation and related employee benefit costs, as well as executive and director searches and increased travel costs.

*Depreciation and Amortization*

Depreciation and amortization totaled \$46.5 million for the year ended December 31, 2006, representing an increase of \$5.7 million, or 14 percent, from the \$40.8 million reported for the year ended December 31, 2005. The increase in depreciation and amortization was a result of ADESA's capital spending in 2005, including over \$20 million related to information technology, which generally has a shorter depreciable life. ADESA continues to invest in its core information technology capabilities, as well as new technology service offerings, relocations and acquisitions.

*Aircraft Charge*

On November 2, 2006, ADESA received written notice of ALLETE, Inc.'s election to withdraw from joint ownership of two corporate aircraft and terminate the Joint Aircraft Ownership and Management Agreement between ALLETE, Inc. and ADESA dated as of June 4, 2004, or the Aircraft Agreement. The Aircraft Agreement sets forth the terms and conditions relating to the duties and responsibilities of ALLETE and ADESA with respect to two aircraft previously owned by ALLETE. In addition, pursuant to the Aircraft Agreement, ALLETE contributed a 70 percent ownership interest in each of the two aircraft to ADESA. Upon termination of the Aircraft Agreement, each owner is entitled to 100 percent ownership interest in, and title to, one of the aircraft. As a result of the termination of the Aircraft Agreement, ADESA recorded a non-cash pretax charge of \$3.4 million in the fourth quarter of 2006 representing a reduction of ownership interests in the aircraft and other costs associated with the termination of the Aircraft Agreement.

*Transaction Expenses*

On December 22, 2006, ADESA entered into an Agreement and Plan of Merger, pursuant to which ADESA would be acquired by a group of private equity funds led by an affiliate of Kelso. The following table sets forth the \$6.1 million of expenses incurred in connection with the transaction through December 31, 2006:

Legal and accounting fees and expenses	\$ 3.2
Investment banking fees and expenses	2.0
Other due diligence fees and expenses	0.5
Other miscellaneous expenses	0.4
<b>Total</b>	<b>\$ 6.1</b>

*Operating Profit*

Operating profit decreased \$2.5 million or 1 percent to \$224.9 million, for the year ended December 31, 2006 compared with 2005. As a percentage of revenue, operating profit decreased to 20.4 percent in the year ended December 31, 2006, compared with 23.5 percent in the year ended December 31, 2005. This decrease was primarily the result of the previously discussed \$6.1 million of transaction expenses related to the merger agreement, the \$3.4 million related to the aircraft charge and increased operating expenses at the ASG segment driven by an increase in lower margin ancillary services revenues, a softness in the retail used vehicle market and declining used vehicle conversion rates.

Operating profit at the ASG segment decreased \$6.2 million, or 4 percent, to \$166.4 million for the year ended December 31, 2006 primarily as a result of the 2.6 percent increase in cost of services as a percent of revenues along with the 0.5 percent increase in selling, general and administrative expenses as a percent of revenues. Cost of services was significantly impacted by costs associated with an increase in lower margin

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services such as transportation, reconditioning and other ancillary services resulting from a significant increase in the number of institutional vehicles entered. Additionally, the decline in the used vehicle conversion percentage resulted in additional handling costs related to the incremental 168,000 used vehicles entered which increased cost of services. Furthermore, selling, general and administrative expenses at the ASG segment were impacted by the Kitchener charge and incremental stock-based compensation expense.

Operating profit at the DSG segment increased \$15.6 million, or 21 percent, to \$90.9 million for the year ended December 31, 2006 primarily as a result of the 14 percent increase in revenue and a 3.3 percent decrease in operating expenses as a percentage of revenues. Increased revenue at the DSG segment more than offset higher operating expenses associated with processing more loan transactions, which increased operating profit at the DSG segment.

Operating profit in the ASG and DSG segments was offset by an \$11.9 million increase in holding company operating expenses, consisting primarily of the previously discussed \$6.1 million of transaction expenses related to the merger agreement and \$3.4 million related to the aircraft charge.

### *Interest Expense*

Interest expense decreased \$3.8 million, or 12 percent, for the year ended December 31, 2006, compared with the year ended December 31, 2005, as ADESA is carrying less debt relative to 2005, which was partially offset by higher interest rates.

### *Loss on Extinguishment of Debt*

In the third quarter of 2005, ADESA recorded a non-recurring \$2.9 million pretax charge for the write-off of certain unamortized debt issuance costs associated with ADESA's June 2004 credit facility and certain expenses related to the July 2005 amended and restated credit facility. The Term Loan B facility was repaid in conjunction with the amended and restated credit facility and the related interest rate swap agreement was terminated in the third quarter of 2005 resulting in a pretax gain of \$0.5 million. The \$0.5 million gain was recorded in Other income, net and when combined with the \$2.9 million charge, resulted in a net pretax charge of \$2.4 million related to the amendment and restatement of the credit facility.

### *Income Taxes*

The effective income tax rate on income from continuing operations was 38.0 percent for the year ended December 31, 2006, an increase from the effective rate of 37.5 percent for the year ended December 31, 2005. The increase in the effective tax rate for the year ended December 31, 2006 versus the year ended December 31, 2005 was primarily due to the nondeductible nature of certain transaction expenses incurred in relation to the merger agreement.

### *Discontinued Operations*

In February 2003, management approved a plan to discontinue the operations of ADESA's vehicle importation business. In August 2005, ADESA sold ComSearch, Inc. which provides professional claims outsourcing services, automotive parts-locating and desk-auditing services to the property and casualty insurance industry. The financial results of the vehicle importation business and ComSearch have been classified as discontinued operations. Net loss from discontinued operations for the year ended December 31, 2006 of \$0.5 million includes interest on the vehicle importation business adverse judgment as well as accrued legal fees. Net loss from discontinued operations for the year ended December 31, 2005 includes the operating loss of ComSearch, the loss on sale of the ComSearch business and interest on the vehicle importation business adverse judgment. See Note 21 in the Notes to Consolidated Financial Statements of ADESA for further description of the importation legal matter.

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The following summarizes financial information for the discontinued operations (dollars in millions):

	Year ended December 31,	
	2005	2006
Operating revenues	\$ 2.9	\$
Loss from discontinued operations before income taxes	\$ (0.7)	\$ (0.6)
Net loss from discontinued operations	\$ (0.6)	\$ (0.5)

*Significant Items Affecting Comparability*

ADESA incurred various charges in 2005 and 2006 that affect the comparability of its reported results of operations. The impact of these transactions on income from continuing operations is as follows (dollars in millions):

	Year ended December 31,	
	2005	2006
<b>Charges:</b>		
Debt prepayment expenses	\$ 2.9	\$
Gain on termination of swap	(0.5)	
Kitchener charge		2.7
Aircraft charge		3.4
Transaction expenses		6.1
	2.4	12.2
Tax benefit of above items	(0.9)	(3.2)
<b>Decrease to income from continuing operations</b>	<b>\$ 1.5</b>	<b>\$ 9.0</b>

In the first quarter of 2006, ADESA recorded 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 acquired in June 2000.

As a result of the termination of the Joint Aircraft Ownership and Management Agreement between ALLETE, Inc. and ADESA, ADESA recorded a non-cash pretax charge of \$3.4 million in the fourth quarter of 2006, representing a reduction of ownership interests in the aircraft and other costs associated with the termination of the Aircraft Agreement.

On December 22, 2006, ADESA entered into an Agreement and Plan of Merger, pursuant to which ADESA will be acquired by a group of private equity funds led by an affiliate of Kelso. ADESA incurred \$6.1 million in pretax expenses through December 31, 2006 in connection with the transaction.

In the third quarter of 2005, ADESA recorded a charge for the write-off of certain unamortized debt issuance costs associated with ADESA's June 2004 credit facility and certain expenses related to the amended and restated credit facility. In addition, an interest rate swap agreement related to the former Term Loan B facility was terminated in the third quarter of 2005.



**Table of Contents****Liquidity And Capital Resources**

ADESA believes that the strongest indicators of liquidity for its business are cash on hand, cash flow from operations, working capital and amounts available under its credit facility.

(Dollars in millions)

	Year ended December 31,	
	2005	2006
Cash and cash equivalents	\$ 240.2	\$ 195.7
Restricted cash	5.7	7.8
Working capital	302.0	325.2
Amounts available under credit facility	199.3	247.4
Cash flow from operations	136.5	190.9

**Working Capital**

A substantial amount of ADESA's working capital is generated from the payments received for services provided. In addition, ADESA has a \$350 million revolving line of credit pursuant to the amended and restated \$500 million credit facility, from which \$88.0 million was drawn as of December 31, 2006. There were outstanding letters of credit totaling approximately \$14.6 million at December 31, 2006, which reduce the available borrowings under the credit facility. ADESA's Canadian operations had letters of credit outstanding totaling \$2.1 million at December 31, 2006, which do not impact available borrowings under the credit facility. In September 2006, ADESA's senior credit facility was upgraded to a Ba1 rating by Moody's.

On July 25, 2005, ADESA entered into an amended and restated \$500 million credit facility, pursuant to the terms and conditions of an amended and restated credit agreement, or the 2005 ADESA Credit Agreement, with Bank of America, N.A., as administrative agent, and a syndicate of lenders. The 2005 ADESA Credit Agreement has a five-year term that expires on June 30, 2010. Under the terms of the 2005 ADESA Credit Agreement, the lenders committed to provide advances and letters of credit in an aggregate amount of up to \$500 million. Subject to the terms and conditions of the 2005 ADESA Credit Agreement, ADESA may request that the lenders' commitments under the 2005 ADESA Credit Agreement be increased (or additional lenders be added to the Credit Agreement that provide additional commitments), provided that in no event may the aggregate amount of the lenders' commitments under the Credit Agreement at any time exceed \$825 million. Borrowings under the 2005 ADESA Credit Agreement may be used to refinance certain of ADESA's outstanding debt, to finance working capital, capital expenditures and acquisitions permitted under the 2005 ADESA Credit Agreement and for other corporate purposes.

The 2005 ADESA Credit Agreement provides for a five-year \$150 million term loan and a \$350 million revolving credit facility. The term loan will be repaid in 20 quarterly installments, with the final payment due on June 30, 2010. The revolving credit facility may be used for loans, and up to \$25 million may be used for letters of credit. The revolving loans may be borrowed, repaid and reborrowed until June 30, 2010, at which time all amounts borrowed must be repaid.

The revolving credit facility and the term loan facility bear interest at a rate equal to LIBOR plus a margin ranging from 87.5 basis points to 150 basis points depending on ADESA's total leverage ratio. As of December 31, 2006, ADESA's margin based on its leverage ratio was 100 basis points.

The Credit Agreement contains certain restrictive loan covenants, including, among others, financial covenants requiring a maximum total leverage ratio, a minimum interest coverage ratio, and a minimum fixed charge coverage ratio and covenants limiting ADESA's ability to incur indebtedness, grant liens, make acquisitions, be acquired, dispose of assets, pay dividends, repurchase stock, make capital expenditures and make investments. EBITDA (earnings before interest expense, income taxes, depreciation and amortization) adjusted

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to exclude after-tax (a) gains or losses from asset sales; (b) temporary gains or losses on currency; (c) certain non-recurring gains and losses; (d) stock option expense; and (e) certain other noncash amounts included in the determination of net income, is utilized in the calculation of the financial ratios contained in the covenants. In addition, the senior subordinated notes contain certain financial and operational restrictions on paying dividends and other distributions, making certain acquisitions or investments and incurring indebtedness, and selling assets. These financial covenants affect ADESA's operating flexibility by, among other things, restricting its ability to incur expenses and indebtedness that could be used to grow the business, as well as to fund general corporate purposes. At December 31, 2006, ADESA was in compliance with the covenants contained in the credit facility.

The majority of ADESA's 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 services are received at each auction and loan production office and are deposited locally. Most of the financial institutions place a temporary hold on the availability of the funds deposited that can range anywhere from one to three business days, resulting in cash in ADESA's accounts and on its balance sheet that is unavailable for use until it is made available by the various financial institutions. Over the years, ADESA has increased the amount of funds that are available for immediate use and is 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 the majority 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 unavailable cash, ADESA cannot offset the cash and the outstanding checks on its 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*.

On December 31, 2006, \$105.0 million was outstanding on the term loan and \$88 million was outstanding on the revolving credit facility. ADESA believes its sources of liquidity from its cash and cash equivalents on hand, working capital, cash provided by operating activities, and availability under its credit facility are sufficient to meet its short and long-term operating needs for the foreseeable future. In addition, ADESA believes the previously mentioned sources of liquidity will be sufficient to fund ADESA's capital requirements and debt service payments for the next five years.

**Summary of Cash Flows**

ADESA's cash flow initiatives include growing its vehicle auction and dealer financing businesses both internally by expanding facilities, services and operations, and externally through acquisitions.

*(Dollars in millions)*

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>Change</b>
Net cash provided by (used for):			
Operating activities	\$ 136.5	\$ 190.9	\$ 54.4
Investing activities	(79.9)	(127.7)	(47.8)
Financing activities	(121.5)	(107.8)	13.7
Effect of exchange rate on cash	0.6	0.1	(0.5)
Net increase (decrease) in cash and cash equivalents	\$ (64.3)	\$ (44.5)	\$ 19.8

Cash flow from operating activities was \$190.9 million for the year ended December 31, 2006, compared with \$136.5 million for the same period in 2005. Operating cash flow was favorably impacted by higher earnings net of non-cash charges, primarily related to depreciation, stock-based compensation and the aircraft charge, as well as lower levels of cash used for working capital.

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On an annual basis, ADESA's auctions and loan production offices handle over \$20 billion of sales proceeds and revenues. As part of the fees earned for the services ADESA provides relative to the sale of each vehicle at auction, ADESA assumes the risk associated with collecting the gross sales proceeds from buyers and likewise assumes responsibility for distributing to sellers the net sales proceeds of vehicles. The fees for each vehicle are collected by adding the buyer-related fees to the gross sales proceeds due from the buyer and deducting the seller-related fees from the gross sales proceeds prior to distributing the net sales proceeds to the seller. The amount ADESA reports as revenue for each vehicle only represents the fees associated with ADESA's services and does not include the gross sales price of the consigned vehicle. As a result, the accounts receivable from buyers are much larger on a per vehicle basis than the combined seller and buyer-related fees associated with each transaction. While ADESA's revenues primarily include the fees earned for the services provided, ADESA's working capital cash flows include the full purchase price of the vehicles along with the fees earned by ADESA.

Net cash used for investing activities was \$127.7 million for the year ended December 31, 2006, compared with net cash used by investing activities of \$79.9 million for the year ended December 31, 2005. This change was primarily the result of cash investments totaling \$12.6 million in Finance Express LLC, an increase in cash used for acquisitions of \$26.7 million and a larger increase in finance receivables held for investment of \$24.1 million. The increase in cash used by investing activities was partially offset by a decrease in capital expenditures of \$18.2 million. For a discussion of ADESA's capital expenditures, see *Capital Expenditures* below. There were no significant investing cash flows related to discontinued operations in the periods presented.

Net cash used by financing activities was \$107.8 million for the year ended December 31, 2006, compared with cash used by financing activities of \$121.5 million for the same period in 2005. In 2006 the primary drivers for the net cash used for financing activities can be attributed to debt payments of \$80.0 million (including a \$50.0 million discretionary payment) and dividend payments of \$27.0 million. The primary driver for the change over 2005 is a decline in the cash used for the repurchase of common stock of \$43.5 million (a share repurchase program was in effect during the first half of 2005) and the change in book overdrafts which fluctuated \$33.5 million. There were no significant financing cash flows related to discontinued operations in the periods presented.

***Capital Expenditures***

Capital expenditures (excluding acquisitions and other investments) for the years ended December 31, 2006 and 2005 totaled \$37.1 million and \$55.3 million, respectively, and were funded primarily from internally generated funds. ADESA continues to invest in its core information technology capabilities and capacity expansion. 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 ADESA's strategic initiatives.

***Acquisitions***

In February 2006, ADESA completed the purchase of certain assets of the N.E. Penn Salvage Company, an independently owned salvage auction in northeast Pennsylvania. The purchased assets included the accounts receivable, operating equipment and customer relationships related to the auction. In addition, ADESA entered into operating lease obligations related to the facility through 2016. Initial annual lease payments for the facilities total approximately \$0.1 million per year. ADESA did not assume any other material liabilities or indebtedness in connection with the acquisition. Financial results for this acquisition have been included in ADESA's consolidated financial statements since the date of acquisition.

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In March 2006, ADESA completed the acquisition of certain assets of Auction Broadcasting Company's South Tampa used vehicle auction serving western and central Florida. ADESA has renamed the auction ADESA Sarasota. The assets purchased included land and buildings, the related operating equipment, accounts receivable and customer relationships related to the auction. The auction is comprised of approximately 63 acres and includes six auction lanes and full-service reconditioning shops providing detail, mechanical and body shop services. ADESA did not assume any material liabilities or indebtedness in connection with the acquisition. Financial results for this acquisition have been included in ADESA's consolidated financial statements since the date of acquisition.

In September 2006, ADESA acquired three independent salvage auctions in the state of Texas, providing ADESA a presence in the second largest salvage market in the U.S. The auctions have been renamed ADESA Impact San Antonio, ADESA Impact Houston and ADESA Impact Dallas/Ft. Worth. The assets purchased included operating equipment, accounts receivable and customer relationships related to the auctions. In addition, ADESA entered into operating lease obligations related to the facilities through 2011. Initial annual lease payments for the facilities total approximately \$1.2 million per year. ADESA did not assume any other material liabilities or indebtedness in connection with the acquisition. Financial results for these acquisitions have been included in ADESA's consolidated financial statements since the date of acquisition.

ADESA acquired the five previously mentioned auctions for a total cost of \$54.5 million, in cash. The purchase price of the acquisitions was allocated to the acquired assets based upon fair market values, including \$12.9 million to other intangible assets, representing the fair value of acquired customer relationships and non-compete agreements, which will be amortized over their expected useful lives of 3 to 15 years. The purchase price allocations resulted in aggregate goodwill of \$23.3 million. The goodwill was assigned to the Auction Services Group reporting segment and is expected to be fully deductible for tax purposes. Pro forma financial results reflecting the acquisitions were not materially different from those reported.

ADESA's 2005 purchase of certain assets of the Ohio Connection, a group of four independently owned salvage auctions, included contingent payments related to the volume of certain vehicles sold subsequent to the purchase date. ADESA made contingent payments in 2006 totaling approximately \$1.3 million pursuant to these agreements which resulted in additional goodwill.

### ***Other Investment***

During 2006, AFC acquired a 15 percent interest in Finance Express LLC for \$12.6 million in cash. Finance Express is a web-based company specializing in software to facilitate the origination of motor vehicle retail installment loan contracts between independent used vehicle dealers and lending institutions. In addition, ADESA also receives certain fees from Finance Express for assistance in marketing its software product and services to independent used vehicle dealers. ADESA evaluated its investment in Finance Express pursuant to FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51. ADESA is currently not the primary beneficiary of the VIE and its risk of loss is limited, in all material respects, to its investment in Finance Express. Finance Express is a LLC that maintains specific capital accounts for each member.

Therefore, ADESA uses the equity method of accounting for this investment in accordance with the guidance in Emerging Issues Task Force 03-16, Accounting for Investments in Limited Liability Companies, Statement of Position 78-9, Accounting for Investments in Real Estate Ventures, and SAB Topic D-46, Accounting for Limited Partnership Investments. ADESA's share of Finance Express's earnings or losses is recorded in Other income, net in the Consolidated Statements of Income, and was not material for the year ended December 31, 2006.

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**Table of Contents*****Dividends***

ADESA has historically paid a regular quarterly dividend to holders of its common stock. ADESA paid a quarterly dividend of \$0.075 per common share in 2006 and 2005 (\$0.30 per common share per year in total). As a condition to the definitive merger agreement between ADESA and a group of private equity funds entered into on December 22, 2006, ADESA agreed not to pay any dividends to holders of its common stock after the announcement of the Transactions.

***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 established for the purpose of purchasing AFC's finance receivables. Effective March 31, 2006, AFC and AFC Funding Corporation amended their securitization agreement to extend the expiration date of the agreement from June 30, 2008 to April 30, 2009. This agreement is subject to annual renewal of short-term liquidity by the liquidity providers and allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of up to a maximum of \$600 million in undivided interests in certain eligible finance receivables subject to committed liquidity. AFC Funding Corporation had committed liquidity of \$550 million and \$425 million at December 31, 2006 and December 31, 2005, respectively. On February 12, 2007, committed liquidity was increased to \$600 million. Receivables that AFC Funding 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 ADESA's Consolidated Balance Sheet.

At December 31, 2006, AFC managed total finance receivables of \$775.9 million, of which \$693.0 million had been sold without recourse to AFC Funding Corporation. At December 31, 2005, AFC managed total finance receivables of \$655.7 million, of which \$581.9 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 \$501.0 million and \$399.8 million at December 31, 2006 and December 31, 2005, respectively. Finance receivables include \$42.6 million and \$51.1 million classified as held for sale and \$162.7 million and \$148.0 million classified as held for investment at December 31, 2006 and December 31, 2005, respectively. AFC's allowance for losses of \$2.0 million and \$2.4 million at December 31, 2006 and December 31, 2005, respectively, include an estimate of losses for finance receivables. Additionally, accrued liabilities of \$3.9 million and \$2.9 million for the estimated losses for loans sold by the special purpose subsidiary were recorded at December 31, 2006 and December 31, 2005, respectively. These loans were sold to a bank conduit facility with recourse to the special purpose subsidiary and will come back on the balance sheet of the special purpose subsidiary at fair market value if they become ineligible under the terms of the collateral arrangement with the bank conduit facility.

Proceeds from the revolving sale of receivables to the bank conduit facility were 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 ADESA's credit facility. At December 31, 2006, ADESA was in compliance with the covenants contained in the securitization agreement.

***Critical Accounting Estimates***

It is important to understand ADESA's accounting policies in order to understand its financial statements. 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.

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The ADESA management has discussed the development and selection of its critical accounting estimates with the Audit Committee of ADESA's board of directors. In addition to the critical accounting estimates, there are other items used in the preparation of ADESA's 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 ADESA's financial statements.

ADESA continually evaluates the accounting policies and estimates it uses 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. The following summarizes those accounting policies that are most subject to important estimates and assumptions and are most critical to the reported results of operations and financial condition. See Note 3 in the Notes to Consolidated Financial Statements of ADESA for further description of these items and ADESA's other accounting policies.

### ***Uncollectible Receivables and Allowance for Credit Losses and Doubtful Accounts***

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

Due to the nature of the business at ADESA's auctions, substantially all of ADESA's trade receivables are due from vehicle dealers, salvage buyers, institutional customers and insurance companies. ADESA generally has 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.

A 10 percent increase in the allowance for credit losses and doubtful accounts and the accrued liability for loans sold to the bank conduit facility would result in an increase in the provision for credit losses of \$0.7 million and a \$0.4 million reduction in securitization income and an aggregate decrease in earnings of \$0.7 million. See Liquidity and Capital Resources, Off-balance Sheet Arrangements and Note 9 in Notes to Consolidated Financial Statements of ADESA for further discussion.

### ***Impairment of Goodwill and Long-Lived Assets***

In accordance with SFAS 142, Goodwill and Other Intangible Assets, ADESA assesses goodwill for impairment at least annually and whenever events or circumstances indicate that the carrying amount of the goodwill may not be recoverable. 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; significant decline in ADESA's stock price for a sustained period; and ADESA's market valuation relative to its book value. In assessing the recoverability of goodwill, ADESA must make assumptions regarding estimated future cash flows and earnings, changes in ADESA's business strategy and economic

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conditions affecting market valuations related to the fair values of ADESA's three reporting units (which consist of ADESA's three operating segments: used vehicle auctions, Impact salvage auctions and AFC) which are aggregated into its two reportable business segments, Auction Services Group and Dealer Services Group. If the fair value of a reporting unit is determined to be less than the carrying amount, an impairment charge would be recorded in the period identified. In response to changes in industry and market conditions, ADESA may be required to strategically realign its resources and consider restructuring, disposing of or otherwise exiting businesses, which could result in an impairment of goodwill. As of December 31, 2006, ADESA had \$557.8 million in goodwill that will be subject to future impairment tests. ADESA completed its annual goodwill impairment testing in the second quarter of 2006 and management concluded there was no resulting impairment. No significant changes in events or circumstances have occurred that would indicate the carrying amount of ADESA's goodwill has been impaired since the test was completed.

ADESA reviews 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, ADESA 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. ADESA's impairment analysis is based on the current business strategy, expected growth rates and estimated future economic conditions. No material adjustments were made to the carrying value of long-lived assets in 2006, 2005 or 2004. See Note 3 in the Notes to Consolidated Financial Statements of ADESA for further discussion.

### ***Self-Insurance Programs***

ADESA self-insures a portion of employee medical benefits under the terms of its employee health insurance program, as well as a portion of its automobile, general liability and workers' compensation claims. ADESA purchases individual stop-loss insurance coverage that limits the exposure on individual claims. ADESA also purchases 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.

ADESA records an accrual for the claims expense related to its 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, ADESA's accrual might be insufficient to cover the claims costs, which would have an adverse impact on the operating results in that period.

### ***Legal Proceedings and Other Loss Contingencies***

ADESA is subject to the possibility of various legal proceedings and other loss contingencies, many involving litigation incidental to the business and a variety of environmental laws and regulations. Litigation and other loss contingencies are subject to inherent uncertainties and the outcomes of such matters are often very difficult to predict and generally are resolved over long periods of time. ADESA considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. Estimating probable losses requires the analysis of multiple possible outcomes that often are dependent on the judgment about potential actions by third parties. Contingencies are recorded in ADESA's consolidated financial statements, or otherwise disclosed, in accordance with SFAS 5, Accounting for Contingencies. ADESA accrues for an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on ADESA's operating results in that period. Legal fees are expensed as incurred. See Note 21 in the Notes to ADESA's Consolidated Financial Statements for further discussion.

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### ***Income Taxes***

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

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

ADESA records its tax provision based on existing laws, experience with previous settlement agreements, the status of current IRS (or other taxing authority) examinations and management's understanding of how the tax authorities view certain relevant industry and commercial matters. Although ADESA has recorded all probable income tax liabilities in accordance with SFAS 5 and SFAS 109, Accounting for Income Taxes, these accruals represent accounting estimates that are subject to inherent uncertainties associated with the tax audit process, and therefore include certain contingencies. ADESA establishes reserves when ADESA believes that certain positions may not prevail if challenged by a taxing authority. ADESA adjusts these reserves in light of changing facts and circumstances. See Note 3 in the Notes to ADESA's Consolidated Financial Statements for further discussion.

### **Adoption of SFAS 123(R), Share-Based Payment**

Prior to 2006, ADESA applied the intrinsic value method provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, to account for stock-based awards. Under the intrinsic value method, no compensation cost is recognized if the exercise price of ADESA's stock options was equal to or greater than the market price of the underlying stock on the date of grant. Accordingly, ADESA did not recognize compensation expense for employee stock options that were granted in prior years. However, compensation expense was recognized on other forms of stock-based awards, including restricted stock units and performance based stock awards. SFAS 123(R), Share-Based Payment, replaces SFAS 123 and supersedes APB 25. The statement requires that all stock-based compensation be recognized as expense in the financial statements and that such cost be measured at the fair value of the award at the grant date. On January 1, 2006, ADESA adopted the provisions of SFAS 123(R) using the modified prospective application method, and therefore was not required to restate its financial results for prior periods. Under this transition method, as of January 1, 2006, ADESA began to apply the provisions of this statement to new and modified awards, as well as to the nonvested portion of awards granted and outstanding at the time of adoption using the fair value amounts determined for pro forma disclosure under SFAS 123.

ADESA's stock-based compensation awards, including both stock options and restricted stock units, have a retirement eligible provision, whereby awards granted to employees who have reached the retirement eligible age and meet certain service requirements with either ADESA and/or its former parent, ALLETE, automatically vest when an eligible employee retires from ADESA. ADESA has previously accounted for this type of arrangement by recognizing compensation cost (for both pro forma and recognition purposes) over the nominal vesting period (i.e. over the full stated vesting period of the award) and, if the employee retired before the end of the vesting period, by recognizing any remaining unrecognized compensation cost at the date of retirement. Following adoption of SFAS 123(R), new awards are subject to the non-substantive vesting period approach, which specifies that an award is vested when the employee's retention of the award is no longer contingent on providing subsequent service. Recognizing that many companies followed the nominal vesting period, the SEC issued guidance for transitioning to the non-substantive vesting period approach. ADESA has revised its approach to apply the non-substantive vesting period approach to all new grants after adoption, but continues to follow the



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nominal vesting period approach for the remaining portion of unvested outstanding awards. An additional requirement of SFAS 123(R) is that estimated forfeitures be considered in determining compensation expense. As previously permitted, ADESA recorded forfeitures when they occurred. Estimating forfeitures did not have a material impact on the determination of compensation expense.

On March 9, 2005, the board of directors of ADESA, or the board, accelerated the vesting of certain unvested and out-of-the-money stock options previously awarded to employees and officers that have an exercise price of \$24 per share. The awards accelerated were made under the ADESA, Inc. 2004 Equity and Incentive Plan in conjunction with ADESA's initial public offering in June 2004, or the 2004 IPO. As a result, options to purchase approximately 2.9 million shares of ADESA's common stock became exercisable immediately and ADESA disclosed incremental pro forma stock-based employee compensation expense of approximately \$7.7 million, net of tax, in the first quarter 2005. The options awarded in conjunction with the 2004 IPO to ADESA's named executive officers and the majority of the other officers would have vested in equal increments at June 15, 2005, 2006 and 2007. The options awarded to certain other executive officers and employees had different vesting terms. One-third of the options awarded to the other executive officers and employees vested on December 31, 2004. The remaining two-thirds of the options awarded to these executive officers and other employees in conjunction with the 2004 IPO would have vested in equal increments at December 31, 2005 and 2006. All of these options expire in June 2010. All other terms and conditions applicable to the outstanding stock option grants remain in effect.

ADESA and its board considered several factors in determining to accelerate the vesting of these options. Primarily, the acceleration enhances the comparability of ADESA's 2005 financial statements with those of 2006 and subsequent periods. The options awarded to the executive officers were special, one-time grants in conjunction with the 2004 IPO. As such, these grants are not indicative of past grants when ADESA was a subsidiary of ALLETE prior to June 2004 and are not representative of ADESA's expected future grants. ADESA and board also believe that the acceleration was in the best interest of the stockholders as it reduces ADESA's reported stock option expense in future periods and mitigates the impact of SFAS 123(R).

As a result of adopting SFAS 123(R) on January 1, 2006, income from continuing operations before income taxes and net income for the year ended December 31, 2006, were \$2.3 million and \$1.4 million lower, respectively, than if ADESA had continued to account for share-based awards under APB Opinion No. 25. Basic and diluted earnings per share from continuing operations were both \$0.02 lower for the year ended December 31, 2006 as a result of the adoption of SFAS 123(R).

Prior to the adoption of SFAS 123(R), tax benefits of deductions resulting from the exercise of stock options were presented as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123(R) requires cash flows resulting from tax deductions from the exercise of stock options in excess of recognized compensation cost from the exercise of stock options (excess tax benefits) to be classified as financing cash flows. This change in classification did not have a significant impact on the Consolidated Statement of Cash Flows in the current period as the excess tax benefits recognized for the year ended December 31, 2006 were approximately \$0.5 million.

Prior to the adoption of SFAS 123(R), ADESA applied the disclosure-only provisions of SFAS 123, Accounting for Stock-Based Compensation, as amended by SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure, which permitted companies to apply the existing accounting rules under APB Opinion No. 25 and related interpretations. Generally, if the exercise price of options granted under the plan was equal to the market price of the underlying common stock on the grant date, no share-based compensation cost was recognized in net income. As required by SFAS 148, prior to the adoption of SFAS 123(R), pro forma net income and pro forma net income per common share were disclosed for stock-based awards, as if the fair value recognition provisions of SFAS 123 had been applied.

See Note 6 Stock Plans of Notes to Consolidated Financial Statements of ADESA for further details.

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**Insurance Auto Auctions, Inc.**

**For the Fiscal Years Ended 2005 and 2006**

**Overview**

IAAI provides insurance companies and other vehicle suppliers cost-effective salvage processing solutions, principally on a consignment basis. The consignment method includes both a percentage of sale and fixed fee basis. Under the percentage of sale and fixed fee consignment methods, the vehicle is not owned by IAAI and only the fees associated with processing the vehicle are recorded as revenue. The percentage of sale consignment method offers potentially increased profits over fixed fee consignment by providing incentives to both IAAI and the salvage provider to invest in vehicle enhancements, thereby maximizing vehicle selling prices. The proceeds from the sale of the vehicle itself are not included in revenue. IAAI also, on a very limited basis, sometimes acquires vehicles via purchase. Under the purchase method, the vehicle is owned by IAAI, and the proceeds from the sale of the vehicle are recorded as revenue. IAAI's operating results are subject to fluctuations, including quarterly fluctuations, that can result from a number of factors, some of which are more significant for sales under the purchase method.

IAAI's fiscal year 2006 consisted of 53 weeks and ended on December 31, 2006. IAAI's fiscal years 2005, 2004, 2003 and 2002 each consisted of 52 weeks and ended on December 25, 2005, December 26, 2004, December 28, 2003 and December 29, 2002, respectively.

**Significant Items Affecting Comparability**

The 2005 Acquisition resulted in a new basis of accounting under SFAS 141. This change creates many differences between reporting for IAAI post-merger, as successor, and IAAI pre-merger, as predecessor. The predecessor financial data for periods ending on or prior to May 25, 2005, generally will not be comparable to the successor financial data for periods after that date. The 2005 Acquisition resulted in IAAI having an entirely new capital structure, which results in significant differences between predecessor and successor in the equity sections of the financial statements. In addition, the successor incurred debt issuance costs and \$265.0 million of debt in connection with the 2005 Acquisition. As a result, interest expense and debt will not be comparable between the predecessor and the successor. IAAI has made certain adjustments to increase or decrease the carrying amount of assets and liabilities to their fair values as of the 2005 Acquisition date which, in a number of instances, have resulted in changes to amortization and depreciation expense amounts. The successor and predecessor results during 2005 have been combined for purposes of comparison with prior periods in the Results of Operations section below.

**Acquisitions and New Operations**

Since 1991, IAAI has grown through a series of acquisitions and opening of new sites and as of March 1, 2007, IAAI had a total of 99 sites. In 2006, IAAI acquired branches in Erie, Pennsylvania; Indianapolis and South Bend, Indiana; Cincinnati, Cleveland, Columbus, Dayton and Lima, Ohio; Ashland, Kentucky; Buckhannon, West Virginia; Missoula, Montana; Des Moines, Cedar Falls and Sioux City, Iowa; and Cicero, New York. The impact of the 2006 acquisitions on revenues is an additional \$11.9 million for the three months ended December 31, 2006 and \$23.9 million for the year ended December 31, 2006.

**Table of Contents****Results of Operations**

The following table sets forth IAAI's results of operations for the year ended December 31, 2006 and the year ended December 25, 2005. The results for the year ended December 25, 2005 set forth the combined successor and predecessor revenues, cost of sales, operating expense, other (income) expense and income taxes for that year.

	Fiscal year ended December 25, 2005	Fiscal year ended December 31, 2006
	(dollars in thousands)	
<b>Revenues:</b>		
Fee income	\$ 240,129	\$ 281,833
Vehicle sales	40,726	50,117
	280,855	331,950
<b>Cost of sales:</b>		
Branch cost	175,229	211,098
Vehicle cost	34,618	43,820
	209,847	254,918
<b>Gross margin</b>	<b>71,008</b>	<b>77,032</b>
<b>Operating expense:</b>		
Selling, general and administrative	40,452	50,913
Loss (gain) on sale of property and equipment	(699)	9
Loss related to flood		3,529
Merger costs	20,762	
	60,515	54,451
<b>Earnings from operations</b>	<b>10,493</b>	<b>22,581</b>
<b>Other (income) expense:</b>		
Interest expense	15,588	30,596
Loss on early extinguishment of debt		1,300
Other income	(2,788)	(460)
<b>Loss before taxes</b>	<b>(2,307)</b>	<b>(8,855)</b>
Income taxes	3,567	(1,676)
<b>Net loss</b>	<b>\$ (5,874)</b>	<b>\$ (7,179)</b>

***Year Ended December 31, 2006 Compared to the Year Ended December 25, 2005***

Revenues increased 18.2% to \$332.0 million for the year ended December 31, 2006, from \$280.9 million in 2005. The increase in revenues was primarily due to a higher volume of vehicles sold and a higher average selling price for vehicles sold at auction. Vehicle sales increased 23.0% to \$50.1 million for the year ended December 31, 2006 from \$40.7 million in 2005. Vehicles sold under the purchase method accounted for approximately 5% of vehicles sold in each of 2006 and 2005. Fee income for 2006 increased 17.4% to \$281.8 million versus \$240.1 million in 2005 due to more favorable pricing and an increase in vehicles sold.

Cost of sales increased 21.5% to \$254.9 million for the year ended December 31, 2006, versus \$209.8 million for last year. Vehicle cost of \$43.8 million in 2006 increased from \$34.6 million in 2005. This increase is primarily related to an increase in the number of vehicles sold under the

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purchase method. Branch cost of \$211.1 million, which includes depreciation, in 2006 increased from \$175.2 million in 2005. Branch cost includes tow, office and yard labor, occupancy, depreciation and other costs inherent in operating the branch. New branches opened in 2006 account for approximately \$14.6 million of additional branch costs, including those located in

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Louisiana and Mississippi to support hurricane Katrina efforts. Excluding the impact of new branches, branch costs increased to \$180.3 million in 2006 from \$164.7 million in 2005 primarily due to increased volumes and increases in towing, occupancy costs, performance-based bonus and auction and yard related expenses.

Gross margin of \$77.0 million for the year ended December 31, 2006 increased \$6.0 million, or 8.6%, from \$71.0 million for 2005. The increase is primarily related to more favorable pricing and an increase in the number of vehicles sold. Gross profit margins, as a percent of revenue, decreased to 23.2% from 25.3% in the prior year. The decrease in gross margin as a percent of revenue reflects increased tow costs per unit sold in 2006 as compared to 2005 and lower margins experienced in branches acquired in 2006.

Selling, general and administrative expense of \$50.9 million in 2006 was \$10.4 million more than the expense of \$40.5 million in 2005. This increase is related to the amortization of intangible assets, such as supplier relationships, trade names and software, arising from the merger, non-recurring costs related to branches acquired in 2006 and increased professional fees for legal and accounting services. Amortization of intangible assets amounted to \$9.8 million in 2006 and \$5.3 million in 2005. The non-recurring acquisition costs of \$2.6 million include retention payments made to employees of businesses acquired, consulting payments made to former owners of businesses acquired and travel and other incremental costs incurred in the integration of business acquired into the IAAI's operations.

Gain on sale of property of \$0.7 million in 2005 was primarily the result of one of IAAI's properties in Houston, Texas. There were no significant gains or losses on sale of property in 2006.

Interest expense of \$30.6 million for the year ended December 31, 2006 increased \$15.0 million from \$15.6 million for 2005. This increase was primarily attributable to interest incurred on the \$150.0 million of 11% Senior Notes due 2013 and borrowings on the IAAI's senior credit facility for a full year in 2006 compared to only 7 months in 2005. During 2006, IAAI increased the amount available on the senior credit facility from \$115.0 million to \$195.0 million. Of this amount, \$50.0 million is a revolving credit facility which had no amounts outstanding in 2006 or 2005.

Merger costs in 2005 of \$20.8 million are primarily related to \$9.0 million in legal and advisory fees, \$5.0 million in management fees, \$4.1 million in change of control payments, \$0.8 million in insurance costs and \$1.9 million net interest on bond indebtedness incurred in connection with the merger transaction.

Other income of \$0.4 million for the year ended December 31, 2006 decreased \$2.4 million from \$2.8 million in 2005. The decrease is primarily attributable to the settlement recorded in 2005 related to the February 16, 2000 crash of an Emery DC-8 aircraft onto IAAI's Rancho Cordova, California facility.

Income tax benefit for the year 2006 was \$1.7 million, a decrease of \$5.3 million from the income tax expense of \$3.6 million for 2005. Income tax expense decreased due to lower 2006 earnings. IAAI's effective tax rates for the years 2006 and 2005 were 18.9% and (155)%, respectively. IAAI expects that its effective tax rate in 2007 will be approximately 40%.

IAAI's net loss for the year 2006 was \$7.2 million, a decrease of \$1.3 million from IAAI's net loss of \$5.9 million for the fiscal year 2005.

**Financial Condition and Liquidity**

Historically, IAAI has relied on cash flows from operations and revolving credit borrowings to finance its working capital requirements and capital expenditures.

Net cash provided by operating activities during 2006 was \$17.0 million, a \$3.0 million increase from the same period last year, primarily as a result of merger costs which were partially offset by the settlement with TN

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Tech of the Emery Air Freight dispute, during 2005. IAAI received an aggregate \$2.0 million refund of federal income taxes, relating to 2003 and 2004, during the first nine months of 2006. The refunds resulted from the carry-back of net operating losses relating to the pre-merger period.

Net cash used in investing activities during 2006 was \$107.3 million, consisting primarily of funds used to fund acquisitions made throughout the year of \$91.1 million and capital expenditures of \$17.5 million. These capital expenditures consisted of various branch improvements, including upgrades to existing branches, the development of new facilities, and continued enhancements to IAAI's new information technology system.

Net cash provided by financing activities during 2006 was \$78.5 million, compared to \$371.5 million used during 2005. This cash provided by financing activities during 2006 primarily resulted to the amendment of IAAI's term loan, including the addition of \$81.2 million of outstanding principal. The activity during 2005 was primarily attributable to the issuance of debt related to the merger transaction.

At December 31, 2006, IAAI had current assets of \$109.3 million, including \$14.0 million in cash and cash equivalents, current liabilities of \$59.4 million and net working capital of \$49.9 million, which represented a \$2.0 million decrease from December 25, 2005.

IAAI's accounts receivable increased \$9.7 million to \$56.6 million as of December 31, 2006, from \$46.9 million as of December 25, 2005. Accounts receivable consists of balances due from IAAI's salvage providers for auction space and related buyer fees, advance charges paid by us on their behalf and other service fees. The advance charges typically include storage and tow fees incurred at a temporary storage or repair shop prior to IAAI's moving vehicles to one of IAAI's facilities.

Inventory decreased \$0.4 million to \$19.2 million as of December 31, 2006, from \$19.6 million as of December 25, 2005. Inventory consists of capitalized tow charges on vehicles on hand and the cost of purchased vehicles once title is received. Inventory increased due to increased inventory costs on a per unit basis and the number of vehicles in inventory under the purchase agreement method.

IAAI's amended senior credit facilities are comprised of a \$50 million revolving credit facility maturing in 2011 and a \$195 million term loan facility maturing in 2012. The revolver is principally used for working capital purposes, and the term loan was used to finance the merger transactions. For purposes of calculating interest, loans under the senior credit facilities are designated as Eurodollar rate loans or, in certain circumstances, base rate loans, plus applicable borrowing margins. Eurodollar loans bear interest at the rate for deposits in dollars appearing on page 3750 of the Telerate screen as of 11:00 a.m., London time, two business days prior to the beginning of the applicable interest period, plus a borrowing margin as described below. Interest on Eurodollar rate loans is payable (i) as to any Eurodollar loan having an interest period of three months or less, on the last day of such interest period, and (ii) as to any Eurodollar loan having an interest period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such interest period and the last day of such interest period. Base rate loans bear interest at (a) the greater of (i) the rate most recently announced by the Bank of New York as its prime rate in effect at its principal office in New York City, and (ii) the Federal Funds Effective Rate (as defined in IAAI's senior credit agreement) plus 0.50% per annum, plus (b) a borrowing margin as described below. The margin varies from 2.25% to 2.75% on Eurodollar revolving loans and from 2.25% to 2.50% on Eurodollar term loans. The margin varies from 1.25% to 1.75% on base rate revolving loans and from 1.25% to 1.50% on base rate term loans. The amount of the margin is based on IAAI's leverage ratio. As of December 31, 2006, the weighted average annual interest rate applicable to Eurodollar rate loans was 7.9%. During the period December 26, 2005 to December 31, 2006, the weighted average annual interest rate for the new senior credit facilities was 7.6%. A commitment fee of 0.50% on the unused portion of the senior credit facilities is payable on a quarterly basis. As of December 31, 2006, \$47.6 million was available for borrowing under the senior credit facilities.

IAAI's obligations under the senior credit facilities are guaranteed by direct and indirect significant subsidiaries of IAAI. In addition, each future significant domestic subsidiary of IAAI is required to guarantee

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those obligations. The senior credit facilities are secured by (1) all existing and future property and assets, real and personal, of IAAI and each guarantor, subject to certain exceptions; (2) a pledge of 100% of the stock of each of IAAI's existing and future direct and indirect domestic subsidiaries; (3) all present and future intercompany debt of IAAI and each guarantor; and (4) all proceeds of the assets described in clauses (1), (2) and (3) above. Under the senior credit facilities, IAAI is required to meet specified restrictive financial covenants, including a maximum consolidated leverage ratio and minimum consolidated interest coverage ratio. The credit facilities also contain various other covenants that limit IAAI's ability to, among other things:

incur additional indebtedness, including guarantees;

create, incur, assume or permit to exist liens on property or assets;

engage in sales, transfers and other dispositions of IAAI's property or assets;

declare or pay dividends to, make distributions to, or make redemptions and repurchases from, equity holders;

make or commit to make capital expenditures over certain thresholds;

make loans and investments and enter into acquisitions and joint ventures;

prepay, redeem or repurchase IAAI's debt, or amend or modify the terms of certain material debt or certain other agreements; and

restrict IAAI's ability and the ability of IAAI's subsidiaries to pay dividends and make distributions.

As of December 31, 2006, IAAI was in compliance with its covenants under the senior credit facilities.

The covenants contained within IAAI's senior credit facilities are important to an investor's understanding of IAAI's financial liquidity, as a violation could cause a default and lenders could elect to declare all amounts borrowed due and payable. The coverage ratio covenants are based on Adjusted EBITDA. For purposes of the chart included below, Adjusted EBITDA is defined as net earnings (loss) plus income tax provision (benefit), interest expense (net) and depreciation and amortization with further adjustments including non-cash items, nonrecurring items, and sponsor advisory fees. While Adjusted EBITDA is neither a defined term under GAAP nor a substitute for GAAP, IAAI believes that the inclusion of Adjusted EBITDA is appropriate, as it provides additional information to demonstrate compliance with the financial covenants. See Non-GAAP Financial Measures. Below is a table detailing IAAI's Adjusted EBITDA for the periods indicated (in thousands):

	Three Months Ended				Year Ended December 31, 2006
	March 26, 2006	June 25, 2006	September 24, 2006	December 31, 2006	
	(dollars in thousands)				
Net loss	\$ (504)	\$ (71)	\$ (4,261)	\$ (2,343)	\$ (7,179)
Provision (benefit) for income taxes	(314)	(94)	(1,300)	32	(1,676)
Interest expense (net)	6,329	6,619	8,128	9,060	30,136
Depreciation and amortization	4,933	5,641	6,572	6,792	23,938
<b>EBITDA</b>	<b>10,444</b>	<b>12,095</b>	<b>9,139</b>	<b>13,541</b>	<b>45,219</b>

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Non-cash charges	1,051	343	576	498(1)	2,468
Non-recurring expense	2,866	321	3,654	1,244(2)	8,085
Advisory service fees	125	125	125	238	613
Adjusted EBITDA	\$ 14,486	\$ 12,884	\$ 13,494	\$ 15,521	\$ 56,385

- (1) For the quarter ended December 31, 2006, the non-cash charges included \$0.3 million of stock-based compensation expense and \$0.2 million of rent adjustment relating to amortization of lessor funded improvements and straight-line adjustment related to leases.
- (2) For the quarter ended December 31, 2006, non-recurring expense primarily consisted of \$1 .0 million in costs related to the Merger.



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The scheduled quarterly amortization payments under the senior credit facilities are \$0.5 million per quarter, with a balloon payment of \$184.3 million due on May 19, 2012.

With respect to fiscal years ending on or about December 31, 2007, IAAI is required to make a mandatory annual prepayment of the term loan and the revolving loan in an amount equal to 75% of excess cash flow, as defined in IAAI's senior credit agreement, when the consolidated leverage ratio is 4.0x or greater, or 50% of excess cash flow when the consolidated leverage ratio is at least 3.0x but less than 4.0x. In addition, IAAI is required to make a mandatory prepayment of the term loans with, among other things:

100% of the net cash proceeds of certain debt issuances, and sales and leasebacks of real property, subject to certain exceptions;

50% of the net cash proceeds from the issuance of additional equity interests; and

100% of the net cash proceeds from any property or asset sale or recovery event in an amount exceeding \$2.5 million in any fiscal year, subject to certain exceptions and reinvestment requirements.

Mandatory prepayments will be applied first to the base rate term loans and then to Eurodollar term loans.

As of December 31, 2006, there were no borrowings under the revolving credit facilities. IAAI has outstanding letters of credit in the aggregate amount of \$2.4 million, and \$194.6 million outstanding under its term loan facility. At December 31, 2006, the interest rate on borrowings under the term loan was 7.9%.

IAAI has issued \$150.0 million of notes that mature on April 1, 2013, with interest paid semi-annually every April 1 and October 1. Under the indenture governing the Notes, subject to exceptions, IAAI must meet a minimum consolidated interest coverage ratio to incur additional indebtedness. Prior to April 1, 2008, on any one or more occasions, IAAI may use the net proceeds of one or more equity offerings to redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 111.00% of the principal amount, plus accrued and unpaid interest. Otherwise, the notes are not redeemable until April 1, 2009. Starting on April 1, 2009, IAAI has the option to redeem all or a portion of the notes at a redemption price equal to a percentage of the principal amount, plus accrued and unpaid interest. In the event of this kind of an optional redemption, the redemption price would be 105.50% for the 12-month period beginning April 1, 2009; 102.75% for the 12-month period beginning April 1, 2010; and 100.00% thereafter. If IAAI experiences specific kinds of changes of control, IAAI must offer to purchase the notes at a price of 101% of their principal amount, plus accrued and unpaid interest. The indenture governing the notes contains various covenants which, subject to exceptions, limit IAAI's ability, and the ability of IAAI's restricted subsidiaries to, among other things:

borrow money;

incur liens;

pay dividends or make certain other restricted payments or investments;

issue disqualified stock;

merge, consolidate or sell all or substantially all of IAAI's or the acquirer's assets;

enter into transactions with affiliates;

create restrictions on dividends or other payments by the restricted subsidiaries;

sell certain assets and use proceeds from asset sales; and

create guarantees of indebtedness by restricted subsidiaries.

IAAI's credit agreement limits the 2007 capital expenditures to \$22.0 million. IAAI expects that its capital expenditure level will be within the \$22.0 million credit agreement limitation.

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IAAI has capital leases of approximately \$0.4 million, of which approximately \$0.3 million is classified as short term. Other long-term liabilities include IAAI's post-retirement benefits liability that relates to a prior acquisition.

IAAI believes that existing cash, as well as cash generated from operations, together with available borrowings under IAAI's new senior credit facilities, will be sufficient to fund capital expenditures and provide adequate working capital for operations for the next 12 months.

The obligations of IAAI under the Notes and the credit facilities are guaranteed by IAAI's wholly owned subsidiaries. The guarantees are full, unconditional, and joint and several.

## **Critical Accounting Policies**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the related disclosures. IAAI bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. As such, IAAI continuously evaluates its estimates. IAAI believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### ***Goodwill***

As of December 31, 2006, IAAI had \$241.3 million of net goodwill recorded in its consolidated financial statements. In accordance with SFAS 142, Goodwill and Other Intangible Assets, IAAI assess goodwill for possible impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value of this asset may not be recoverable. Important factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results; significant negative industry or economic trends; significant decline in IAAI's stock price for a sustained period; and its market capitalization relative to net book value. If IAAI determines that the carrying value of goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, IAAI would measure any impairment based on the excess of carrying amount over fair value measured using a projected discounted cash flow model or other valuation techniques.

### ***Deferred Income Taxes***

As of December 31, 2006, IAAI had \$11.3 million of current net deferred tax assets recorded. The current deferred tax assets relate to temporary differences in inventory, accrued liabilities and a federal net operating loss carryforward.

As of December 31, 2006, IAAI had \$36.1 million of net deferred tax liabilities recorded. The net deferred tax liabilities relate primarily to intangible assets related to the 2005 Acquisition transactions, depreciation and state net operating losses incurred in several of the states where IAAI operates. IAAI has determined that it may not realize the full tax benefit related to certain deferred tax assets. As such, a valuation allowance to reduce the carrying value of the deferred tax assets has been recorded.

### ***Long-Lived Assets and Certain Identifiable Intangibles***

As of December 31, 2006, IAAI had \$80.2 million of net property and equipment along with net intangible assets of \$147.5 million. IAAI evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the estimated undiscounted future cash flows change in the future, IAAI may be required to reduce the carrying amount of an asset to its fair value.

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### **BUSINESS**

#### **Overview**

We are the second largest provider of whole car auctions, a leading provider of salvage vehicle auctions and have the largest network of automobile auction locations in North America. Our network of whole car and salvage vehicle auctions facilitates the sale of used and salvage vehicles through physical, online and hybrid auctions, which permit Internet buyers to participate in physical auctions. We earn auction fees from both vehicle buyers and sellers for completed transactions. We also generate revenues by providing our customers with value-added ancillary services, including reconditioning, inspection and certification, titling, transportation and administrative and salvage recovery services. We facilitate the transfer of ownership directly from seller to buyer and, generally, we do not take title or ownership to vehicles sold at our auctions.

We are also a leading provider of short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers. Floorplan financing typically involves the financing of dealer vehicle purchases at auction in exchange for a security interest in those vehicles. Loans are generally short-term in nature and typically repaid when the vehicle is sold by the dealer. We generate revenues from both fees and interest on these loans.

Our key competitive advantages include our leading North American market positions, broad distribution network, established relationships with a diversified customer base, comprehensive range of innovative value-added services and strong management team with significant industry experience. As of May 31, 2009, we have a network of 61 whole car auction locations, 150 salvage auction locations and 88 loan production offices in North America. Our auction locations are primarily stand-alone facilities dedicated to either whole car or salvage auctions. Nine of these locations are combination sites, which offer separate whole car and salvage auctions. We believe our extensive network and product offerings will enable us to drive revenues by leveraging relationships with North American institutional vehicle providers and registered buyers of used and salvage vehicles. In our whole car business, we enjoy long-term relationships with all of the major vehicle manufacturers, vehicle finance companies and rental car companies in North America, including Chrysler Motors, LLC, Ford Motor Company, General Motors Corporation, American Honda Finance Corporation, Toyota Motor Credit Corporation, AmeriCredit Financial Services, Inc., Capital One Auto Finance, Chase Auto Finance Corp., Enterprise Rent-A-Car, The Hertz Corporation, Mercedes-Benz Credit Corporation, Nissan North America, Inc., VW Credit, Inc., WFS Financial and World Omni Financial Corp. In our salvage vehicle auction business, we enjoy long-term relationships with The Allstate Corporation, American Family Insurance, American International Group, The Farmers Insurance Group of Companies, GEICO, Nationwide Financial Services, Inc, The Progressive Corporation, State Farm and USAA.

#### **Our Business Segments**

We operate as three reportable business segments: ADESA Auctions, IAAI and AFC.

##### ***ADESA Auctions***

We are the second largest provider of whole car auctions and related services in North America. We serve our customer base through whole car auction locations throughout North America. Our whole car auctions segment includes Whole Car Auction and Related Services, AutoVIN and ADESA Analytical Services.

##### ***Whole Car Auction and Related Services***

Our whole car auction facilities are strategically located to draw professional sellers and buyers together and allow our buyers to physically inspect and compare vehicles, which we believe many customers in the industry demand. Our complementary online auction capabilities provide the convenience of viewing, comparing and bidding on vehicles remotely and the advantage of a potentially larger group of buyers.

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Vehicles available at our auctions include vehicles from institutional customers such as off-lease vehicles, repossessed vehicles, rental vehicles and other program fleet vehicles that have reached a predetermined age or mileage and have been repurchased by the manufacturers, as well as vehicles from dealers turning their inventory. The number of vehicles offered for sale is the key driver of our costs incurred in the whole car auction process, and the number of vehicles sold is the key driver of the related fees generated by the redistribution process.

Suppliers of vehicles to our whole car auctions primarily include:

Large institutions, such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, and commercial fleets and fleet management companies

Independent and franchised used vehicle dealers

Buyers of vehicles at our whole car auctions primarily include:

Franchised used vehicle dealers

Independent used vehicle dealers

Our whole car auctions strive to maximize the auction sales price for the sellers of used vehicles by effectively and efficiently providing value enhancing reconditioning services, transferring the vehicles, paperwork (including certificates of title and other evidence of ownership), and funds as quickly as possible from the sellers to a large population of dealers seeking to fill their inventory for resale. Auctions are typically held at least weekly at most locations and provide real-time wholesale market prices for the used vehicle redistribution industry.

We generate revenue primarily from auction fees paid by vehicle buyers and sellers. Generally, we do not take ownership or title to vehicles. Our buyer fees and dealer seller fees are typically based on a tiered structure with institutional fees increasing with the sale price of the vehicle, while institutional seller fees are typically fixed.

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

Auction services, such as marketing and advertising the vehicles to be auctioned, dealer registration, storage of consigned and purchased inventory, clearing of funds, arbitration of disputes, auction vehicle registration, condition report processing, security for consigned inventory, sales results reports, pre-sale lineups and auctioning of vehicles by licensed auctioneers

Internet-based solutions, including online bulletin board and real-time auctions and online live auctions running simultaneously with physical auctions

Inbound and outbound transportation with services utilizing both internal resources and third party carriers

Reconditioning services, including detailing, body work, light mechanical work, glass repair, paintless dent repair (PDR), tire and key replacement and upholstery repair

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Inspection and certification services, whereby the auction performs a physical inspection and produces a condition report as well as varying levels of diagnostic testing for purposes of certification

Title processing and other paperwork administration

Outsourcing of remarketing functions and end-of-lease term management

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We add buyer fees to the gross sales price paid by buyers for each vehicle, and generally collect payment on the sale day or shortly thereafter. We generally deduct seller fees for our services from the gross sales price of each vehicle before remitting the net amount to the seller.

### *AutoVIN*

AutoVIN provides professional field information services to the automotive industry. AutoVIN uses highly-qualified, company-employed field managers and advanced computer technology to provide services, including vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspections. Field managers are equipped with handheld computers and digital cameras to record all inspection and audit data on-site. We believe that expanded utilization of comprehensive inspections for vehicle condition reporting will significantly increase the penetration of the Internet as a method of sourcing vehicles for buying dealers. Our whole car auctions utilize this same technology to perform condition reports at our auction sites.

### *ADESA Analytical Services*

Our team of analysts, headed by our chief economist Tom Kontos, provides value-added ADESA Analytical Services to our customers, the media and the investment community. These services include timely market analysis via the Kontos Kommentary, Pulse® and the award-winning Global Vehicle Remarketing (GVR) publication series on a monthly, semi-annual and annual basis, respectively. Through these publications, ADESA Analytical Services provides comprehensive and authoritative coverage of the used vehicle market and the vehicle remarketing industry in North America for our key clients and industry contacts.

Kontos Kommentary provides analytical observations, indexes and review of the current trends within the wholesale used vehicle market.

Pulse® provides a periodic review and outlook of economic indicators relevant to the industry. In addition, several indices of wholesale used vehicle market activity and other information are posted regularly on the ADESA Analytical Services website.

Global Vehicle Remarketing: U.S. and Canadian Markets analyzes long-term trends and issues relative to the vehicle remarketing industry in the United States and Canada.

In addition, ADESA Analytical Services provides custom analysis of wholesale price trends for ADESA's remarketing clients, including:

Presentations at industry conferences

Design, tabulation, analysis and reporting of targeted surveys

Peer group and market benchmarking studies

Analysis of the benefits of reconditioning

Analysis of auction promotions

Site selection for optimized remarketing of off-lease units

Portfolio analysis of auction sales

Computer-generated mapping and buyer analysis

Other customized studies

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### ***IAAI***

We are a leading provider of salvage vehicle auctions and related services in North America. We operate under the IAAI brand name and serve our customer base through salvage auction locations throughout North America.

#### *Salvage Auctions and Related Services*

We facilitate the redistribution of damaged vehicles that are designated as total-losses by insurance companies, recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made and older model vehicles donated to charity or sold by dealers in salvage auctions.

Our auctions provide buyers with the salvage vehicles they need to fulfill their replacement part or vehicle rebuild requirements. We earn fees for our services from both suppliers and buyers of salvage vehicles.

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

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

Our live auction Internet bidding solution, I-bid LIVE<sup>SM</sup>, operates in concert with our physical auctions and provides registered buyers with the opportunity to participate in live auctions. Through an Internet-enabled computer, the buyer bids in real time along with the live local bidders and other Internet bidders via a simple, web-based interface. I-bid LIVE provides real-time streaming audio from the live auction and images of salvage vehicles and other data. Buyers inspect and evaluate the salvage vehicle and listen to the live call of the auctioneer while the physical auction is underway.

We believe that our hybrid live/Internet auction capabilities maximize auction proceeds and returns to our customers. First, our physical auctions allow buyers to inspect and compare the vehicles, thus enabling them to make fully-informed bidding decisions. These physical auction abilities are an important part of the bidding process. Second, our Internet auction capabilities allow buyers to participate in a greater number of auctions than if physical attendance was required. Additionally, lower and more certain acquisition costs enable buyers to pay more while maintaining or improving net margins. Online inventory browsing and e-mail-based inventory alerts reduce the time required to acquire vehicles.

We obtain the majority of our supply of vehicles from insurance companies, non-profit organizations, automobile dealers and vehicle leasing and rental car companies. We enjoy long-term relationships with all of the major U.S. automobile insurance companies, many of whom have been customers for decades.

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As of January 1, 2009, no single buyer accounted for more than 5% of our unit sales. Vehicle buyers include the following:

Automotive Body Shops. Automotive body shops and garages typically purchase lightly damaged vehicles to repair for private resale.

Rebuilders. Rebuilders purchase vehicles that have minimal damage and can be quickly fixed or improved for resale as a means to keep experienced mechanics employed during slow periods.

Used Car Dealers. Used car dealers seek vehicles with little or no damage for resale on their lots.

Automotive Wholesalers. Automotive wholesalers most often buy recovered stolen vehicles from us and then sell them to their used car dealer customers.

Exporters. Exporters generally purchase either recovered theft vehicles or vehicles that are only lightly damaged, which are subsequently transported out of the country for resale.

Dismantlers. Dismantlers primarily purchase vehicles to obtain inventories of parts for resale or for use in repair operations.

Recyclers. Recyclers typically purchase vehicles for scrap.

Brokers. Brokers typically represent total-loss vehicle buyers who are either not able to attend the auction because of licensing restrictions or because of availability.

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

Auction services, such as titling and re-titling of vehicles, clearing of funds, reporting sales results and pre-sale lineups to customers, paying third party storage centers for the release of vehicles and the physical auctioning of the vehicles by licensed auctioneers

Inbound and outbound logistics administration with actual services sometimes provided by third party carriers

Other services including vehicle inspections, salvage returns analyses, towing services, titling, settlement administration, drive through damage assessment centers and claims auditing

*CSA Today*

The process of salvage disposition through our system begins at the first report of loss or when a stolen vehicle has been subsequently recovered. An insurance company representative consigns the vehicle to us, either by phone, facsimile or electronically through our online proprietary data management system, CSA Today.

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CSA Today enables insurance company suppliers to enter vehicle data electronically and then track and manage the progress of salvage vehicles in terms of both time and salvage recovery dollars. With this tool, vehicle providers have 24-hour access to their total-loss data. The information provided through this system ranges from the details associated with a specific total-loss vehicle, to comprehensive management reports for an entire claims center or geographic region. Additional features of this system include inventory management tools and a powerful new Average Salvage Calculator that helps customers determine the approximate salvage value of a potential total-loss vehicle. This tool is helpful to adjusters when evaluating the repair vs. total decision. The management tools provided by CSA Today enable claims personnel to monitor and manage total-loss salvage more effectively. Insurance company suppliers can also use CSA Today to view original garage receipts, verify ignition key availability, view settlement documents and images of the vehicles and receive updates of other current meaningful data.

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### *National Salvage Network*

We offer our vehicle suppliers a National Salvage Network that allows an insurance company supplier to consign all of its salvage vehicles to a call center. This call center enables us to distribute vehicle consignments throughout most of the United States, even in markets where we do not currently have a facility. This network is designed to minimize the administrative workload for insurance companies. In certain areas where we do not have a facility, such vehicles are distributed to our selected service partners.

### *Vehicle Inspection Centers*

We maintain vehicle inspection centers, or VICs, at many of our facilities. A VIC is a temporary storage and inspection facility located at one of our sites that is operated by the insurance company. Some of these VIC sites are formalized through temporary license agreements with the insurance companies that supply the vehicles. VICs minimize vehicle storage charges incurred by insurance company suppliers at the temporary storage facility or repair shop and also improve service time for the policyholder.

Potential total-loss vehicles are brought directly to the VIC from the temporary storage facility or repair shop. The insurance company typically has appraisers stationed on the VIC site in order to expedite the appraisal process and minimize storage charges at outside sites. If the insurance company determines that a vehicle is a total-loss, it can easily be moved to one of our vehicle storage areas. If the vehicle is not totaled, it is promptly delivered to the insurer's selected repair facility. We also have the ability to provide digital images as a service to our customers, electronically displaying pictures of the damaged cars to insurance adjusters in their offices.

After a totaled vehicle is received at one of our facilities, it remains in storage but cannot be auctioned until transferable title has been submitted to and processed by us. For most vehicles stored at our facilities, no storage charges accrue for a contractually specified period of time. We provide management reports to the insurance company suppliers, including an aging report of vehicles for which title documents have not been provided. In addition, we customarily offer the insurance companies' staff training for each state's Department of Motor Vehicles, or DMV, document processing procedures. We utilize our title services to expedite the processing of titles, thereby reducing the time in which suppliers receive their salvage proceeds, in addition to decreasing their administrative expenses. We then process the title documents in order to comply with DMV requirements for these vehicles. In all possible titling situations, we interface electronically with DMVs.

### *Settlement Package Express*

IAAI Salvage utilizes an in-house salvage title administration product, *Settlement Package Express*. By providing our customers with this product, we are able to streamline the title procurement process for their vehicles, thereby reducing processing cycle times while potentially eliminating salvage pool storage fees.

### *Automated Salvage Auction Processing*

We have developed a proprietary web-based information system, Automated Salvage Auction Processing system, or ASAP, to streamline all aspects of our operations and centralize operational data collection. ASAP provides salvage vehicle suppliers with 24-hour online access to powerful tools to manage the salvage disposition process, including inventory management, salvage returns analysis and electronic data interchange of titling information. Additionally, ASAP supports buyer services such as Internet-based searchable parts inventories, transportation cost estimators, third-party appraisal requests and real-time bidding.

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

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***AFC***

We are a leading provider of floorplan financing to independent used vehicle dealers. We provide, directly or indirectly through an intermediary, short-term inventory-secured financing, known as floorplan financing, to independent used vehicle dealers through loan production offices throughout North America. In 2008, AFC arranged over 1.1 million loan transactions, which includes both loans paid off and loans curtailed. We sell the majority of our U.S. denominated finance receivables without recourse to a wholly owned bankruptcy remote special purpose entity, which sells an undivided participation interest in such finance receivables to a bank conduit facility on a revolving basis.

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

We service over 800 auctions through our loan production offices which are conveniently located at or within close proximity of auctions held by ADESA Auctions and other auctions, which allows dealers to reduce transaction time by providing immediate payment for vehicles purchased at auction. We provide availability lists on behalf of our customers to auction representatives regarding the financing capacity of our customers, thereby increasing the purchasing potential at auctions. Of AFC's 88 offices in North America, 55 are physically located at auction facilities, including 46 at the auction facilities of ADESA Auctions. Each of the remaining 33 AFC offices is strategically located in close proximity to at least one of the auctions that it serves. In addition, we have the ability to send finance representatives on-site to most approved independent auctions during auction sale-days. Geographic proximity to the customers gives our employees the ability to stay in close contact with outstanding accounts, thereby better enabling them to manage credit risk.

We generate a significant portion of our revenues from fees. These fees include origination, floorplan, curtailment and other related program fees. When the loan is extended or paid in full, AFC collects all accrued fees and interest.

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

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

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

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the dealer personally, verifying units held off-site and collecting payments for units sold. Audits also identify troubled accounts, triggering the involvement of AFC's collections department.

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

As of December 31, 2008, AFC had approximately 7,500 active dealers (those accounts with financing for at least one vehicle outstanding), with an average line of credit of approximately \$127,000 and no one dealer representing greater than 2.2% of our portfolio. An average of approximately ten vehicles per active dealer was floorplanned with an approximate average value of \$7,200 per vehicle at the end of 2008.

AFC sells the majority of its U.S. dollar denominated finance receivables without recourse to AFC Funding Corporation, a wholly owned bankruptcy remote special purpose entity established for the purpose of purchasing AFC's finance receivables. AFC's securitization conduit has been in place since 1996. AFC Funding Corporation had \$600 million of committed liquidity at December 31, 2008. On January 30, 2009, the securitization agreement was amended and committed liquidity was reduced to \$450 million. Undivided interests in finance receivables were sold by AFC Funding Corporation to the bank conduit facility with recourse totaling \$298.0 million at December 31, 2008. Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers.

## **Competitive Strengths**

### ***Leading North American Market Positions***

We are the second largest provider of whole car auctions and a leading provider of salvage vehicle auctions and related services in North America. In 2008, the most recent date available, we had estimated market shares of approximately 19% and 35% in the whole car auction and salvage auction markets, respectively. We leverage our significant market presence to 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's broad coverage, strong brand name and longstanding customer relationships have established it as a leading provider of floorplan financing for independent used vehicle dealers.

### ***Broad North American Distribution Network***

Our 61 whole car and 150 salvage auction locations enable us to provide a single source solution for our customers' needs throughout North America. In addition, AFC has 88 loan production offices supporting independent dealers across North America who purchase vehicles from auctions held by ADESA Auctions, independent auctions, auctions affiliated with other auction networks and non-auction purchases. Of these offices, 46 are located at ADESA Auctions sites, 33 are located strategically near auctions and 9 are located at third-party auctions. Our network enables us to maintain and develop our relationships with local sellers and buyers, while our North American presence allows institutional customers to access buyers and to redistribute vehicles to markets where demand best matches supply. Our presence in 70 of the top 75 metropolitan markets in the United States gives us an advantage over our smaller competitors, the large majority of which operate in a single market and lack scale. As our customers increasingly demand single source solutions, we believe that our scale and network will become an even more distinct advantage over our competitors. In addition, we believe our broad, established network positions us well because of the large tracts of land required to build new auction sites (our average whole car site is 75 acres and our average salvage site is 27 acres) and the need to comply with regulatory requirements, including zoning and use permits.

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### ***Established Relationships with a Diversified Customer Base***

We have established strong business relationships with dealers and institutional customers, such as vehicle manufacturers, insurers, financial institutions, rental agencies and fleet companies. We have a diverse customer base and do not have a major concentration of business with any one customer. We believe this diversity allows us to better withstand changes in the economy and market conditions. Key used vehicle supplier relationships include all of the major vehicle manufacturers, vehicle finance companies and rental car companies, including Chrysler Motors, LLC, Ford Motor Company, General Motors Corporation, American Honda Finance Corporation, Toyota Motor Credit Corporation, AmeriCredit Financial Services, Inc., Capital One Auto Finance, Chase Auto Finance Corp., Enterprise Rent-A-Car, The Hertz Corporation, Mercedes-Benz Credit Corporation, Nissan North America, Inc., VW Credit, Inc., WFS Financial and World Omni Financial Corp. Salvage auction relationships include all the major insurance companies in North America, including The Allstate Corporation, American Family Insurance, American International Group, The Farmers Insurance Group of Companies, GEICO, Nationwide Financial Services, Inc., The Progressive Corporation, State Farm and USAA. As of January 1, 2008, no single supplier represented more than 7.5% of our unit sales and no single buyer represented more than 1% of our unit sales.

### ***Single-Source Service Provider of Value-Added Services***

We are able to serve as a one-stop shop for our customers by offering a comprehensive range of innovative and value-added services. We offer physical auctions with Internet-bidding capabilities that enable buyers to pre-bid over the Internet, participate in person at a physical auction and bid over the Internet in real time. Through ADESA Auctions, we offer reconditioning and preparation services and customized reporting and analytical services. Through IAAI Salvage, we provide on-site facilities for insurance providers and online tools for salvage vehicle suppliers that include inventory management, salvage returns analysis and electronic data interchange of titling information. We also provide our insurance company suppliers with the capability to electronically assign and manage their salvage vehicle inventory.

### ***Strong Management Team with Significant Industry Experience***

Our senior management team has extensive experience in the automotive services industry.

Brian Clingen, our Chairman and Chief Executive Officer, has significant operational and investment experience in the automotive services industry. Mr. Clingen has served as a managing partner of BP Capital Management since 1998.

Jim Hallett, President and Chief Executive Officer of ADESA Auctions, has significant experience in the automotive auctions industry. Mr. Hallett previously served as an executive officer of ADESA from August 1996 until May 2005.

Tom O'Brien, President and Chief Executive Officer of IAAI Salvage, has over 30 years experience in general management of various businesses, with over 15 years in businesses that provide services to the automotive insurance industry. Mr. O'Brien has led IAAI since 2000.

Don Gottwald, President and Chief Executive Officer of AFC, has significant experience in the financial services industry and has served on the American Financial Services Association's board of directors.

Eric Loughmiller, our Chief Financial Officer, has over 25 years experience in finance and accounting and over 10 years as Chief Financial Officer of public and private companies.

John Nordin, our Chief Information Officer, has over 26 years of experience in IT and over 13 years as Chief Information Officer of public and private companies.

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Rebecca Polak, our Executive Vice President, General Counsel and Secretary, has significant experience in corporate and securities law. Ms. Polak served as Associate General Counsel of ADESA from February 2005 to April 2007.

### **Business Strategy**

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

#### ***Increase Whole Car Market Volumes***

*Institutional.* We continue to focus on growing our whole car auction business by building stronger and more interactive relationships with our institutional customers. To the extent possible, we have aligned our managers with the types of customers that they have the most relevant experience with: vehicle manufacturers, finance companies, rental car companies, leasing companies and fleet management companies. This allows our managers to focus on the current trends for their respective institutional customer group in order to better coordinate our sales efforts and service offerings tailored to our customers' needs. In addition to our team of relationship managers, we utilize ADESA Analytical Services to provide our institutional customers with customized studies and data analysis tools to enhance their remarketing decisions, target potential buyers and determine the best market and forum for their vehicles.

*Dealers.* We have a decentralized sales and marketing approach for our dealer business with primary coverage responsibilities managed by the individual auction locations. We believe this decentralized approach enhances relationships with the dealer community and increases dealer volumes at our auctions. Dealer business is a highly market specific business and we have to hire local relationship managers who have experience in the used vehicle business and possess an intimate knowledge of their local market.

#### ***Realize Cost Savings and Increase Revenues In Salvage Operations***

We continue to focus on cost savings and revenue synergies from the combination of ADESA's and IAAI's salvage operations by reducing corporate overhead of the combined salvage operations, consolidating existing salvage sites onto existing whole car sites, opening new salvage sites on existing whole car sites, easing volume constraints through a larger branch network and implementing IAAI standard processes and information technology systems to streamline operations and improving operating efficiencies at existing ADESA salvage branches.

Over the past few years, IAAI has successfully implemented an operating model for its auction sites that streamlines numerous operating and administrative activities and standardizes processes, resulting in cost savings and improved customer service levels. We have implemented this scalable operating model at 31 of ADESA's salvage facilities located in the United States, which we believe will result in additional cost savings, primarily by reducing headcount and personnel costs. We intend to implement the IAAI operating model at 13 of ADESA's salvage locations in Canada in 2010.

#### ***Reduce Costs and Enhance Revenues at ADESA Auctions***

We continue to focus on reducing costs and enhancing revenues at ADESA Auctions by implementing the following initiatives:

Optimize management and staffing levels for each auction

Establish standardized operating procedures and utilize technology to automate process controls for key operational areas and to improve labor efficiency

Centralize certain common functions previously performed at individual auction locations such as payables processing and general ledger entry to reduce costs and improve working capital turns



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Centralize and consolidate certain procurement functions to leverage global volumes of commodities and services to gain more favorable pricing

Standardize fee structures for ancillary services

### ***Expand through Selective Relocations, Greenfields and Acquisitions***

We continue to focus on relocating some of our existing whole car auction facilities to new, larger facilities in markets where our existing facilities are capacity-constrained and where we believe we can immediately realize additional volume and process efficiency improvements. In addition, increased demand for single source solutions by our customers may enable us to acquire smaller, less geographically diversified competitors at attractive prices. Both ADESA and IAAI have been successful in acquiring independent auction operations over the past few years. We will continue to evaluate opportunities to open new greenfield sites in markets adjacent to those in which we already have a presence, in order to effectively leverage our sales and marketing capabilities. We expect to expand our salvage operations by selectively locating new salvage auction sites at ADESA Auctions' existing auction facilities.

### ***Enhance performance at AFC***

We will continue to focus on expanding coverage and improving coordination with ADESA Auctions to capitalize on cross-selling opportunities. By encouraging a collaborative marketing effort between AFC and ADESA Auctions, we believe we can market more effectively to dealers and tailor AFC's financing products to individual dealer needs. We will continue to focus on generating additional revenues by expanding our floorplan financing business to certain IAAI Salvage buyers and by cross-selling our whole car auction services to our AFC customers that do not currently use ADESA Auctions' auctions.

### ***Continue to Invest in Information Technology***

We will continue to invest in and improve our technology infrastructure to expand service offerings and improve operating efficiencies and customer service. We will utilize the experience gained through the recent development of IAAI's proprietary IT systems (completed in 2005) as it upgrades ADESA Auctions' IT system. We are utilizing technology to develop additional service offerings across our whole car and salvage businesses to improve customers' returns, shorten the claims processing cycle on the salvage side and lower overall transaction costs. In addition, we are enhancing our e-commerce products and services portfolio in order to better serve our whole car buyers and sellers. These information technology improvements should also allow us to reduce field staff through more efficient and reliable systems, while providing our institutional customers with quicker and better data analysis.

## **Information Technology**

Information technology developments are driving change in the whole car and salvage auction industry. Under the leadership of John Nordin, Chief Information Officer, we plan to continue investing in our technology infrastructure in order to expand service offerings and improve operating efficiencies and customer service across our business segments. Through ADESA's IT investments, ADESA's sales channel integration and consolidation of databases are expected to increase revenues through eBusiness initiatives, superior cross-selling of services, improved customer satisfaction, greater matching of buyers and sellers and increased electronic loan transactions.

We have developed online tools to assist customers in redistributing their vehicles and establishing wholesale vehicle values, in addition to offering an alternative to physically attending an auction.

Our current ADESA Auctions online offerings include:

ADESA LiveBlock allows online bidders to compete in real time with bidders present at physical auctions

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ADESA DealerBlock provides for either real-time or round-the-clock bulletin-board type online auctions of consigned inventory not scheduled for active bidding. This platform is also utilized for upstream selling which facilitates the sale of vehicles prior to their arrival at a physical auction site

ADESA Run Lists provides a summary of consigned vehicles offered for auction sale, allowing dealers to preview inventory prior to an auction event

ADESA Market Guide provides wholesale auction prices, auction sales results, market data and condition reports

ADESA Virtual Inventory subscription-based service to allow dealers to embed ADESA Search technology into a dealer's website to increase the number of vehicles advertised by the dealer. Currently offered in Canada

ADESA Notify Me email notification service for dealers looking for particular vehicles being run at physical or electronic auction  
Our current online IAAI Salvage offerings include:

I-bid LIVE<sup>SM</sup> provides real-time Internet bidding capabilities to salvage vehicle buyers

CSA Today provides comprehensive salvage analysis and data management capability to our salvage vehicle suppliers

ASAP provides a web-based system designed to support salvage vehicle registration and tracking, financial reporting, transaction settlement, vehicle title transfer and branch/ headquarters communications. The system is designed to streamline all aspects of our salvage operations as well as support future growth and expansion plans. The web-based ASAP provides vehicle suppliers with capabilities such as online inventory management and electronic data interchange of titling information. Additionally, ASAP supports buyer services such as Internet-based searchable parts inventories, transportation cost estimators, third-party appraisal requests and real-time bidding

## **Sales and Marketing**

### ***ADESA Auctions***

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

Managers of individual auction locations will ultimately be responsible for providing services to the institutional customers whose vehicles are directed to the auctions by the corporate sales team. Developing and servicing the largest possible population of buying dealers for the vehicles consigned for sale at each auction is integral to selling auction services and servicing institutional customers.

We also provide market analysis to our customers through our ADESA Analytical Services department. We market this service to institutional customers as they favorably use analytical techniques in making their remarketing decisions.

We have a decentralized sales and marketing approach for our dealer business with primary coverage responsibilities managed by the individual auction locations. We believe this decentralized approach enhances relationships with the dealer community and increase dealer volumes at our auctions. Dealer business is a highly market specific business. As such, we have local relationship managers who have experience in the used car business and possess an intimate understanding of their local market.



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### ***IAAI Salvage***

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

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

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

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

### ***AFC***

AFC approaches and seeks to expand its share of the independent dealer floorplan market through a number of methods and channels. We target and solicit new dealers through both direct sales efforts at the dealer's place of business as well as auction-based sales and customer service representatives, who service our dealers at over 800 auctions where they replenish and rotate vehicle inventory. These largely local efforts are handled by AFC Branch Managers. Automotive Finance Consumer Division, an initiative of ours that offers finance and insurance solutions to independent used vehicle dealers, also provides sales and marketing support to AFC field personnel by helping to identify target dealers and coordinating both promotional activity with auctions and other vehicle supply sources.

## **Customers**

We obtain our supply of used vehicles from large institutions such as vehicle manufacturers and their captive finance arms, vehicle rental companies, financial institutions, commercial fleets and fleet management companies, and independent and franchised used vehicle dealers. Buyers are primarily franchised or independent used vehicle dealers.

We obtain the majority of our supply of salvage vehicles from insurance companies, non-profit organizations, automobile dealers and vehicle leasing and rental car companies. Buyers of salvage vehicles include licensed vehicle dismantlers, rebuilders, repair shop operators and used vehicle dealers.

At AFC, we serve a highly fragmented customer base of independent dealers. We have served the industry continuously since 1987. As a result, we have some of the most established long-term relationships with these customers.

Our strong national relationships with institutional customers provide a significant and stable source of late model used vehicles and salvage vehicles into our auctions. The integration of our information technology systems with those of our major institutional customers creates strong relationships and improves customer retention. Additionally, the long-standing presence of auctions and loan production offices in regional markets has created strong relationships with local franchise and independent dealers.

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**Regulation**

***Vehicle and Lending Regulation***

Our operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. Each auction is subject to laws that regulate auctioneers and/or vehicle dealers in the state or province in which it operates. 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. The acquisition and sale of salvage and recovered stolen vehicles is regulated by governmental agencies in each of the locations in which we operate. 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 also limit who can purchase salvage vehicles, as well as determine whether a salvage vehicle can be sold as rebuildable or must be sold for parts only. Such regulations can reduce the number of potential buyers of vehicles at salvage auctions.

We are also subject to various local zoning requirements with regard to the location of our auction and storage facilities. These zoning requirements vary from location to location. Additionally, AFC is subject to laws in certain states and Canada which regulate commercial lending activities and interest rates.

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

***Environmental Regulation***

Our operations are subject to regulation by various federal, state and local authorities concerning air quality, water quality, solid wastes and other environmental matters. In the used vehicle redistribution industry, large numbers of vehicles, including damaged vehicles at salvage auctions, are stored at auction facilities for short periods of time. Minor spills of gasoline, motor oils and other fluids may occur from time to time at our facilities and may result in soil, surface water or groundwater contamination. Virtually all of our facilities maintain above-ground storage tanks for diesel fuel and, in some cases, propane gas for use in our vehicles and equipment. We also own and maintain underground storage tanks at a number of our facilities around the country, primarily to store vehicle fuel. Waste materials, such as waste solvents or used oils, are generated at some of our facilities and are disposed of as non-hazardous or hazardous wastes. We believe that we are in compliance in all material respects with applicable environmental regulations and do not anticipate any material capital expenditure for environmental compliance or remediation. Environmental laws and regulations, however, could become more stringent over time and we may be subject to significant compliance costs in the future. Future contamination at any one or more of our facilities, or the potential contamination by previous users of certain acquired facilities, create the risk, however, that we could incur significant expenditures for preventive or remedial action, as well as potential liability arising as a consequence of hazardous material contamination, which could have a material adverse effect on our operating results and financial condition.

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

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### **Competition**

We face significant competition for the supply of used and salvage vehicles and for the buyers of those vehicles. Our principal competitors include other whole car and/or salvage vehicle auction companies, wholesalers, dealers, manufacturers and dismantlers, a number of whom may have established relationships with sellers and buyers of vehicles and may have greater financial resources than us. Our basis for competition includes both our physical auction sites and our e-business service offerings. Due to the limited number of sellers of used and salvage vehicles, the absence of long-term contractual commitments between us and our customers and the increasingly competitive market environment, there can be no assurance that our competitors will not gain market share at our expense.

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

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

In the salvage sector, we compete with Copart, Inc., Total Resource Auctions (Manheim), independent auctions, some of which are affiliated through their membership in industry organizations to provide broader coverage through network relationships and a limited number of used vehicle auctions that regularly redistribute salvage vehicles. Additionally, some dismantlers of salvage vehicles such as Greanleaf and LKQ Corporation and Internet-based companies have entered the market, thus providing alternate avenues for sellers to redistribute salvage vehicles. While most insurance companies have abandoned or reduced efforts to sell salvage vehicles without the use of service providers such as us, they may in the future decide to dispose of their salvage vehicles directly to end users. We may not be able to compete successfully against current or future competitors, which could impair our ability to grow and/or sustain profitability.

We anticipate further consolidation of the whole car and salvage auction services industry will occur and are evaluating various means by which we can continue our growth plan through further deployment of our Internet auction tools, strategic acquisitions, shared facilities and greenfield expansion.

In Canada, we are the largest provider of whole car and salvage vehicle auction services. Our competitors include vehicle recyclers and dismantlers, independent vehicle auctions, brokers, Manheim and online auction companies. We believe we are strategically positioned in this market by providing a full array of value-added services to customers including auction and related services, online programs, data analyses and consultation.

The used vehicle inventory floorplan financing sector is characterized by diverse and fragmented competition. AFC primarily provides short-term dealer floorplan financing of wholesale vehicles to independent vehicle dealers in North America. At the national level, AFC's competition includes Manheim Automotive Financial Services, Auto Use, Dealer Services Corporation, other specialty lenders, banks and financial institutions. At the local level, AFC faces competition from banks and credit unions who may offer floorplan financing to local auction customers. Such entities typically service only one or a small number of auctions.

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

### **Employees**

At May 31, 2009, we had a total of 13,252 employees, 10,315 located in the U.S. and 2,937 located in Canada and Mexico. Approximately 68 percent of our workforce consists of full-time employees. Currently, none of our employees participate in collective bargaining agreements.

In addition to the employee workforce, we also utilize temporary labor services to assist in handling the vehicles consigned to us during periods of peak volume. Nearly all of our auctioneers are independent contractors.

Some of the services we provide are outsourced to third party providers that perform the services either on-site or off-site. The use of third party providers depends upon the resources available at each auction facility as well as peaks in the volume of vehicles offered at auction.

### **Properties**

Our corporate headquarters are located in Carmel, Indiana. Our corporate headquarters and our Canadian office are leased properties, with office space being leased through 2019. Properties utilized by the ADESA Auctions business segment include 61 used vehicle auction facilities in North America, which are either owned or leased. Each auction is generally a multi-lane, drive-through facility, and may have additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles. The ADESA auction facilities vary in size based on the market demographics and offer anywhere from 1 to 16 auction lanes, with an average of approximately 7 lanes per location.

IAAI is headquartered in Westchester, Illinois, with office space being leased through 2016. Properties utilized by the IAAI business segment include 150 salvage vehicle auction facilities in the U.S. and Canada, most of which are leased. Salvage auctions are generally smaller than used vehicle auctions in terms of acreage and building size and some locations share facilities with ADESA Auctions. The IAAI properties are used primarily for auction and storage purposes consisting on average of approximately 27 acres of land.

Of AFC's 88 offices in North America, 55 are physically located at auction facilities (including 46 at ADESA Auctions). Each of the remaining 33 AFC offices is strategically located in close proximity to at least one of the auctions that it serves. AFC generally leases its loan production offices.

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

### **Legal**

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

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***IAAI Lower Duwamish Waterway***

On March 25, 2008, the United States Environmental Protection Agency ( EPA ) issued a General Notice of Potential Liability pursuant to Section 107(a) and a Request for Information pursuant to Section 104(e) of CERCLA (42 USC 9601 et.seq.) to IAAI for a Superfund site known as the Lower Duwamish Waterway Superfund Site in Seattle, Washington (the LDW ). At this time, the EPA has not demanded that IAAI pay any funds or take any action apart from responding to the Section 104(e) Information Request. The EPA has told IAAI that, to date, it has sent out approximately sixty General Notice letters to other parties, but the EPA plans to send hundreds of additional General Notice letters to additional parties. We are aware that the EPA is investigating approximately 100 additional companies. IAAI currently leases property adjacent to the LDW and operates a stormwater system that discharges into the LDW. We have responded to the Section 104(e) Information Request.



**Table of Contents****MANAGEMENT****Directors & Executive Officers**

The following table provides certain information regarding our directors and executive officers as of May 31, 2009. Each director and officer will hold office until a successor is elected or qualified or until his earlier death, resignation or removal. The Equity Sponsors have the right to designate all of our directors pursuant to a shareholders agreement and to remove any or all of them from time to time. The term of office for all directors is one year. See Certain Relationships and Related Transactions Shareholders Agreement.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Brian T. Clingen	49	Chairman and Chief Executive Officer
James P. Hallett	56	President and Chief Executive Officer of ADESA Auctions and Director
Thomas C. O'Brien	55	President and Chief Executive Officer of IAAI Salvage and Director
Donald S. Gottwald	42	President and Chief Executive Officer of AFC
Eric M. Loughmiller	50	Executive Vice President and Chief Financial Officer
John R. Nordin	52	Executive Vice President and Chief Information Officer
Rebecca C. Polak	38	Executive Vice President, General Counsel and Secretary
David J. Ament	34	Director
Thomas J. Carella	34	Director
Peter H. Kamin	47	Director
Sanjeev Mehra	50	Director
Church M. Moore	36	Director
Gregory P. Spivy	40	Director
David I. Wahrhaftig	52	Director

**Brian T. Clingen, Chairman and Chief Executive Officer.** Mr. Clingen has been our Chairman and Chief Executive Officer since April 2007. Mr. Clingen has served as a managing partner of BP Capital Management since 1998. Established in 1998, BP Capital Management manages private equity investments principally in the service and finance sectors. Prior to founding BP Capital Management, Mr. Clingen was Chief Financial Officer of Universal Outdoor between 1988 and 1996. Universal became a Kelso portfolio company in 1993.

**James P. Hallett, President and Chief Executive Officer of ADESA Auctions and Director.** Mr. Hallett has been President and Chief Executive Officer of ADESA Auctions since April 2007. Mr. Hallett previously served in the following positions between August 1996 and May 2005: Executive Vice President of ADESA, Inc. from May 2004 to May 2005; President of ADESA Corporation, LLC from March 2004 to May 2005; President of ADESA Corporation between August 1996 and October 2001 and again between January 2003 and March 2004; Chief Executive Officer of ADESA Corporation from August 1996 to July 2003; ADESA Corporation's Chairman from October 2001 to July 2003; Chairman, President and Chief Executive Officer of ALLETE Automotive Services, Inc. from January 2001 to January 2003 and Executive Vice President from August 1996 to May 2004. Mr. Hallett left ADESA in May 2005 and thereafter served as President of the Columbus Fair Auto Auction.

**Thomas C. O'Brien, President and Chief Executive Officer of IAAI Salvage and Director.** Mr. O'Brien became President and Chief Executive Officer of IAAI in November 2000. As President and Chief Executive Officer, Mr. O'Brien oversaw the company's overall corporate administration as well as strategic planning. Prior to joining IAAI, Mr. O'Brien served as President of Thomas O'Brien & Associates from 1999 to 2000, Executive Vice President of Safelite Glass Corporation from 1998 to 1999, Executive Vice President of Vistar, Inc. from 1996 to 1997 and President of U.S.A. Glass, Inc. from 1992 to 1996.

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**Donald S. Gottwald, President and Chief Executive Officer of AFC.** Mr. Gottwald joined AFC in January 2009. Mr. Gottwald most recently served in the role of Executive Vice President of Dealer Business for HSBC Auto Finance from December 2005 to October 2008. Prior to working at HSBC Auto Finance, Mr. Gottwald served in several roles of increased responsibility with GMAC Financial Services from June 1993 to December 2005. Mr. Gottwald has been active in the American Financial Services Association and has served on the association's board of directors.

**Eric M. Loughmiller, Executive Vice President and Chief Financial Officer.** Mr. Loughmiller has been Executive Vice President and Chief Financial Officer since April 2007. Mr. Loughmiller has served as Chief Financial Officer of a number of companies prior to joining KAR Holdings. Previously, from 2001 to 2006, Mr. Loughmiller was the Vice President and Chief Financial Officer of ThoughtWorks, Inc., an information technology consulting firm. Prior to that, Mr. Loughmiller served as Executive Vice President and Chief Financial Officer of May & Speh, Inc. from 1996 to 1998 until May & Speh was acquired by Acxiom Corporation. Mr. Loughmiller was the finance leader of the Outsourcing Division of Acxiom Corporation from 1998 to 2000. Prior to 1997, Mr. Loughmiller was an audit partner with PricewaterhouseCoopers LLP, an independent registered public accounting firm. Mr. Loughmiller is a Certified Public Accountant.

**John R. Nordin, Executive Vice President and Chief Information Officer.** Mr. Nordin has been Executive Vice President and Chief Information Officer since April 2007. Mr. Nordin joined IAAI in November 2003 as Vice President, Chief Information Officer and served in that role until April 2007. Mr. Nordin is responsible for information services functions, including software application acquisition and development, computer operations, e-business and telecommunications. Prior to joining IAAI, Mr. Nordin served as Vice President and Chief Information Officer at A. M. Castle & Co. from 1998 to 2003. From 1995 to 1998, he served as Vice President and Chief Information Officer at Candle Corporation of America.

**Rebecca C. Polak, Executive Vice President, General Counsel and Secretary.** Ms. Polak has been Executive Vice President, General Counsel and Secretary since April 2007. Ms. Polak previously served as the Assistant General Counsel and Assistant Secretary of ADESA from February 2005 to April 2007. Prior to joining ADESA, Ms. Polak practiced corporate and securities law with Krieg DeVault in Indianapolis from 2000 to 2005 and with Haynes and Boone in Dallas from 1995 to 1999.

**David J. Ament, Director.** Mr. Ament has been a director since April 2007. Mr. Ament joined Parthenon Capital, a private equity firm, in 2003 and is a Managing Partner in its Boston office. Prior to joining Parthenon, he was a principal at Audax Group, a private equity firm, from 2001 to 2003. Prior to that, Mr. Ament was an investment professional at Apollo Advisors from 1997 to 2001. Mr. Ament is also a director of Intermedix Corp., AmWINS Group, Inc., Abeo, Inc., ASG Security and Bryant and Stratton College.

**Thomas J. Carella, Director.** Mr. Carella has been a director since April 2007. Mr. Carella is a Vice President of Goldman, Sachs & Co. Mr. Carella joined Goldman Sachs in 1997 and rejoined in 2004 following his graduation from Harvard Business School. Prior to business school, from 2000 to 2002, Mr. Carella co-founded and served as chief executive officer and chairman of Netesi SPA, an Italian software business. Mr. Carella also serves on the board of directors of Cequel Communications, LLC, Waste Industries, Inc., and Global Tel\*Link, Inc.

**Peter H. Kamin, Director.** Mr. Kamin has been a director since April 2007. Mr. Kamin is a founding member of ValueAct Capital Management, L.P. Prior to founding ValueAct in 2000, Mr. Kamin founded and managed Peak Investment, L.P. from 1992 to 2000. Peak was a limited partnership organized to make investments in a select number of domestic public companies. Mr. Kamin is a director of Seitel Inc.

**Sanjeev Mehra, Director.** Mr. Mehra has been a director since April 2007. Mr. Mehra has served as a Managing Director of Goldman, Sachs & Co. in its Principal Investment Area since 1996. Mr. Mehra joined Goldman Sachs in 1986. Mr. Mehra also serves on the board of directors of SunGard Data Systems, Inc., Burger King Holdings, Inc., ARAMARK Corporation and Sigma Electric, and is Chairman of Hawker Beechcraft, Inc. Mr. Mehra is a trustee of Trout Unlimited and Oakham School, England.

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**Church M. Moore, Director.** Mr. Moore has been a director since April 2007. Mr. Moore joined Kelso in 1998 and has been Managing Director since 2007. From 1997 to 1998, he was an associate at Investcorp International, Inc. Previously, Mr. Moore was a member of the corporate finance group at BT Securities Corporation from 1994 to 1997. Mr. Moore is also a director of DS Waters Holdings, Inc. and Ellis Communications Group, LLC.

**Gregory P. Spivy, Director.** Mr. Spivy has been a director since April 2007. Mr. Spivy joined ValueAct Capital Management, L.P. in 2004 and has been a Partner since 2004. Prior to joining ValueAct, Mr. Spivy worked with Gryphon Investors, a private equity fund, from 2002 to 2004. Previously, Mr. Spivy was a Managing Director at Fremont Partners, overseeing a \$605 million private equity fund, from 1995 to 2000. Prior to joining Fremont Partners, Mr. Spivy was a Director with The Bridgeford Group from 1992 to 1995, and began his career in the mergers and acquisitions department of Lehman Brothers from 1989 to 1992. Mr. Spivy currently serves as a director of Seitel, Inc. and MDS, Inc.

**David I. Wahrhaftig, Director.** Mr. Wahrhaftig has been a director since April 2007. Mr. Wahrhaftig joined Kelso in 1987 and has been managing director since 1997. From 1982 to 1987, he served as associate director of mergers and acquisitions and a management consultant for Arthur Young & Company, an accounting firm. Mr. Wahrhaftig is also a director of BWAY Holding Company, BWAY Corporation, DS Waters Holdings, Inc. and Renfro Corporation.

### **Committees of the Board of Directors**

The board of directors has established an audit committee and a compensation committee. The audit committee recommends the annual appointment of independent auditors. The audit committee reviews with the auditors the scope of the audit and non-audit assignments and related fees, accounting principles we use in financial reporting, internal auditing procedures and the adequacy of our internal controls. The compensation committee reviews and approves the compensation and benefits of our employees, directors and consultants, administers our employee benefits plans, authorizes and ratifies stock option grants and other incentive arrangements, authorizes employment and related agreements and oversees our corporate governance matters. Messrs. Carella, Kamin and Wahrhaftig serve on the audit committee and Messrs. Clingen, Hallett, Mehra, Moore, O'Brien and Spivy serve on the compensation committee. Mr. Kamin serves as chairman of the audit committee and Mr. Moore serves as chairman of the compensation committee.

### **Compensation of Directors**

All of our directors are affiliated with us or our sponsors and are not entitled to receive any fees for serving as directors. The directors are reimbursed for their out-of-pocket expenses incurred in connection with attendance in person at board or committee meetings.

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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

**Overview**

The discussion and analysis of our compensation program for named executive officers which follows should be read in conjunction with the tables and text elsewhere in this filing that describe the compensation awarded to, earned by, and paid to the named executive officers.

Our named executive officers for the last completed fiscal year were (i) our principal executive officer (the PEO), (ii) our principal financial officer (the PFO), (iii) the three most highly compensated executive officers (other than the PEO and the PFO) who were serving as executive officers at the end of the last completed fiscal year, and (iv) one additional individual who was not serving as an executive officer at the end of the last completed fiscal year who would have been, solely as a result of severance payments received, among the three most highly compensated individuals other than the PEO and the PFO. Respectively, the following persons were our named executive officers for the period covered by this compensation discussion and analysis:

Brian Clingen, Chairman and Chief Executive Officer (PEO) of KAR Holdings;

Eric Loughmiller, Executive Vice President and Chief Financial Officer (PFO) of KAR Holdings;

James Hallett, President and Chief Executive Officer of ADESA Auctions;

Thomas O'Brien, President and Chief Executive Officer of IAAI Salvage;

Rebecca Polak, Executive Vice President, General Counsel and Secretary of KAR Holdings; and

Curtis Phillips, Former President and Chief Executive Officer of AFC.

**Compensation Philosophy and Objectives**

We believe that compensation of named executive officers should be (i) closely aligned with the performance of the Company on both a short-term and long-term basis, (ii) linked to specific, measurable results intended to create value for stockholders, and (iii) competitive in attracting and retaining key executive talent in the vehicle remarketing and auto finance industry. Each of the compensation programs that we have developed and implemented is intended to satisfy one or more of the following specific objectives:

motivate and focus through incentive compensation programs directly tied to our financial results;

support a one-company culture and encourage synergies between all business units by aligning rewards with long-term overall Company performance and stockholder value;

provide a significant percentage of total compensation through variable pay based on pre-established goals and objectives;

enhance our ability to attract and retain skilled and experienced executive officers;

align the interests of our executive officers with the interests of our stockholders so that they manage from the perspective of owners with an equity stake in the Company; and

provide competitive rewards commensurate with performance and competitive market practices.

**The Role of the Compensation Committee and the Named Executive Officers in Determining Executive Compensation**

*Role of the Compensation Committee.* The Compensation Committee of the Board of Directors (the Committee) is comprised of Church M. Moore (Chairman), Sanjeev Mehra, Gregory P. Spivy, Brian Clingen, James Hallett, and Thomas O'Brien. Mr. Clingen is the Chairman and CEO of KAR Holdings, Mr. Hallett is the

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President and CEO of ADESA Auctions, and Mr. O'Brien is the President and CEO of IAAI Salvage. See Compensation Committee Interlocks and Insider Participation. Messrs. Mehra, Moore, and Spivy are directors who were appointed by the Equity Sponsors pursuant to the terms of the Amended and Restated Limited Liability Company Agreement of KAR LLC, or the LLC Agreement. See Certain Relationships and Related Transactions-LLC Agreement.

The Committee has primary responsibility for all compensation decisions relating to our named executive officers, including Mr. Clingen, Mr. Hallett, and Mr. O'Brien. The Committee reviews the aggregate level of our executive compensation, as well as the mix of elements used to compensate our named executive officers on an annual basis. In light of the unique mix of businesses that comprise KAR Holdings and the lack of directly comparable public companies, the Committee has not identified a specific peer group of companies for comparative purposes and does not formally engage in benchmarking of compensation. Further, the Committee has not engaged a compensation consultant to assist in the annual review of our compensation practices or the development of compensation programs for our named executive officers, though the Committee has the authority to do so if it deems that such assistance is necessary or would otherwise be beneficial.

*Role of the Executive Officers.* Mr. Clingen, Mr. Hallett, and Mr. O'Brien regularly participate in meetings of the Committee at which compensation actions involving our named executive officers are discussed. Mr. Clingen, Mr. Hallett, and Mr. O'Brien assist the Committee by making recommendations regarding compensation actions relating to the executive officers other than themselves. Mr. Clingen, Mr. Hallett, and Mr. O'Brien each recuses himself and does not participate in any portion of any meeting of the Committee at which his compensation is discussed.

### **Elements Used to Achieve Compensation Philosophy and Objectives**

**Components of Executive Compensation for 2008.** The Committee believes the total compensation and benefits program for our named executive officers should consist of the following:

base salary;

annual incentive opportunity;

long-term incentive opportunity;

retirement, health and welfare benefits; and

perquisites.

### **Base Salary**

Base salary is the fixed component of total annual cash compensation and is intended to reward the named executive officers for their past performance, offer security to the executive officers, and facilitate the attraction and retention of a skilled and experienced executive management team. The Committee reviews base salaries for our named executive officers annually and as it deems necessary and appropriate in connection with any promotion or other change in responsibility of a named executive officer.

Annual salary levels for our named executive officers are based upon various factors, including the individual's performance, budget guidelines, experience, business unit responsibilities, and tenure in the particular position. In addition, the Committee also considers the amount and relative percentage of total compensation that is derived from base salary when setting the compensation of our executive officers. The Committee has not, however, established a policy or a specific formula for such purpose.

In view of the wide variety of factors considered by the Committee in connection with determining the base salary of each of our named executive officers, the Committee has not attempted to rank or otherwise assign



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relative weights to the factors that it considers. The Committee considers all the factors as a whole in reaching its determination. The Committee collectively makes its determination with respect to base salaries based on the conclusions reached by its members, in light of the factors that each of them considered appropriate.

The base salaries paid to our named executive officers for 2008 are shown in the Summary Compensation Table.

The Committee reviewed the base salaries of each of our named executive officers at its February 2009 meeting. Due to the significant economic changes that have occurred in the last year, the Committee determined to not increase the base salaries of any of our named executive officers for 2009. Further, upon the request of Mr. Clingen, the Committee reduced Mr. Clingen's base salary for 2009 from \$592,250 to \$250,000. Such salary reduction was approved by the Committee based upon Mr. Clingen's request.

### **Annual Cash Incentive Programs**

We provide annual cash incentive opportunities to our named executive officers in order to:

align annual incentives with overall Company financial results;

align annual incentives, where appropriate, with business unit or division financial results; and

align annual incentives with the interests of our stockholders.

Annual cash incentive opportunities are established for each named executive officer by the Committee based upon a number of factors including the job responsibilities of such executive and internal equity among the named executive officers. Consistent with our compensation philosophy and objectives, the Committee sets annual incentive bonus targets in amounts which are intended to encourage the achievement of certain levels of performance and provide a significant portion of each named executive officer's compensation through variable pay based upon pre-established goals and objectives. Generally, named executive officers with greater job responsibilities have a greater proportion of their annual cash compensation tied to Company performance through their annual incentive opportunity. The Committee has not, however, established a policy or a formula for the purpose of calculating the specific amount or relative percentage of total compensation that should be derived from annual cash incentive opportunities.

*The KAR Holdings, Inc. Annual Incentive Program.* The KAR Holdings, Inc. annual incentive program was adopted for the purpose of motivating and rewarding the successful achievement of pre-determined financial objectives at KAR Holdings relating to cash based incentive awards. Under such program, the grant of cash-based awards to eligible participants is contingent upon the achievement of certain corporate performance goals as determined by the Committee.

The Committee uses adjusted earnings before interest, taxes, depreciation, and amortization ( EBITDA ) for KAR Holdings, ADESA Auctions, and AFC depending upon the executive, as the measure of performance when establishing annual performance objectives for the named executive officers. Using these measures, the Committee establishes, on an annual basis, specific targets that determine the size of payouts under the incentive program. Each named executive officer's annual incentive opportunity may be based upon a combination of the performance of the Company overall and the performance of the executive's business unit. In 2008, Mr. Clingen's, Mr. Loughmiller's and Ms. Polak's annual incentive opportunity was based upon the performance of KAR Holdings. Mr. Hallett's annual incentive opportunity was based primarily upon the performance of ADESA Auctions and secondarily upon the performance of KAR Holdings. Mr. O'Brien's annual incentive opportunity was based primarily upon the performance of IAAI Salvage and secondarily upon the performance of KAR Holdings. Mr. Phillips' annual incentive opportunity was based primarily upon the performance of AFC and secondarily upon the performance of KAR Holdings.



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*The Insurance Auto Auctions, Inc. 2008 Incentive Plan.* The Insurance Auto Auctions, Inc. 2008 Incentive Plan was adopted for the purpose of motivating and rewarding the successful achievement of pre-determined financial objectives at IAAI Salvage. Mr. O'Brien is the only named executive officer that participates in the Insurance Auto Auctions, Inc. 2008 Incentive Plan. The Insurance Auto Auctions, Inc. 2008 Incentive Plan uses adjusted EBITDA of IAAI Salvage as the measure of financial performance under the plan.

*Performance Targets for 2008 for the KAR Holdings, Inc. Annual Incentive Program and the Insurance Auto Auctions, Inc. 2008 Incentive Plan.* Under the incentive plans, threshold performance objectives must be met in order for any payout to occur. Payouts can range from 25% of target awards for performance at threshold up to a maximum of 160% of target awards for superior performance or no payout if performance is below threshold. The Committee analyzes financial measures and determines the level of performance required to receive threshold, target, and superior annual incentive payouts. The Committee established the performance objectives in amounts which it believed would be achievable given a sustained effort on the part of the named executive officers and which would require increasingly greater effort to achieve the target and superior objectives. The Committee may increase or decrease the performance targets and the potential payouts at each performance target, if, in the discretion of the Committee, the circumstances warrant such an adjustment. The Committee did not exercise its discretion in this regard in 2008.

The following table shows the annual incentive opportunities for our named executive officers for 2008:

Name	Bonus Opportunity				Bonus Goal Weighting %			
	Base Salary	Threshold % of Base Salary	Target % of Base Salary	Superior % of Base Salary	KAR Holdings	ADESA Auctions	AFC	IAAI Salvage
Brian Clingen	\$ 592,250	32.5%	100%	130%	100%	0%	0%	0%
Eric Loughmiller	\$ 360,500	25%	75%	100%	100%	0%	0%	0%
James Hallett	\$ 592,250	32.5%	100%	130%	25%	75%	0%	0%
Thomas O'Brien	\$ 482,281	85%	100%	160%	25%	0%	0%	75%
Rebecca Polak	\$ 309,000	25%	75%	100%	100%	0%	0%	0%
Curtis Phillips	\$ 309,000	25%	75%	100%	25%	0%	75%	0%

No amounts were paid to the named executive officers under the KAR Holdings, Inc. annual incentive program in 2008 as the Company did not achieve the minimum criteria for an award. However, as a result of Insurance Auto Auctions, Inc. achieving certain performance objectives, Mr. O'Brien received an award amount of \$339,470 under the Insurance Auto Auctions, Inc. 2008 Incentive Plan.

For 2009, the Committee has adjusted the threshold percentage for each named executive officer to an amount equal to one-half of the respective target percentage. In addition, in 2009, Mr. O'Brien's superior percentage has been reduced to 130%. Such changes result from a subjective determination by the Committee that a consistent ratio of the threshold percentage to the target percentage as well as a consistent superior percentage would promote equity among the named executive officers.

**Long-Term Equity Incentive Programs**

*The KAR Holdings, Inc. Stock Incentive Plan.* The KAR Holdings, Inc. Stock Incentive Plan (the "Stock Incentive Plan") was adopted following completion of the Transactions to foster and promote the long-term financial success of KAR Holdings and its subsidiaries and materially increase stockholder value by:

motivating superior performance by means of service- and performance-related incentives;

aligning the interests of our named executive officers with the interests of our stockholders so that they manage from the perspective of owners with an equity stake in the Company; and

enabling KAR Holdings and its subsidiaries to attract and retain the services of a skilled and experienced executive management team upon whose judgment, interest, and special effort the successful conduct of its and their operations is largely dependent.



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The Stock Incentive Plan provides for the grant of two types of options and restricted stock. No restricted stock has been granted under the plan. Participation in the Stock Incentive Plan is limited to such persons as the Committee, in its discretion, designates. The number of options granted to each participant, the date of such grant, and the exercise price of the options are also subject to the discretion of the Committee.

Under the Stock Incentive Plan, one-fourth of the total amount of each option grant are service options, and three-fourths of the amount of each grant are exit options. Service options are generally exercisable in four equal annual installments, commencing on the first anniversary of the grant date. Exit options are performance options, and generally become exercisable only after the occurrence of an Exit Event based on the satisfaction of certain performance goals. An **Exit Event** includes, generally, any transaction other than an initial public offering which results in the sale, transfer, or other disposition by certain of the original members of KAR LLC, which are referred to as the Investor Members, (as defined below) to a third party of (a) all or substantially all of the limited liability company interests of KAR LLC beneficially owned by the Investor Members, as of the date of such transaction; or (b) all of the assets of KAR LLC and its subsidiaries, taken as a whole.

The Investor Members include Kelso Investment Associates VII, L.P.; KEP VI, LLC; GS Capital Partners VI Fund, L.P.; GS Capital Partners VI Parallel, L.P.; GS Capital Partners VI GmbH & Co. KG; GS Capital Partners VI Offshore Fund, L.P.; ValueAct Capital Master Fund, L.P.; PCap KAR LLC; Axle LLC; and such other persons who from time-to-time become members of the Company and are designated as Investor Members.

Upon the occurrence of an Exit Event, exit options become exercisable in accordance with the following schedule:

None of the exit options will become exercisable unless, the Investor Members receive an internal rate of return on their initial investment in the Company of at least 12% compounded annually and the Investment Multiple (as defined below) is greater than 1.5.

All of the exit options will become exercisable if the Investor Members receive an internal rate of return on their initial investment in the Company of at least 12% compounded annually and the Investment Multiple is at least 3.5.

The exit options will become partially exercisable on a ratable basis if the Investor Members receive an internal rate of return on their initial investment in the Company of at least 12% compounded annually and the Investment Multiple is greater than 1.5 but less than 3.5.

For purposes of the foregoing, the **Investment Multiple** is equal to the quotient of the **Current Value** divided by the **Initial Price**. The **Current Value** is generally equal to the sum of (i) the aggregate amount of distributions received by the Investor Members prior to such time in respect of their Common Units of the Company plus (ii) in the case of a distribution made in connection with an Exit Event, the product of (y) the aggregate amount per Common Unit of distributions to be received by the Investor Members upon such Exit Event and (z) the aggregate number of Units held by the Investor Members as of the occurrence of such Exit Event. The **Initial Price** is equal to the product of (i) the Investor Members' average cost per each Investor Member Unit times (ii) the total number of Investor Member Units.

All exit options which do not become exercisable at the time of an Exit Event will be cancelled. All of the shares acquired upon exercise of any option will be subject to a shareholders agreement and a registration rights agreement. No option, whether an exit option or a service option, is exercisable on or after the tenth anniversary of the date on which it was granted.

The Committee has discretion to consider any factor that it determines appropriate when it establishes the performance objectives and the amount of awards under the Stock Incentive Plan. Because our named executive officers were awarded profit interests, or Override Units, in KAR LLC in connection with the completion of the Transactions, the Committee did not establish performance objectives for 2008 and did not grant any awards to

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our named executive officers under the Stock Incentive Plan for 2008. Pursuant to the terms of the Severance, Release and Waiver Agreement entered into between Mr. Phillips and AFC, Mr. Phillips retained 2,374.05 exit options and 1,978.375 service options which had been previously granted to him under the Stock Incentive Plan. In addition, in May 2009, Ms. Polak was awarded 4,418 service options and 13,254 exit options under the Stock Incentive Plan.

### **Retirement, Health, and Welfare Benefits**

We offer a variety of health and welfare and retirement programs to all eligible employees, including our named executive officers. The health and welfare programs are intended to protect employees against catastrophic loss and encourage a healthy lifestyle. Our health and welfare programs include medical, dental, vision, pharmacy, life insurance, disability, and accidental death and disability. We also provide travel insurance to all employees who travel for business purposes.

### **Perquisites**

In general, the Committee believes that the provision of a certain level of perquisites and other personal benefits to the named executive officers is reasonable and consistent with the objective of facilitating and allowing KAR Holdings to attract and retain highly qualified executive officers. The perquisites which are available to our named executive officers include an automobile allowance, 401(k) matching contributions, and Company-paid group term life insurance premiums. In 2008, perquisites constituted only a small percentage of total compensation for our named executive officers. On average, less than 9 percent of each named executive officers' total compensation was provided through perquisites. However, the Committee has not established a policy or a formula for the purpose of calculating the amount or relative percentage of total compensation that should be derived from perquisites.

### **Severance and Change in Control Agreements**

The Committee recognizes that, from time to time, it is appropriate to enter into agreements with our executive officers to ensure that we continue to retain their services and to promote stability and continuity within the Company. In connection with the completion of the Transactions, Thomas O'Brien entered into an individually negotiated employment agreement. Mr. O'Brien is the only named executive officer who has an employment agreement with KAR Holdings or one of its subsidiaries.

A description of Mr. O'Brien's employment agreement can be found in the section entitled "Employment Agreements with Named Executive Officers."

On September 12, 2008, Curtis Phillips entered into a Severance, Release and Waiver Agreement with AFC. The terms of such agreement, including the amounts payable to Mr. Phillips thereunder, were the result of an arm's-length negotiation between Mr. Phillips and the Company. A description of Mr. Phillips' Severance, Release and Waiver Agreement can be found in the section entitled "Potential Payments Upon Termination or Change-in-Control."

### **KAR LLC Override Units**

*LLC Agreement.* Each of our named executive officers, other than Mr. Phillips, are also Management Members in KAR LLC. Through the issuance by KAR LLC of certain profit interests referred to as "Override Units," our named executive officers are incentivized to manage from the perspective of owners with an equity stake in the Company. Override Units may be issued as either Operating Units, which vest over a period of time, or Value Units, which vest upon the achievement of certain financial objectives for the benefit of the Investor Members. One-fourth of the Override Units are issued as Operating Units and the remaining three-fourths are issued as Value Units. The ratio of Operating Units to Value Units was determined by our Equity Sponsors and is intended to encourage the achievement of certain pre-established performance objectives.

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Subject to certain conditions, including possible forfeiture, the holders of Override Units have certain rights with respect to profits and losses of KAR LLC and distributions from KAR LLC. Operating Units may be forfeited on a pro rata basis if the executive ceases to be employed by KAR LLC or one of its subsidiaries prior to the fourth anniversary of the date of grant. All Value Units will participate in distributions if the Investment Multiple is at least 3.5. The Applicable Performance Percentage of the Value Units will participate in distributions if the Investment Multiple is greater than 1.5 but less than 3.5. The Applicable Performance Percentage means, expressed as a percentage, the quotient obtained by dividing (x) the excess, if positive, of the Investment Multiple over 1.5 by (y) 2. Notwithstanding the foregoing or anything to the contrary, in no event will any Value Units participate in distributions unless the Investor Members receive an internal rate of return, compounded annually on their investment in the Company of at least 12% and the Investment Multiple is greater than 1.5. Value Units not eligible to participate in distributions will be automatically forfeited. The Override Units are not convertible into common stock and are generally not transferable. The terms of the Override Units, including the vesting requirements and applicable performance standards, may be modified by KAR LLC as permitted in the LLC Agreement.

Our named executive officers hold profits interests in KAR LLC as follows:

<b>Name</b>	<b>Value Units</b>	<b>Operating Units</b>
Brian Clingen	131,054.76	43,684.92
Eric Loughmiller	38,436.00	12,812.00
James Hallett	131,054.76	43,684.92
Thomas O Brien	41,196.22	13,732.07
Rebecca Polak	10,484.73	3,494.91

Mr. Phillips is not a Management Member of KAR LLC and does not hold any Override Units in KAR LLC.

**Axle LLC Override Units**

*Axle LLC Agreement.* Prior to the date of the Transactions, Thomas O Brien had been a Management Member of Axle Holdings II, LLC ( Axle LLC ). Axle LLC is the former ultimate parent company of IAAI Salvage and is now a shareholder of KAR LLC. As such, Mr. O Brien holds profit interests in Axle LLC referred to as Override Units (the Axle Override Units ) which were granted prior to the completion of the Transactions. The Company recognizes compensation expense with respect to the Axle Override Units.

Similar to the Override Units in KAR LLC, the Axle Override Units consist of Operating Units, which vest over a period of time, and Value Units, which vest upon the achievement of certain financial objectives for the benefit of certain of the investors in Axle LLC referred to in the Axle LLC Agreement as the Kelso Members.

Subject to certain conditions, including possible forfeiture, the holders of Axle Override Units have certain rights with respect to profits and losses of Axle LLC and distributions from Axle LLC. The Axle Operating Units vested May 25, 2008. Value Units vest and become eligible to participate in distributions upon the occurrence of certain Exit Events only if, upon the occurrence of such an event, the Kelso Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%, and the Investment Multiple is greater than two (2). All Value Units will participate in distributions if the Investment Multiple is at least four (4). If the Investment Multiple is greater than two (2), but less than four (4), the Value Units will participate in the distribution on a ratable basis. Value Units not eligible to participate in distributions upon the occurrence of an Exit Event will be automatically forfeited.

For purposes of the Axle Override Units, an Exit Event includes, generally, any transaction which results in the sale, transfer, or other disposition by the Kelso Members to a third party of (a) all or substantially all of the limited liability company interests of Axle LLC beneficially owned by the Investor Members as of the date of

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such transaction; or (b) all of the assets of Axle LLC and its subsidiaries, taken as a whole. For purposes of the Axle LLC Agreement, the Investment Multiple is, generally, equal to the quotient of the fair market value of all distributions received by Kelso Investment Associates VII, L.P. and KEP VI, LLC (collectively, Kelso ) divided by Kelso s aggregate capital contributions to the Axle Holding II, LLC.

The Axle Override Units were not granted by the Committee and the Committee does not have authority to amend the terms of the Axle Override Units. Mr. O Brien holds 128,971 Value Units and 64,485 Operating Units in Axle LLC. The Committee has discretion to consider the Axle Override Units held by Mr. O Brien when determining Mr. O Brien s total compensation. In 2008, the Committee did not consider the value of the Axle Override Units as a significant factor in setting Mr. O Brien s compensation.

## **Rollover Stock Options**

In connection with the completion of the Transactions, certain stock options held by Mr. O Brien to acquire shares of stock of Axle Holdings were converted, pursuant to the terms of a Rollover Stock Option Agreement, into options to acquire shares of common stock of KAR Holdings or cash. Following their conversion, the stock options became exercisable for a specified number of shares of common stock of KAR Holdings or cash on substantially the same terms and conditions as they had been exercisable under the Axle Holdings, Inc. Stock Incentive Plan. For additional information concerning the terms on which the options are exercisable, see Potential Payments Upon Termination or Change-in-Control. The Committee has discretion to consider the value of the Rollover Stock Options held by Mr. O Brien when determining Mr. O Brien s total compensation. In 2008, the Committee did not consider the value of the Rollover Stock Options as a significant factor in setting Mr. O Brien s compensation.

## **Tax and Accounting Considerations**

*Employment Agreements.* Mr. O Brien is the only named executive officer that has an employment agreement with the Company or any of its subsidiaries. Section 280G of the Code ( Section 280G ) and related provisions impose substantial excise taxes under Section 4999 of the Internal Revenue Code of 1986 (the Code ) on so-called excess parachute payments payable to certain named executive officers upon a change in control and results in the loss of the compensation deduction for such payments by the Company.

The employment agreement with Mr. O Brien provides that a lump sum Gross-Up Payment will be made to Mr. O Brien in such amount as is necessary to ensure that the net amount retained by Mr. O Brien, after reduction for any excise taxes on the payments under his employment agreement, will be equal to the amount that Mr. O Brien would have received if no portion of the payments had been an excess parachute payment.

*KAR Holdings, Inc. Stock Incentive Plan.* In the event that any payment received under the plan upon the occurrence of an Exit Event would constitute an excess parachute payment, then, the payment will be reduced to the extent necessary to eliminate any such excess parachute payment. In such event, however, KAR Holdings will use good faith efforts to seek the approval of the shareholders in the manner provided for in Section 280G(b)(5) of the Code and the regulations thereunder with respect to such reduced payments, so that such payment would not be treated as a parachute payment for this purpose.

*Accounting for Stock-Based Compensation.* We account for stock-based compensation in accordance with the requirements of FASB Statement 123(R).

*Financial Restatements.* The Committee has not adopted a policy with respect to whether we will make retroactive adjustments to any cash- or equity-based incentive compensation paid to named executive officers (or others) where the payment was predicated upon the achievement of financial results that were subsequently the subject of a restatement. The Committee believes that this issue is best addressed when the need actually arises, when all of the facts regarding the restatement are known.

**Table of Contents****COMPENSATION COMMITTEE REPORT**

The Committee has reviewed the Compensation Discussion and Analysis and discussed that analysis with management. Based on its review and discussions with management, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K. This report is provided by the following persons, who comprise the Committee:

Church M. Moore (Chairman)

Sanjeev Mehra

Gregory P. Spivy

Brian T. Clingen

James P. Hallett

Thomas C. O'Brien

**SUMMARY COMPENSATION TABLE FOR 2008**

The table below contains information concerning the compensation of our (i) principal executive officer (the PEO), (ii) principal financial officer (the PFO), (iii) three most highly compensated executive officers (other than the PEO and PFO) who were serving as executive officers as of December 31, 2008, and (iv) one individual who was not serving as an executive officer as of December 31, 2008, but who would have been, solely as a result of severance payments received during 2008, among the three most highly compensated individuals other than the PEO and PFO.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(2)	Non-Equity	All Other Compensation (\$)	Total (\$)
					Incentive Plan Compensation (\$)		
Brian Clingen, Chairman and CEO (PEO)	2008	586,547		0.00	0.00	35,010(5)	621,557
	2007(1)	403,288		372,723	321,136(3)	21,228	1,118,375
Eric Loughmiller, Executive Vice President and CFO (PFO)	2008	357,029		0.00	0.00	33,087(5)	390,116
	2007(1)	242,890		109,313	146,956(3)	2,743	501,902
James Hallett, President and CEO of ADESA Auctions	2008	586,547		0.00	0.00	36,522(5)	623,069
	2007(1)	403,288	210,163(4)	372,723	358,823(3)	196,857	1,541,854
Thomas O'Brien, President and CEO of IAAI Salvage	2008	482,281		0.00	339,450(6)	29,522(5)	851,253
	2007(1)	328,405		1,723,947	337,753(3)	17,668	2,407,773
Rebecca Polak, Executive Vice President, General Counsel and Secretary	2008	289,495	75,000(7)	0.00	0.00	24,326(5)	388,821
Curtis Phillips, Former President and CEO of AFC(8)	2008	213,156		44,142	0.00	518,806(9)	776,104

(1) The amounts included in the Summary Compensation Table for 2007 reflect the following:

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Messrs. Clingen and Hallett began their employment with KAR Holdings on April 20, 2007.

Mr. Loughmiller began his employment with KAR Holdings on April 20, 2007. Prior to such time, Mr. Loughmiller was employed by IAAI Salvage. The amounts reported in the Summary



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Compensation Table do not include any compensation for periods prior to April 20, 2007, which is the date on which IAAI Salvage became a subsidiary of the Company.

Mr. O Brien was employed by IAAI Salvage for all of 2007. The amounts reported in the Summary Compensation Table do not include any compensation for periods prior to April 20, 2007, which is the date on which IAAI Salvage became a subsidiary of the Company.

- (2) No KAR LLC Override Units or stock options were awarded to the named executive officers during 2008. The amounts reported in this column represent the dollar amount recognized for financial statement recording purposes in the applicable fiscal year in accordance with SFAS 123(R) (disregarding any estimate of forfeitures relating to service-based vesting conditions). See Note 4 to our financial statements for 2008 and Note 4 to our financial statements for 2007, respectively, regarding the assumptions made in determining the dollar amount recognized for financial statement reporting purposes. These amounts consist of the costs recognized in connection with:

the stock options held by Mr. O Brien (see, Compensation Discussion and Analysis Rollover Stock Options );

the KAR LLC Override Units held by our named executive officers (see, Compensation Discussion and Analysis KAR LLC Override Units );

the Axle Override Units held by Mr. O Brien (see, Compensation Discussion and Analysis Axle Holdings II, LLC Override Units ); and

the stock options held by Mr. Phillips.

As discussed in Note 4 to our Annual Report on Form 10-K for the year ended December 31, 2008, the KAR LLC and Axle LLC operating units are accounted for as liability awards and are remeasured each reporting period at fair value. The Company reversed previously recognized compensation expense for these awards in 2008 as the fair value of the operating units declined. The Company presented no compensation expense in 2008 for the operating units in this table rather than presenting a negative amount for compensation.

- (3) The amounts payable under the KAR Holdings, Inc. annual incentive program and the Insurance Auto Auctions, Inc. 2007 Incentive Plan were pro-rated for the period May 1, 2007 through December 31, 2007.
- (4) The amount reported consists of a bonus paid to Mr. Hallett in recognition of the time and effort that he expended in assisting in structuring and facilitating the Transactions prior to his employment with the Company.
- (5) The amounts reported consist of an automobile allowance, 401(k) matching contributions and Company-paid group term life insurance premiums.

Automobile allowances provided to the officers: Mr. Clingen \$25,000; Mr. Loughmiller \$23,077; Mr. Hallett \$25,000; Mr. O Brien \$18,000; and Ms. Polak \$14,640.

401(k) matching contributions made to each officer in the amount of \$9,200.

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- (6) The amount reported equals the amount payable to Mr. O'Brien under the Insurance Auto Auctions, Inc. 2008 Incentive Plan.
- (7) The amount reported consists of a retention award granted to Ms. Polak in connection with the closing of the Transactions. The amount of the retention award was equal to the product of the number one (1) multiplied by Ms. Polak's base salary as of December 31, 2006 (\$150,000). The award was paid in equal \$75,000 installments on or about (i) the closing date of the Transactions (April 20, 2007) and (ii) the one year anniversary of the closing date of the Transactions (April 20, 2008), subject to Ms. Polak's continued employment on each such date.
- (8) Mr. Phillips resigned from AFC effective September 12, 2008. Mr. Phillips is included in the Summary Compensation Table because, solely as a result of the severance payments that he actually received during 2008 (as described in footnote 9, below), he was among the three most highly compensated executive officers for 2008 other than the PEO and the PFO.

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- (9) The amounts reported include an automobile allowance of \$9,515, 401(k) matching contributions of \$9,200, and Company-paid group term life insurance premiums. The amount also includes \$499,231 related to payments under the Severance, Release and Waiver Agreement entered into by Mr. Phillips and AFC on September 12, 2008. The amounts payable to Mr. Phillips under the Severance, Release and Waiver Agreement were paid in a lump sum (see, Potential Payments Upon Termination or Change-in-Control Severance, Release and Waiver Agreement ). The \$499,231 consists of (i) eighteen (18) months of base salary totaling \$463,500, (ii) \$9,863 for COBRA coverage, (iii) \$24,227 for earned but unused vacation days as of the date of his resignation, and (iv) \$1,641 of simple interest on the return of Mr. Phillips investment in KAR LLC.

**GRANTS OF PLAN-BASED AWARDS FOR 2008**

The following table summarizes grants of plan-based awards made to the named executive officers during 2008 under the KAR Holdings, Inc. Annual Incentive Program and the Insurance Auto Auctions, Inc. 2008 Incentive Plan, as applicable.

In 2008, the Committee exercised its discretion and did not make any awards to our named executive officers under the Stock Incentive Plan. Accordingly, the columns relating to grants of equity-based awards have been omitted and the Grants of Plan-Based Awards Table describes only the non-equity incentive awards made to the named executive officers under the KAR Holdings, Inc. annual incentive program and the Insurance Auto Auctions, Inc. 2008 Incentive Plan.

In addition, as indicated in the Summary Compensation Table, no amounts were paid to the named executive officers under the KAR Holdings, Inc. annual incentive program during 2008 as the Company did not achieve the minimum performance criteria necessary for the grant of an award (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs ). However, under the Insurance Auto Auctions, Inc. 2008 Incentive Plan, Mr. O'Brien received an award of \$339,450 as a result of Insurance Auto Auctions, Inc. achieving certain performance objectives.

Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)		
	Threshold	Target	Maximum
(a)	(\$) (c)	(\$) (d)	(\$) (e)
Brian Clingen	192,481	592,250	769,925
Eric Loughmiller	90,125	270,375	360,500
James Hallett	192,481	592,250	769,925
Thomas O'Brien	409,939	482,281	771,650
Rebecca Polak	77,250	231,750	309,000
Curtis Phillips	77,250	231,750	309,000

- (1) Columns (c), (d) and (e) include the potential awards for performance at the threshold, target, and maximum ( superior ) levels, respectively, under the KAR Holdings, Inc. annual incentive program and the Insurance Auto Auctions, Inc. 2008 Incentive Plan, as applicable. See, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs for further information on the terms of the KAR Holdings, Inc. Annual Incentive Program and the Insurance Auto Auctions, Inc. 2008 Incentive Plan.

Additional information concerning (i) the KAR Holdings, Inc. Annual Incentive Program, the Insurance Auto Auctions 2008 Incentive Plan, and the performance targets under each plan; and (ii) the KAR Holdings, Inc. Stock Incentive Plan may be found in the sections entitled Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs and - Long-Term Equity Incentive Programs respectively. For additional information concerning the KAR LLC Override Units, Axle LLC Override Units, and the Rollover Stock Options see the sections entitled Elements Used to Achieve Compensation Philosophy and Objectives KAR LLC Override Units, -Axle LLC Override Units, and -Rollover Stock Options respectively.

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**Table of Contents****EMPLOYMENT AGREEMENTS WITH NAMED EXECUTIVE OFFICERS**

Mr. O'Brien, who has an employment agreement with IAAI Salvage, is currently the only named executive officer who has an employment agreement with KAR Holdings or one of its subsidiaries. Among other things, the employment agreement sets forth Mr. O'Brien's base pay, performance incentives, benefits, and indemnification rights. Further, the employment agreement provides that Mr. O'Brien is an at-will employee and therefore either he or IAAI Salvage may terminate his employment at any time and for any reason, with or without cause. Specifically, Mr. O'Brien's employment agreement provides for the following severance and change in control payments:

*Termination Due to Mr. O'Brien's Death or Disability.* If Mr. O'Brien's employment is terminated as a result of his death or disability, IAAI Salvage will be obligated to pay him (or his legal representatives) an amount equal to the sum of (i) any earned but unpaid base salary; (ii) his accrued but unpaid vacation earned through the date of termination; (iii) the greater of (I) the product of (x) any incentive compensation paid to or deferred by Mr. O'Brien for the fiscal year preceding the fiscal year in which the date of termination occurs, multiplied by (y) a fraction, the numerator of which is the number of days in the current fiscal year through the date of termination, and the denominator of which is 365 and (II) the average of the past three (3) years' annual bonuses, provided, however, that Mr. O'Brien's target bonus shall instead be used in this (II) if he is terminated within his first eight (8) fiscal quarters with IAAI Salvage (such greater amount being the Highest Annual Bonus); and (iii) any compensation previously deferred by Mr. O'Brien. The aggregate of the foregoing is referred to as the Accrued Obligations. Mr. O'Brien's target bonus is 100% of his annual base salary.

For purposes of Mr. O'Brien's employment agreement, disability is defined to mean with respect to Mr. O'Brien, a substantial inability, by reason of physical or mental illness or accident, to perform his regular responsibilities under the employment agreement indefinitely or for a period of one hundred eighty (180) days. Long-term disability insurance is a company-paid benefit for all employees and is only paid after six months on short-term disability. The benefit is 66.67% of base pay capped at \$10,000 per month.

*Voluntary Termination by Mr. O'Brien or Termination for Cause by IAAI Salvage.* If Mr. O'Brien voluntarily terminates his employment or if IAAI Salvage terminates his employment for cause, IAAI Salvage's sole obligation will be to pay Mr. O'Brien a lump sum amount equal to (i) any earned but unpaid base salary and (ii) his accrued but unpaid vacation earned through the date of termination. For purposes of the employment agreement, cause means Mr. O'Brien's (i) willful and continued failure to perform substantially his duties with IAAI Salvage or one of its affiliates (other than any such failure resulting from incapacity due to medically documented illness or injury) for a period of 30 days after a written demand for substantial performance is delivered to Mr. O'Brien by the board of directors, which specifically identifies the manner in which the board of directors believes that Mr. O'Brien has not substantially performed his duties or (ii) willful engaging in illegal conduct or misconduct which is injurious to IAAI Salvage.

*Termination for Other Reasons.* If Mr. O'Brien's employment is terminated by IAAI Salvage either prior to or more than two (2) years after a change in control, IAAI Salvage will be obligated to pay Mr. O'Brien an amount equal to the product of the number one multiplied by the sum of (i) Mr. O'Brien's base salary on the date of termination; plus (ii) Mr. O'Brien's average annual bonus received over the eight (8) fiscal quarters immediately preceding the fiscal quarter during which Mr. O'Brien's employment is terminated, without exceeding Mr. O'Brien's target bonus for the fiscal year during which Mr. O'Brien's employment is terminated, provided, however, that Mr. O'Brien's target bonus shall instead be used in this (ii) if he is terminated within his first eight (8) fiscal quarters with IAAI Salvage; plus (iii) Mr. O'Brien's auto allowance for IAAI Salvage's fiscal year during which Mr. O'Brien's employment is terminated. In addition, IAAI Salvage must provide, at IAAI Salvage's expense, group health plan coverage for Mr. O'Brien and his qualified beneficiaries until the earlier of the date that Mr. O'Brien begins any subsequent full-time employment for another employer for pay and the date that is one (1) year after Mr. O'Brien's termination of employment for any reason.

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*Termination Within Two (2) Years Following A Change in Control.* If Mr. O'Brien's employment with IAAI Salvage is terminated by IAAI Salvage without cause or by reason of Mr. O'Brien's involuntary termination (as defined below), in either case within two (2) years after the effective date of a change in control, IAAI Salvage shall pay Mr. O'Brien (i) an amount equal to 150% of the sum of (I) Mr. O'Brien's then-current annual base salary and (II) his Highest Annual Bonus (as defined above) plus (ii) the amount of any Accrued Obligations (as defined above). In addition, IAAI Salvage must provide, at its expense, group health plan coverage for Mr. O'Brien and his qualified beneficiaries until the earlier of the date that Mr. O'Brien begins any subsequent full-time employment for another employer for pay and the date that is 18 months after Mr. O'Brien's termination of employment for any reason.

For purposes of the foregoing, an involuntary termination means, generally, Mr. O'Brien's voluntary termination of employment following (i) a material diminution in Mr. O'Brien's position or level of compensation (base salary and target incentive compensation) or (ii) a material change in Mr. O'Brien's place of employment, which is more than seventy-five (75) miles from Mr. O'Brien's then-current place of employment, provided that such change or diminution, as applicable, is effected without Mr. O'Brien's written concurrence.

*Stock Options after a Change in Control.* All of Mr. O'Brien's outstanding options to purchase KAR Holdings stock shall accelerate and become fully exercisable immediately upon the occurrence of a change in control.

For purposes of Mr. O'Brien's employment agreement, a change of control means, generally: (i) the acquisition by any individual, entity, or group of beneficial ownership of 50% or more of the voting power of the then outstanding voting securities of IAAI Salvage entitled to vote generally in the election of directors; or (ii) individuals who, as of the date of the employment agreement, constitute the board of directors cease for any reason to constitute at least a majority of the board of directors; or (iii) consummation of a reorganization, merger, or consolidation or sale or other disposition of all or substantially all of the assets of IAAI Salvage unless, following such merger, consolidation or disposition, (y) all or substantially all of the individuals and entities who were the beneficial owners of the outstanding voting securities of IAAI Salvage immediately prior to such merger, consolidation, or disposition beneficially own, directly or indirectly, more than 50% of the voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such merger, consolidation, or disposition in substantially the same proportions as their ownership, immediately prior to such merger, consolidation, or disposition and (z) at least a majority of the members of the board of directors of the corporation resulting from such merger, consolidation, or disposition were members of the board of directors at the time of the execution of the initial agreement, or of the action of the board of directors, providing for such merger, consolidation or disposition; or (iv) approval by the shareholders of IAAI Salvage of a complete liquidation or dissolution of IAAI Salvage.

*Excise Tax Gross-Up.* Mr. O'Brien's employment agreement provides that if any payment or benefit due and payable under the agreement causes any excise tax imposed by Section 4999 of the Code to become due and payable by Mr. O'Brien, then IAAI Salvage will pay to Mr. O'Brien a gross-up payment so that he is in the same after-tax position as he would have been had the excise tax not been payable.

*Requirements With Respect to Non-Competition and Non-Solicitation.* The employment agreement provides that during an 18 month period following his termination of employment for any reason, Mr. O'Brien may not become employed by or engage in any activity or other business substantially similar to or competitive with the business of IAAI Salvage within the continental United States, Canada, and Mexico. In addition, Mr. O'Brien may not solicit, aid, or induce (i) any employee of IAAI Salvage to leave IAAI Salvage or (ii) any customer, client, vendor, lender, supplier, or sales representative of IAAI Salvage or similar persons engaged in business with IAAI Salvage to discontinue such relationship or reduce the amount of business done with IAAI Salvage.

**Table of Contents****OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END FOR 2008**

Name	Number of Securities Underlying Unexercised Options		Option Awards		Option Expiration Date
	(#)	(#)	Number of Securities Underlying Unexercised Options	Option Exercise Price	
(a)	(b)	(c)	(e)	(f)	
Brian Clingen	10,921.23(1)	32,763.69(1)	100	06/15/2017	
		131,054.76(2)	100	06/15/2017	
Eric Loughmiller	3,203.00(1)	9,609.00(1)	100	06/15/2017	
		38,436(2)	100	06/15/2017	
James Hallett	10,921.23(1)	32,763.69(1)	100	06/15/2017	
		131,054.76(2)	100	06/15/2017	
Thomas O Brien	3,433.02(1)	10,299.05(1)	100	06/15/2017	
		41,196.22(2)	100	06/15/2017	
	24,905.60(3)		31.40	11/14/2013	
	26,467.20(4)		35.15	12/16/2012	
	64,485(5)		25.62	05/25/2015	
		128,971(6)	25.62	05/25/2015	
Rebecca Polak	873.73(1)	2,621.18(1)	100	06/15/2017	
		10,484.73(2)	100	06/15/2017	
Curtis Phillips	1,978.38(7)	2,374.05(8)	100	08/20/2017	

- (1) These Operating Units in KAR LLC were granted on June 15, 2007 and vest ratably on each of the first four (4) anniversaries of the date of grant (see, Compensation Discussion and Analysis KAR LLC Override Units ).
- (2) These Value Units in KAR LLC were granted on June 15, 2007 and vest upon the occurrence of an Exit Event, provided that certain performance criteria are achieved (see, Compensation Discussion and Analysis KAR LLC Override Units ).
- (3) These stock options were granted on November 14, 2003 pursuant to the Insurance Auto Auctions, Inc. 2003 Stock Option Plan. Upon the occurrence of the Transactions, these options were converted into options to acquire shares of common stock of KAR Holdings or cash pursuant to the terms of a Rollover Stock Option Agreement. These options were fully vested at the time of the Transactions.
- (4) These stock options were granted on December 16, 2002 pursuant to the Insurance Auto Auctions, Inc. 1991 Stock Option Plan prior to the date of the Transactions. These options were converted into options to acquire shares of common stock of KAR Holdings or cash pursuant to the terms of a Rollover Stock Option Agreement. These options were fully vested at the time of the Transactions.
- (5) These Operating Units in Axle LLC were granted on May 25, 2005 and became fully vested on May 25, 2008 (see, Compensation Discussion and Analysis Axle LLC Override Units ).
- (6) These Value Units in Axle LLC were granted on May 25, 2005 and vest upon the occurrence of an Exit Event, provided that certain performance criteria are achieved (see, Compensation Discussion and Analysis Axle LLC Override Units ).

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- (7) On September 12, 2008, Mr. Phillips entered into a Severance, Release and Waiver Agreement with AFC. Pursuant to that agreement, Mr. Phillips retained 1,978.38 of the 7,913.50 service options which were granted to him on August 20, 2007 (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Long-Term Equity Incentive Programs ). The service options which were retained by Mr. Phillips are fully vested. Mr. Phillips forfeited the remainder of the service options, effective as of the date of his resignation.

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- (8) On September 12, 2008, Mr. Phillips entered into a Severance, Release and Waiver Agreement with AFC. Pursuant to that agreement, Mr. Phillips retained 2,374.05 of the 23,740.50 exit options which were granted to Mr. Phillips on August 20, 2007. The exit options which were retained by Mr. Phillips vest upon the occurrence of an Exit Event and the achievement of certain performance criteria (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Long-Term Equity Incentive Programs ). Mr. Phillips forfeited the remainder of the exit options, effective as of the date of his resignation.

**Potential Payments Upon Termination Or Change-In-Control**

The following is a discussion of payments and benefits that would be due to our named executive officers upon certain types of employment terminations or the occurrence of a change in control of the Company.

**The KAR Holdings, Inc. Annual Incentive Program.** The KAR Holdings, Inc. annual incentive program provides for the following payments upon the termination of employment scenarios set forth below. Each of the named executive officers participates in the KAR Holdings, Inc. annual incentive program.

*Death, Disability, Retirement.* In the event that the employment of any named executive officer is terminated as a result of the named executive officer's death, disability, or retirement, such named executive officer will be entitled to receive a pro-rated amount of any incentive award which they otherwise would have been entitled to receive. Disability means, for this purpose, the inability of the named executive officer to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment for a certain period of time.

*Voluntary Termination or Termination by the Company.* If the employment of any named executive officer is terminated for cause or the named executive officer voluntarily terminates his employment with KAR Holdings or ADESA Auctions, such named executive officer will forfeit all rights to any incentive award payment under the plan.

**The Insurance Auto Auctions, Inc. 2008 Incentive Plan.** The Insurance Auto Auctions, Inc. 2008 Incentive Plan provides for the following payments upon the termination of employment scenarios set forth below. Mr. O'Brien is the only named executive officer who participates in the Insurance Auto Auctions, Inc. 2008 Incentive Plan.

*Death, Disability, Retirement.* In the event that Mr. O'Brien's employment is terminated as a result of his death, disability, or retirement, he will be entitled to receive a pro-rated amount of any incentive award which he otherwise would have been entitled to receive.

*Voluntary Termination or Termination by the Company.* If Mr. O'Brien's employment is terminated for cause or if he voluntarily terminates his employment with IAAI Salvage, he will forfeit all rights to any incentive award payment under the plan. For purposes of the foregoing, IAAI Salvage has the sole right to determine what constitutes cause.

**The KAR Holdings, Inc. Stock Incentive Plan.** The Stock Incentive Plan provides for the following treatment of stock options issued pursuant to the plan upon the termination of employment scenarios or a change in control, as set forth below. Each of the named executive officers participates in the Stock Incentive Plan.

*Death, Disability, Retirement.* In the event that any named executive officer's employment with KAR Holdings or any subsidiary of KAR Holdings is terminated by reason of the named executive officer's death, disability, or retirement, then all options held by the named executive officer that are exercisable as of the date of such termination may be exercised by the named executive officer or the named executive officer's beneficiary.



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until the earlier of (i) one (1) year following the named executive officer's termination of employment or (ii) the normal expiration date of the options. All options that are not exercisable on the date of such termination of employment shall terminate and be canceled immediately upon such termination of employment.

*Voluntary Termination or Termination by the Company.* In the event that any named executive officer's employment with KAR Holdings or any subsidiary of KAR Holdings is terminated for cause (as defined below) or due to the named executive officer's voluntary resignation without good reason (as defined below), all options then held by the named executive officer, whether or not then exercisable, shall terminate and be canceled immediately upon such termination of employment.

For this purpose, "cause" means, generally, (i) the refusal or neglect of the named executive officer to perform substantially his employment-related duties, (ii) the named executive officer's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty, (iii) the named executive officer's indictment for, conviction of, or entering a plea of guilty or nolo contendere to a crime constituting a felony or his willful violation of any applicable law, (iv) the named executive officer's failure to reasonably cooperate, following a request to do so by KAR Holdings or any of its subsidiaries, in any internal or governmental investigation or (v) the named executive officer's material breach of any written covenant or agreement not to disclose any information pertaining to KAR Holdings or any of its subsidiaries or not to compete or interfere with KAR Holdings or any of its subsidiaries.

*Termination Without Cause or For Good Reason.* In the event that any named executive officer's employment with KAR Holdings or any subsidiary of KAR Holdings is terminated by KAR Holdings or any of its subsidiaries without cause (as defined above) or by the named executive officer for good reason (as defined below), any options then held by the named executive officer which are exercisable on the date of termination shall be exercisable until the earlier of (i) the 90th day following the named executive officer's termination of employment or (ii) the normal expiration date of the options. Any options held by the named executive officer that are not then exercisable shall terminate and be canceled immediately upon such termination of employment.

Unless specified otherwise in a named executive officer's employment agreement, the termination of a named executive officer's employment with KAR Holdings or any of its subsidiaries shall be deemed to be for good reason if such named executive officer voluntarily terminates his or her employment with the Company or any subsidiary of the Company as a result of (i) the Company or any subsidiary of the Company significantly reducing the named executive officer's current salary without the named executive officer's prior written consent, or (ii) the Company or any subsidiary of the Company taking any action that would substantially diminish the aggregate value of the benefits provided to the named executive officer under the Company's or such subsidiary's accident, disability, life insurance, or any other employee benefit plans in which the named executive officer participates.

*Upon the Occurrence of an Exit Event.* Immediately upon the occurrence of an Exit Event (as defined in Compensation Discussion and Analysis - Elements Used to Achieve Compensation Philosophy and Objectives - Long Term Equity Incentive Programs), each outstanding service option and each outstanding exit option (according to the schedule which follows) will be canceled in exchange for a cash payment in an amount equal to the excess of the Exit Event Price (as defined in the plan) over the Option Price (as defined in the plan).

In the event that an Exit Event has occurred, exit options become exercisable in accordance with the following schedule:

None of the exit options will become exercisable unless, the Investor Members receive an internal rate of return on their initial investment in the Company of at least 12% compounded annually and the Investment Multiple, as defined in the Stock Incentive Plan, is greater than 1.5.

A pro-rata portion of the exit options will become exercisable if the Investor Members receive an internal rate of return on their initial investment in the Company of at least 12% compounded annually and the Investment Multiple is greater than 1.5 but less than 3.5.

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All of the exit options will become exercisable if the Investor Members receive an internal rate of return on their initial investment in the Company of at least 12% compounded annually and the Investment Multiple is at least 3.5.

All exit options which do not become exercisable at the time of an Exit Event will be canceled.

*Reduction for Excess Parachute Payments.* In the event that any payment received upon the occurrence of an Exit Event under the KAR Holdings, Inc. Stock Incentive Plan would constitute an excess parachute payment as defined in Section 280G of the Code, the payment shall be reduced to an amount necessary to avoid the imposition of Section 280G of the Code. In such event, KAR Holdings will use good faith efforts to seek the approval of its shareholders in the manner provided for under Section 280G(b)(5) of the Code and the regulations thereunder with respect to such payment so that it will not be treated as an excess parachute payment for this purpose.

**Rollover Stock Options.** Pursuant to the terms of a Rollover Stock Option Agreement entered into in connection with the completion of the Transactions, the options held by Mr. O'Brien to acquire shares of Axle Holdings, Inc. were converted into options to acquire shares of KAR Holdings or cash. Pursuant to the Rollover Stock Option Agreement, the options are exercisable according to substantially the same terms and conditions, including with respect to vesting, as were applicable to the options under the Axle Holdings, Inc. Stock Incentive Plan. Further, pursuant to the terms of the KAR Holdings, Inc. Shareholders Agreement, the Company has a right to repurchase the options held by Mr. O'Brien at the fair market value of such options following the termination of his employment with the Company or any subsidiary of the Company.

*Death, Disability or Retirement.* Subject to the Company's repurchase right, in the event that Mr. O'Brien's employment with the Company or any subsidiary of the Company is terminated because of his death, disability or retirement, any options granted to him which are otherwise exercisable may be exercised until the earlier of (i) one (1) year following the termination of his employment or (ii) the expiration of the term of the options. All options that are not exercised in accordance with the previous sentence shall terminate and be canceled upon the applicable date.

*Voluntary Termination or For Cause Termination.* Subject to the Company's repurchase right, in the event that Mr. O'Brien's employment with the Company or any subsidiary of the Company is terminated for cause or due to his voluntary resignation, all options granted to him shall be forfeited, regardless of whether such options are then exercisable.

*Termination Without Cause or For Good Reason.* Subject to the Company's repurchase right, in the event that Mr. O'Brien's employment with the Company or any subsidiary of the Company is terminated by the Company without cause or by him for good reason, any options granted to him which are otherwise exercisable, may be exercised until the earlier of (i) 60 days following the termination of his employment or (ii) the expiration of the term of the options. All options that are not exercised in accordance with the previous sentence shall terminate and be canceled upon the applicable date.

*Upon the Occurrence of an Exit Event.* Immediately upon the occurrence of an Exit Event (as defined in Elements Used to Achieve Compensation Philosophy and Objectives - Long Term Equity Incentives Programs) all service based options (whether or not then exercisable) and all performance-based options that, prior to or in connection with such Exit Event, have become exercisable in connection with the attainment of performance objectives, shall be canceled in exchange for a cash payment by the Company. All options that do not vest in accordance with the previous sentence shall terminate and be canceled immediately following the Exit Event.

*Reduction for Excess Parachute Payments.* In the event that any payment received upon the occurrence of an Exit Event under the Rollover Stock Option Agreement would constitute an excess parachute payment as

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defined in Section 280G of the Code, the payment shall be reduced to an amount necessary to avoid the imposition of Section 280G of the Code. In such event, KAR Holdings will use good faith efforts to seek the approval of its shareholders in the manner provided for under Section 280G(b)(5) of the Code and the regulations thereunder with respect to such payment so that it will not be treated as an excess parachute payment for this purpose.

**LLC Agreement of KAR LLC**

The LLC Agreement provides for the following payments to Messrs. Clingen, Loughmiller, Hallett, and O'Brien, and Ms. Polak, who are Management Members of KAR LLC, upon the termination of employment scenarios or a change in control, as set forth below:

*Termination for Cause.* In the event that a Management Member's employment is terminated for cause, all KAR Override Units issued to such Management Member will immediately be forfeited. Cause means, generally, (i) the refusal or neglect of the Management Member to perform substantially his or her employment-related duties, (ii) the Management Member's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty, (iii) the Management Member's indictment for, conviction of, or entering a plea of guilty or nolo contendere to a crime constituting a felony or his or her willful violation of any applicable law, (iv) the Management Member's failure to reasonably cooperate, following a request to do so by the Company, in any internal or governmental investigation, or (v) the Management Member's material breach of any written covenant or agreement not to disclose any information pertaining to the Company or not to compete or interfere with the Company.

*Termination for Any Reason Other Than Cause.* Provided that an Exit Event (as defined in Elements Used to Achieve Compensation Philosophy and Objectives Long Term Equity Incentives Programs) has not occurred and that a definitive agreement is not in effect regarding a transaction which, if consummated, would result in an Exit Event, then all of the Value Units and a percentage of the Operating Units shall be forfeited according to the following schedule:

<b>If the Termination Occurs</b>	<b>Percentage of Operating Units Forfeited</b>
Before the first anniversary of the grant of such Operating Units	100%
On or after the first anniversary, but before the second anniversary, of the grant of such Operating Units	75%
On or after the second anniversary, but before the third anniversary, of the grant of such Operating Units	50%
On or after the third anniversary, but before the fourth anniversary, of the grant of such Operating Units	25%
On or after the fourth anniversary of the grant of such Operating Units	0%

*Upon the Occurrence of an Exit Event.* Upon the occurrence of an Exit Event, all Operating Units that are held by the Management Members shall vest and Value Units held by such Management Members shall vest and become eligible to participate in distributions in accordance with the following schedule:

No Value Units will vest and participate in distributions unless, upon the occurrence of the Exit Event, the Investor Members receive an internal rate of return, compounded annually, on their investment in KAR LLC of at least 12%, and the Investment Multiple is greater than 1.5.

A pro-rata portion of the Value Units will vest and participate in distributions if the Investment Multiple is greater than 1.5 but less than 3.5.

All Value Units will vest and participate in distributions if the Investment Multiple is at least 3.5 and the Investor Members receive an internal rate of return, compounded annually, on their investment in KAR LLC of at least 12%.

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All Value Units that do not vest and become eligible to participate in distributions as provided above will be forfeited and canceled immediately following the Exit Event.

*Requirements With Respect to Non-Competition and Non-Solicitation.* The LLC Agreement provides that, until the later of (i) the date on which the Management Member no longer retains any equity interest in the Company, and (ii) the termination of any severance payable pursuant to any termination or severance agreement, if any, entered into between the Management Member and the Company or any subsidiary of the Company, the Management Member may not become associated with certain entities that are actively engaged, during the 12 months preceding the date such Management Member ceases to hold any equity interest in the Company, in any business that is competitive with the business (or any proposed business) of the Company or any of its subsidiaries in any geographic area in which the Company or any of its subsidiaries does business.

The LLC Agreement also provides that no Management Member shall directly or indirectly induce any employee of the Company or any of its subsidiaries to (i) terminate employment with such entity or (ii) otherwise interfere with the employment relationship of the Company or any of its subsidiaries with any person who is or was employed by the Company or such subsidiary. In addition, the LLC Agreement prohibits any Management Member from soliciting or otherwise attempting to establish for himself or herself any business relationship with any person which is, or which was any time during the 12-month period preceding the date such Management Member ceases to hold any equity interest in the Company, a customer or client of or a distributor to the Company or any of its subsidiaries.

**Axle LLC Agreement**

The Axle LLC Agreement provides for the following payments to Mr. O'Brien, who is the only named executive officer that is a Management Member of Axle LLC, upon the termination of employment scenarios or a change in control, as set forth below.

*Termination for Cause.* In the event that Mr. O'Brien's employment is terminated for cause, all Override Units issued to Mr. O'Brien, including vested Override Units, shall be forfeited. Cause includes (i) the refusal or neglect of Mr. O'Brien to perform substantially his employment-related duties, (ii) Mr. O'Brien's personal dishonesty, incompetence, willful misconduct, or breach of fiduciary duty, (iii) Mr. O'Brien's indictment for, conviction of, or entering a plea of guilty or nolo contendere to a crime constituting a felony or his willful violation of any applicable law, (iv) Mr. O'Brien's failure to reasonably cooperate, following a request to do so by the Company, in any internal or governmental investigation, or (v) Mr. O'Brien's material breach of any written covenant or agreement not to disclose any information pertaining to the Company or not to compete or interfere with the Company.

*Termination for Any Reason Other Than Cause.* All of Mr. O'Brien's Operating Units are vested and, as a result, may only be forfeited upon a termination of his employment for Cause or upon the occurrence of an Exit Event as described herein.

*Upon the Occurrence of an Exit Event.* Upon the occurrence of an Exit Event, all vested Operating Units held by Mr. O'Brien become eligible to participate in distributions. All Value Units held by Mr. O'Brien shall vest and become eligible to participate in distributions in accordance with the following schedule:

No Value Units will vest unless, upon the occurrence of the Exit Event, the Investor Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%, and the Investment Multiple is greater than two (2).

A pro-rata portion of the Value Units will vest and participate in distributions if the Investment Multiple is greater than two (2) but less than four (4), and the Investor Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%.

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All Value Units will vest and participate in distributions if the Investment Multiple is at least four (4), and the Investor Members receive an internal rate of return, compounded annually, on their investment in Axle LLC of at least 12%.

All Value Units that do not vest and become eligible to participate in distributions as provided above will be forfeited and canceled immediately following the Exit Event.

**Potential Payments Upon Termination or Change in Control Tables**

The amounts in the tables below assume that the termination or change in control, as applicable, was effective as of December 31, 2008, the last business day of the prior fiscal year, and are merely illustrative of the impact of a hypothetical termination of employment or change in control. The amounts that would actually be paid upon a termination of employment can only be determined at the time of such termination, based on the facts and circumstances then prevailing.

**Brian Clingen**

Based upon the fact that the Company did not achieve the minimum criteria required for the payment of an annual cash incentive award (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs ), if there had been a change in control or Mr. Clingen's employment had been terminated on December 31, 2008 for any reason other than his death or disability, as described below, Mr. Clingen would not have been entitled to receive any payments or other benefits from the Company.

	Severance	Non-Equity Incentive Pay	Rollover Stock Options	Axle LLC Override Units		KAR LLC Override Units		Gross-up of Excise Taxes	Other-Life Insurance (1)	Total
Death									\$ 500,000	\$ 500,000
Disability(2)										

(1) Under the Group Term Life Policy, Mr. Clingen's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding \$500,000.

(2) Long-term disability is a Company paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at \$10,000 per month.

**Eric Loughmiller**

Based upon the fact that the Company did not achieve the minimum criteria required for the payment of an annual cash incentive award (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs ), if there had been a change in control or Mr. Loughmiller's employment had been terminated on December 31, 2008 for any reason other than his death or disability, as described below, Mr. Loughmiller would not have been entitled to receive any payments or other benefits from the Company.

	Severance	Non-Equity Incentive Pay	Rollover Stock Options	Axle LLC Override Units		KAR LLC Override Units		Gross-up of Excise Taxes	Other-Life Insurance (1)	Total
Death									\$ 500,000	\$ 500,000
Disability(2)										

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- (1) Under the Group Term Life Policy, Mr. Loughmiller's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding \$500,000.
- (2) Long-term disability is a Company paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at \$10,000 per month.

**James Hallett**

Based upon the fact that the Company did not achieve the minimum criteria required for the payment of an annual cash incentive award (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs ), if there had been a change in control or Mr. Hallett's employment had been terminated on December 31, 2008 for any reason other than his death or disability, as described below, Mr. Hallett would not have been entitled to receive any payments or other benefits from the Company.

	Severance	Non-Equity Incentive Pay	Rollover Stock Options	Axle LLC Override Units		KAR LLC Override Units		Gross-up of Excise Taxes	Other-Life Insurance (1)	Total
Death									\$ 500,000	\$ 500,000
Disability(2)										

- (1) Under the Group Term Life Policy, Mr. Hallett's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding \$500,000.
- (2) Long-term disability is a Company paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at \$10,000 per month.

**Thomas O Brien**

Assuming a change in control occurred or termination for the reasons stated below, Mr. O Brien would have received the following payments and benefits if there had been a change in control or his employment had been terminated on December 31, 2008. Such amounts were positively impacted as a result Insurance Auto Auctions, Inc. achieving certain performance objectives entitling Mr. O Brien to receive a cash incentive award under the Insurance Auto Auctions, Inc. 2008 Incentive Plan (see, Compensation Discussion and Analysis Elements Used to Achieve Compensation Philosophy and Objectives Annual Cash Incentive Programs ).

	Severance (1)	Non-Equity Incentive Pay (2)	Rollover Stock Options (3)	Axle LLC Override Units (4)		KAR LLC Override Units		Gross-up of Excise Taxes	Insurance (5)(6)	Total
Death		\$ 339,450	\$ 3,424,922	\$ 1,184,783					\$ 500,000	\$ 5,449,155
Disability		\$ 339,450	\$ 3,424,922	\$ 1,184,783						\$ 4,949,155
Voluntary Termination or for Cause										
Termination w/o Cause or for Good Reason	\$ 916,482		\$ 3,424,922	\$ 1,184,783						\$ 5,526,187
After Change in control	\$ 1,497,727	\$ 339,450	\$ 3,424,922	\$ 1,184,783			\$ 1,260,559			\$ 7,707,435

Termination w/o Cause  
or for Good Reason

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- (1) Based upon Mr. O'Brien's annual salary as of December 31, 2008.
- (2) The amount payable under the Insurance Auto Auctions, Inc. 2008 Incentive Plan.
- (3) For a description of the Rollover Stock Options, see footnote 3 and footnote 4 to the Outstanding Equity Awards Table.
- (4) These amounts represent a profits interest in Axle LLC that was granted prior to the Transactions. The actual value of the Value Units cannot be determined until such time as an Exit Event occurs with respect to Axle LLC and all surrounding facts and circumstances are known. These amounts represent an estimate of the value of the Value Units had an Exit Event occurred on the last business day of the year. For purposes of this estimate, we have made certain assumptions based upon the performance of Axle LLC in 2008. Specifically, we have assumed:

an Investment Multiple of less than 2.00;

an estimated share price of \$43.99 per share, and

an internal rate on the Kelso Members' investment in Axle LLC of less than 12%.

See, Compensation Discussion and Analysis - Axle Holdings II LLC Override Units.

- (5) Under the Group Term Life Policy, Mr. O'Brien's designated beneficiary is entitled to a payment in an amount equal to two times his annual salary, not exceeding \$500,000.
- (6) Long-term disability is a Company paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at \$10,000 per month.

**Rebecca Polak**

Based upon the fact that the Company did not achieve the minimum criteria required for the payment of an annual cash incentive award (see, Compensation Discussion and Analysis - Elements Used to Achieve Compensation Philosophy and Objectives - Annual Cash Incentive Programs ), if there had been a change in control or Ms. Polak's employment had been terminated on December 31, 2008 for any reason other than her death or disability, as described below, Ms. Polak would not have been entitled to receive any payments or other benefits from the Company.

	Severance	Non-Equity Incentive Pay	Rollover Stock Options	Axle LLC Override Units	Value Units	KAR LLC Override Units	Value Units	Gross-up of Excise Taxes	Other-Life Insurance (1)	Total
Death									\$ 500,000	\$ 500,000
Disability(2)										

(1)



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Under the Group Term Life Policy, Ms. Polak's designated beneficiary is entitled to a payment in an amount equal to two times her annual salary, not exceeding \$500,000.

- (2) Long-term disability is a Company paid benefit for all employees and only paid after 6 months on short-term disability. The benefit is 66.67% of base pay capped at \$10,000 per month.

### **Curtis Phillips**

On September 12, 2008, Mr. Phillips entered into a Severance, Release and Waiver Agreement with AFC. The terms of the agreement were the result of an arm's-length negotiation between Mr. Phillips and AFC. The agreement, among other things, provided for a lump sum payment to Mr. Phillips in an amount equal to \$473,363, which consisted of eighteen (18) months of base salary, totaling \$463,500, and \$9,863 for the continuation of Mr. Phillips' health insurance benefits under COBRA for a period of 18 months. Mr. Phillips was also paid \$24,227 for all of his earned but unused vacation days as of the date of his resignation.

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Upon surrender of his 200 KAR LLC Class A Common Units, KAR LLC reimbursed Mr. Phillips \$20,000, which is equal to Mr. Phillips investment in KAR LLC plus an applied simple interest amount of \$1,641.23. Mr. Phillips was also permitted to retain 2,374.05 of the 23,740.50 exit options and 1,978.375 of the 7,913.50 service options which had been previously granted to Mr. Phillips under the KAR Holdings, Inc. Stock Incentive Plan. The exercise period for the options retained by Mr. Phillips was extended to the normal expiration date specified in the KAR Holdings, Inc. Stock Incentive Plan. All other exit options and service options held by Mr. Phillips were terminated and canceled upon the effective time of his resignation.

In exchange for the benefits received by Mr. Phillips under the agreement, Mr. Phillips agreed to not disparage, demean, or otherwise communicate any information which is damaging or potentially damaging to the business or reputation of AFC, the Company, or the subsidiaries, affiliated companies or employees of any of such entities. Mr. Phillips also agreed, for a period of 18 months following the date of his termination, either alone or in association with others, to not hire or employ or attempt to hire or employ any person who was an employee of AFC, the Company, or any of their affiliates within 24 months prior to the date of the agreement or to cause or encourage any person to leave the Company. Mr. Phillips also provided a full release of AFC, the Company, and their affiliates for any claims for compensatory, punitive, or any other damages whatsoever.

## **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee of the Board of Directors is comprised of Church M. Moore (Chairman), Sanjeev Mehra, Gregory P. Spivy, Brian Clingen, James Hallett, and Thomas O'Brien. Mr. Clingen is the Chairman and CEO of KAR Holdings, Mr. Hallett is the President and CEO of ADESA Auctions, and Mr. O'Brien is the President and CEO of IAAI Salvage. See Certain Relationships and Related Transactions, and Director Independence for a description of certain relationships between the Company and Messrs. Clingen, Hallett, and O'Brien.

**Table of Contents****SECURITY OWNERSHIP AND CERTAIN BENEFICIAL OWNERSHIP**

The following table sets forth certain information with respect to the beneficial ownership of KAR Holdings' equity securities as of May 31, 2009 of: (1) each person or entity who owns of record or beneficially 5% or more of any class of KAR Holdings' voting securities; (2) each of our named executive officers and directors; and (3) all of our directors and named executive officers as a group. Beneficial ownership is determined in accordance with the rules of SEC. To our knowledge, each shareholder will have sole voting and investment power with respect to the shares indicated as beneficially owned, unless otherwise indicated in a footnote to the following table. Unless otherwise indicated in a footnote, the business address of each person is our corporate address.

Name	Shares Beneficially Owned	
	Number of Shares of Common Stock(1)	Percentage of Class(2)
<b>Principal Shareholder:</b>		
KAR Holdings II, LLC(2)	10,685,366	100%
<b>KELSO GROUP:</b>		
Kelso Investment Associates VII, L.P.(3)(4)	4,532,324	42.4
KEP VI, LLC(3)(4)	4,532,324	42.4
Frank T. Nickell(3)(4)(5)	4,532,324	42.4
Thomas R. Wall, IV(3)(4)(5)	4,532,324	42.4
George E. Matelich(3)(4)(5)	4,532,324	42.4
Michael B. Goldberg(3)(4)(5)	4,532,324	42.4
David I. Wahrhaftig(3)(4)(5)(6)	4,532,324	42.4
Frank K. Bynum, Jr.(3)(4)(5)	4,532,324	42.4
Philip E. Berney(3)(4)(5)	4,532,324	42.4
Frank J. Loverro(3)(4)(5)	4,532,324	42.4
James J. Connors, II(3)(4)(5)	4,532,324	42.4
Church M. Moore(3)(4)(5)(6)	4,532,324	42.4
Stanley de J. Osborne(3)(4)(5)	4,532,324	42.4
<b>PARTHENON GROUP:</b>		
PCap KAR LLC(7)(8)	601,818	5.6
Parthenon Investors II, L.P.(7)(9)	284,735	2.7
PCIP Investors(7)(9)	284,735	2.7
J&R Founders Fund II, L.P.(7)(9)	284,735	2.7
<b>GOLDMAN GROUP:</b>		
GS Capital Partners VI Fund, L.P. and related funds(10)(20)	2,708,183	25.3
<b>VALUEACT GROUP:</b>		
ValueAct Capital Master Fund, L.P.(11)	2,256,819	21.1
AXLE HOLDINGS II, LLC(2)(3)	2,732,609	25.6
<b>Executive Officers and Directors</b>		
Brian T. Clingen(6)(12)	138,268	1.3
Thomas C. O'Brien(6)(13)	54,166	*
James P. Hallett(6)(14)	10,030	*
Eric M. Loughmiller(15)	301	*
John R. Nordin(16)	3,528	*
Rebecca C. Polak(17)	752	*
David J. Ament(6)		*
Thomas J. Carella(6)(20)		*
Peter H. Kamin(6)(11)	2,256,819	21.1
Sanjeev Mehra(6)(18)(20)	2,708,183	25.3
Church M. Moore(3)(4)(5)(6)	4,532,324	42.4
David I. Wahrhaftig(3)(4)(5)(6)	4,532,324	42.4
Gregory P. Spivy(6)		*
Executive officers and directors as a group (13 persons)(19)	9,704,371	90.8



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- \* Less than one percent.
- (1) The number of shares includes shares of common stock subject to options exercisable within 60 days of December 31, 2008.
  - (2) Shares subject to options exercisable within 60 days of December 31, 2008 are considered outstanding for the purpose of determining the percent of the class held by the holder of such option, but not for the purpose of computing the percentage held by others. Percentages for KAR Holdings II, LLC ( KAR LLC ), Axle LLC, the members of the Kelso Group, the members of the Goldman Group, ValueAct Capital and the members of the Parthenon Group are reflective of beneficial ownership of KAR LLC common interests (which, in certain cases, includes beneficial ownership of KAR LLC common interests held by Axle LLC). Except as indicated, percentages for executive officers and directors are reflective of beneficial ownership of outstanding shares of KAR Holdings (including shares that may be deemed to be owned by virtue of common ownership interests in KAR LLC or Axle LLC, as applicable).
  - (3) The business address for these persons is *c/o* Kelso & Company, 320 Park Avenue, 24th Floor, New York, NY 10022.
  - (4) Includes (i) 1,847,997 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Kelso Investment Associates VII, L.P., a Delaware limited partnership, or KIA VII, ownership interest in Axle LLC, (ii) 457,599 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of KEP VI, LLC, a Delaware limited liability company, or KEP VI, ownership interest in Axle LLC, (iii) 1,784,782 shares of common stock held of record by KAR LLC, by virtue of KIA VII's ownership interest in KAR LLC and (iv) 441,946 shares of common stock held of record by KAR LLC, by virtue of KEP VI's ownership interest in KAR LLC. KIA VII and KEP VI may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC (including beneficial ownership of shares held by KAR LLC that are attributable to Axle LLC), by virtue of their ownership interests in KAR LLC and Axle LLC. KIA VII and KEP VI, due to their common control, could be deemed to beneficially own each of the other's shares. Each of KIA VII and KEP VI disclaim such beneficial ownership.
  - (5) Messrs. Nickell, Wall, Matelich, Goldberg, Wahrhaftig, Bynum, Berney, Loverro, Connors, Moore and Osborne may be deemed to share beneficial ownership of shares of common stock owned of record by KAR LLC (including shares owned by KAR LLC which are attributable to Axle LLC), by virtue of their status as managing members of KEP VI and of Kelso GP VII, LLC, a Delaware limited liability company, the principal business of which is serving as the general partner of Kelso GP VII, L.P., a Delaware limited partnership, the principal business of which is serving as the general partner of KIA VII. Each of Messrs. Nickell, Wall, Matelich, Goldberg, Wahrhaftig, Bynum, Berney, Loverro, Connors, Moore and Osborne share investment and voting power with respect to the ownership interests owned by KIA VII and KEP VI but disclaim beneficial ownership of such interests.
  - (6) Members of our board of directors.
  - (7) The business address for these persons is *c/o* Parthenon Capital, 265 Franklin Street, 18th Floor Boston, MA 02110.
  - (8) Includes 601,818 shares of common stock held of record by KAR LLC, by virtue of PCap KAR, LLC ( Parthenon HoldCo ) ownership interest in KAR LLC. Parthenon HoldCo is a Delaware company controlled by Parthenon Investors II, L.P. and Parthenon Investors III, L.P. The co-CEOs of Parthenon Capital, Mr. Ernest K. Jacquet and Mr. John C. Rutherford, control Parthenon Investors II, L.P. and Messrs. Jacquet and Rutherford and Mr. William C. Kessinger control Parthenon Investors III, L.P. These individuals have shared voting and investment authority over shares held by Parthenon HoldCo and disclaim beneficial ownership of these shares except to the extent of their pecuniary interest therein.

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- (9) Includes (i) 276,657 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Parthenon Investors II, L.P. ownership interest in Axle LLC, (ii) 3,807 shares of common

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- stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of PCIP Investors ownership interest in Axle LLC and (iii) 4,271 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of J&R Founders Fund II, L.P. ownership interest in Axle LLC. Parthenon, PCIP Investors and J&R, due to their common control, could be deemed to beneficially own each of the other's shares. The co-CEOs of Parthenon Capital, Mr. Ernest K. Jacquet and Mr. John C. Rutherford, each have beneficial ownership of (1) the shares held by Parthenon, through their indirect control of PCAP Partners II, LLC, the general partner of Parthenon, (2) the shares held by PCIP Investors, a general partnership of which they have control as general partners, and (3) the shares held by J&R, a limited partnership which they control through its general partner, J&R Advisors F.F., LLC. These individuals have shared voting and investment authority over these shares and disclaim beneficial ownership of these shares except to the extent of their pecuniary interest therein.
- (10) Shares reported are held of record by KAR LLC but are beneficially owned directly by GS Capital Partners VI Fund, L.P., GS Capital Partners VI Parallel, L.P., GS Capital Partners VI GmbH & Co. KG and GS Capital Partners VI Offshore Fund, L.P. (together, the Goldman Funds). Affiliates of The Goldman Sachs Group, Inc. and Goldman Sachs & Co. are the general partner, managing limited partner or the managing partner of each of the Goldman Funds. Goldman, Sachs & Co. is the investment manager for certain of the Goldman Funds. Goldman, Sachs & Co. is a direct and indirect, wholly owned subsidiary of The Goldman Sachs Group, Inc. The Goldman Sachs Group, Inc., Goldman, Sachs & Co. and the Goldman Funds share voting and investment power with certain of their respective affiliates. Each of The Goldman Sachs Group Inc. and Goldman Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the Goldman Funds, except to the extent of its pecuniary interest therein, if any.
- (11) Shares reported are held of record by KAR LLC but are beneficially owned directly by ValueAct Capital Master Fund, L.P. by virtue of its ownership interests in KAR LLC and may be deemed to be beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P. (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC and as the majority owner of the membership interests of VA Partners I, LLC and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. The reporting persons disclaim beneficial ownership of the reported stock except to the extent of their pecuniary interest therein.
- (12) Includes (i) 37,965 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. Clingen's common ownership interest in Axle LLC, and (ii) 100,303 shares of common stock held of record by KAR LLC, by virtue of Mr. Clingen's common ownership interest in KAR LLC.
- (13) Includes (i) 51,373 shares of common stock issuable pursuant to options that are currently exercisable, (ii) 2,592 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. O'Brien's common ownership interest in Axle LLC and (iii) 201 shares of common stock held of record by KAR LLC, by virtue of Mr. O'Brien's common ownership interest in KAR LLC.
- (14) Includes 10,030 shares of common stock held of record by KAR LLC, by virtue of Mr. Hallett's common ownership interest in KAR LLC.
- (15) Includes 301 shares of common stock held of record by KAR LLC, by virtue of Mr. Loughmiller's common ownership interest in KAR LLC.
- (16) Includes (i) 2,647 shares of common stock issuable pursuant to options that are currently exercisable, (ii) 380 shares of common stock held of record by KAR LLC (which are attributable to Axle LLC), by virtue of Mr. Nordin's common ownership interest in Axle LLC and (iii) 502 shares of common stock held of record by KAR LLC, by virtue of Mr. Nordin's common ownership interest in KAR LLC.
- (17) Includes 752 shares of common stock held of record by KAR LLC, by virtue of Ms. Polak's common ownership interest in KAR LLC.





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- (18) Mr. Mehra is a managing director of Goldman, Sachs & Co. Mr. Mehra and The Goldman Sachs Group, Inc. each disclaims beneficial ownership of the common stock owned directly or indirectly by the Goldman Funds and Goldman Sachs & Co., except to the extent of his or its pecuniary interest therein, if any. Each of The Goldman Sachs Group Inc. and Goldman Sachs & Co. disclaims beneficial ownership of the common shares owned directly or indirectly by the Goldman Funds, except to the extent of its pecuniary interest therein, if any.
- (19) Includes shares of common stock the beneficial ownership of which (i) Mr. Wahrhaftig may be deemed to share, as described in footnote 5 above, (ii) Mr. Moore may be deemed to share, as described in footnote 5 above, (iii) Mr. Kamin may be deemed to share, as described in footnote 11 above and (iv) Mr. Mehra may be deemed to share, as described in footnote 18 above.
- (20) The business address for these persons is c/o Goldman, Sachs & Co., 85 Broad Street, 10th Floor, New York, NY 10004.

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**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

**Agreements in connection with the Transactions**

Simultaneously with the consummation of the Transactions on April 20, 2007, we entered into the following agreements.

*Contribution Agreement*

Axle LLC entered into a contribution agreement with us, KAR LLC and the Equity Sponsors and certain other parties. Pursuant to the contribution agreement, Axle LLC contributed (the Contribution) all of the shares of common stock of Axle Holdings, Inc. (its wholly-owned subsidiary which directly owns all of the shares of common stock of IAAI) to KAR LLC simultaneously with the closing of the Transactions in exchange for a number of Class B common units in KAR LLC equal to approximately \$272.4 million divided by \$100 (the per unit price paid by the Equity Sponsors for Class A common units in KAR LLC at the closing of the Transactions). After the Contribution, KAR LLC contributed the shares of Axle Holdings, Inc. to us in exchange for our shares. After the completion of the Transactions, we own, directly or indirectly, all of the issued and outstanding common stock of IAAI and ADESA.

*Shareholders Agreement*

We entered into a shareholders agreement with KAR LLC and each of Thomas C. O'Brien, Scott P. Pettit, David R. Montgomery, Donald J. Hermanek, John W. Kett, John R. Nordin and Sidney L. Kerley (collectively, the IAAI continuing investors). Under the terms of the shareholders agreement, KAR LLC has the right to designate all the directors on our board of directors, which is comprised of the same individuals that serve on the board of directors of KAR LLC, as discussed below.

The shareholders agreement generally restricts the transfer of shares of common stock and options acquired pursuant to the Conversion Agreements described below (including any shares into which any such options have been exercised) owned by the IAAI continuing investors, or any other shareholders, that are or become parties to the agreement. Exceptions to this restriction include certain transfers of shares or such options for estate planning purposes, certain pledges and certain involuntary transfers in connection with a default, foreclosure, forfeiture, divorce, court order or otherwise than by a voluntary decision of the IAAI continuing investor, or any other shareholder, that is or becomes a party to the agreement (so long as we have been given the opportunity to purchase the shares or options subject to such involuntary transfer).

In addition, the parties to the shareholders agreement have tag-along rights to sell their shares of common stock on a pro rata basis with KAR LLC in sales by KAR LLC to third parties, and KAR LLC has drag-along rights to cause the other parties to the shareholders agreement to sell their shares of common stock on a pro rata basis with KAR LLC in sales by KAR LLC to third parties. The IAAI continuing investors are subject to put and call rights, which entitle these persons to require us to purchase their shares or options acquired pursuant to the Conversion Agreements described below, and which entitle us to require these persons to sell such shares or options to us, upon certain terminations of the shareholder's employment with us or any of our affiliates (including IAAI or ADESA), at differing prices, depending upon the circumstances of the termination.

*Registration Rights Agreement*

We entered into a registration rights agreement with KAR LLC and the IAAI continuing investors. Under the terms of the registration rights agreement, KAR LLC (at the request of the initiating holders (i.e., at any time, all of Kelso, ValueAct and Goldman, or, at any time following the third anniversary of a qualified initial public offering of our common stock (as specified in the LLC agreement), two of Kelso, ValueAct and Goldman) will have the right, subject to certain conditions, to make an unlimited number of requests that we use our best efforts to register under the Securities Act the shares of our common stock owned by KAR LLC. In any demand

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registration, or if KAR Holdings proposes to register any shares (subject to certain exceptions, such as benefit plan registrations), all of the parties to the registration rights agreement have piggyback rights to participate on a pro rata basis, subject to certain conditions, which in the case of KAR LLC will include the right of each member of KAR LLC to direct KAR LLC to include shares of common stock attributable to each such member of KAR LLC based on such member's ownership interest in KAR LLC.

*LLC Agreement*

Affiliates or designees of the Equity Sponsors, Axle LLC, our executive officers and certain other employees and third parties entered into an amended and restated limited liability company agreement of KAR LLC, or the LLC Agreement. The Equity Sponsors and their affiliates or designees and our executive officers and other employees and third parties hold all of the Class A common units in KAR LLC. In addition, pursuant to the Contribution, Axle LLC owns all of the Class B common units in KAR LLC. The Class B common units are identical to the Class A common units in all respects, except with respect to distributions (distributions to holders of units in KAR LLC are made pro rata based on the number of units held by such holder based on the amount being distributed to such holders, plus the amount paid or payable to the IAAI continuing investors in respect of the options held (or any common stock obtained upon the exercise of such options) in Axle Holdings, Inc. that were converted into options to purchase our common stock pursuant to the Conversion Agreements described below; provided, however, in order to prevent dilution to the holders of KAR LLC common units (other than Axle LLC) that would be caused by the payment of amounts to the IAAI continuing investors in respect of options held by the IAAI continuing investors (or any equity obtained by the IAAI continuing investors upon the exercise of such options), the amount available for distribution to Axle LLC (in respect of the Class B common units held by Axle LLC) is reduced dollar-for-dollar by the net amount paid to the IAAI continuing investors in respect of such converted options (or any equity obtained upon the exercise of such options) in connection with such distribution.

The LLC Agreement provides that our executive officers and others having senior management and/or strategic planning-type responsibilities may be awarded profit interests in KAR LLC that may entitle such individuals to a portion of the future appreciation in the value of the assets of KAR LLC (including the stock in IAAI and ADESA held through us). The combined economic interest in the appreciation in the equity of KAR Holdings granted to those individuals receiving profit interests and to employees of IAAI and/or ADESA through the KAR Holdings stock incentive plan was approximately 12% of the initial equity of KAR LLC at closing of the Transactions before giving effect to dilution, in the aggregate. The incentive plan is segregated as follows: approximately 3% service related options/profits interests that vest annually over four years and approximately 9% performance related options/profits interests that vest ratably as the members of KAR LLC achieve investment multiples on their original investment in KAR LLC, subject to a minimum internal rate of return threshold.

The LLC Agreement generally restricts the transfer of interests in KAR LLC owned by the Equity Sponsors (and their affiliates, designees or permitted transferees), our executive officers and the other employees and third parties holding equity interests in KAR LLC (the Holders). Exceptions to this restriction include transfers of common interests by our executive officers party thereto for certain estate planning purposes and certain involuntary transfers by the Holders in connection with a default, foreclosure, forfeiture, divorce, court order or otherwise than by a voluntary decision of the continuing investor (so long as KAR LLC has been given the opportunity to purchase the interests subject to such involuntary transfer). In addition, each Holder has customary pro rata tag-along rights to sell their common interests in KAR LLC in the event of a proposed sale that is permitted by the LLC Agreement of common interests in KAR LLC by any of the Equity Sponsors or Axle LLC to a third party. Similarly, if any two of Kelso, Goldman or ValueAct elect to sell 80% or more of their common interests in KAR LLC to a third party, each of the remaining Holders is required to sell (upon exercise of such selling Holders' drag-along rights) a pro rata portion of their respective common interests based on their respective ownership of common interests to such third party at the same price as such selling Holders elect to sell their common interests.

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The LLC Agreement provides that the Board of Directors of KAR LLC is comprised of members having the right to cast 19 votes at a meeting of the Board of Directors. The members of the Board are appointed and removed as follows: Kelso, Goldman and ValueAct each has the right to appoint and remove two directors with each group of two directors having the power to collectively cast a total of five votes at a Board meeting; Parthenon has the right to appoint and remove one director with the power to cast a total of one vote at a Board meeting; any two of Kelso, Goldman and ValueAct have the right to appoint two officers of KAR LLC (initially at the closing of the Transactions, Thomas C. O'Brien and James P. Hallett) as members to the Board with the right to cast one vote each; and the chief executive officer of KAR LLC is entitled to serve on the Board and has the right to cast one vote at a Board meeting. Pursuant to the LLC Agreement, KAR LLC would dissolve and its affairs wound up upon the occurrence of: (i) the vote of the board of directors and members or (ii) any event which under applicable law would cause the dissolution of KAR LLC.

*Conversion Agreements*

Each of the IAAI continuing investors entered into a separate conversion agreement with us under which such IAAI continuing investor exchanged, at the closing of Merger and the Contribution, options to purchase common stock of Axle Holdings, Inc. for options to purchase our common stock. The IAAI continuing investors converted stock options of Axle Holdings, Inc. having an aggregate spread value of approximately \$8.9 million for our stock options with an equivalent spread value. As a result of these conversion agreements, the IAAI continuing investors hold options to purchase our stock after the Merger and Contribution representing in the aggregate approximately 1.0% of our common stock on a fully diluted basis.

*Financial Advisory Agreements*

Under the terms of financial advisory agreements entered into between the Equity Sponsors (or their affiliates) and us, upon completion of the Merger and Contribution on April 20, 2007, we made a closing payment to the Equity Sponsors or their affiliates in an aggregate amount equal to 1.25% of the enterprise value of ADESA (excluding transaction costs). This closing payment was made to the Equity Sponsors or their affiliates pro rata based on their respective cash contributions to KAR LLC at the closing of the Transactions (which, in the case of ValueAct, included the value of any shares of ADESA common stock contributed to KAR LLC on or prior to the closing of the Transactions). In addition, under the financial advisory agreements, after completion of the Transactions, we have paid and will continue to pay an aggregate financial advisory fee of \$3,500,000 per annum, payable quarterly in advance, to the Equity Sponsors or their affiliates (with the first such fee, prorated for the remainder of the then current quarter, paid at the closing of the Transactions on April 20, 2007), for services provided or to be provided by each of the Equity Sponsors or their affiliates to us. The ongoing financial advisory fee has been and will continue to be paid to the Equity Sponsors or their affiliates pro rata based on their respective cash contributions to KAR LLC at the closing of the Transactions (which, in the case of ValueAct, included the value of any shares of ADESA common stock contributed to KAR LLC on or prior to the closing of the Transactions and, in the case of Goldman, Sachs & Co., included contributions by GS Capital Partners VI Fund, L.P. and its affiliated funds). For purposes of such calculation, the aggregate cash contributions made by affiliates of Kelso (\$121,460,000) and Parthenon (\$15,000,000) to Axle LLC prior to the closing of the Transactions was deemed cash capital contributions made to KAR LLC at the closing of the Transactions.

Pursuant to the financial advisory agreements, we indemnified the Equity Sponsors and their respective officers, directors, affiliates, partners, employees, agents and control persons (as such term is used in the Securities Act and the rules and regulations thereunder) in connection with the Transactions, the Equity Sponsors investment in KAR LLC and its subsidiaries, the Equity Sponsors control of ADESA or any of its subsidiaries and the services rendered to us and our subsidiaries (including IAAI and ADESA) under the financial advisory agreement. The agreement also provides that we will reimburse the Equity Sponsor's expenses incurred with respect to services to be provided to us and our subsidiaries on a going-forward basis. The Company paid the Equity Sponsors approximately \$3.7 million and \$2.5 million related to the annual financial advisory fee (prorated for 2007) and travel expenses for the year ended December 31, 2008 and the period April 20, 2007 through December 31, 2007.

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On April 20, 2007, we paid to BP Capital Management, an investment management company, a fee of \$446,473.95 for the provision of certain structuring, advisory and other services related to the Transactions, pursuant to the terms of letter agreement between BP Capital Management and us. Brian Clingen, who is our Chairman and Chief Executive Officer and beneficially owns approximately 1.3% of our common stock, is a founder and president of BP Capital Management.

### **Axle LLC Agreement**

Affiliates of Kelso, affiliates of Parthenon and Magnetite Asset Investors III, L.L.C., Brian T. Clingen, Dan Simon and the IAAI continuing investors entered into the Amended and Restated Operating Agreement of Axle LLC, dated May 25, 2005, or the Axle LLC Agreement. Affiliates of Kelso and Parthenon and Magnetite and Mr. Clingen and a trust established to monitor the estate of Mr. Simon own approximately 99.9% of the common interests in Axle LLC and the IAAI continuing investors own less than 0.4%. The Axle LLC Agreement, among other things, provides that the IAAI continuing investors were awarded profit interests in Axle LLC that may entitle such persons to a portion of the future appreciation in the value of the assets of Axle LLC. The combined economic interest in the appreciation in the value of the assets of Axle LLC granted to the IAAI continuing investors through profit interests and to employees of IAAI through the Axle Holdings, Inc. stock incentive plan was approximately 13% on a fully diluted basis, in the aggregate.

### **Axle Conversion Agreements and Exchange Agreements**

On May 25, 2005, each of the IAAI continuing investors entered into a separate conversion agreement and a separate exchange agreement with Axle Holdings, Inc. under which the IAAI continuing investor agreed to (i) exchange, effective as of the closing of the 2005 Acquisition, certain options to purchase common stock of IAAI for options to purchase common stock of Axle Holdings, Inc. and (ii) accept a cash payment in exchange for cancellation of his remaining options to purchase common stock in IAAI. The IAAI continuing investors converted and exchanged stock options of IAAI having an aggregate spread value of approximately \$3.3 million for Axle Holdings, Inc. stock options with an equivalent spread value and received an aggregate payment of \$11.4 million for cancellation of their remaining options. As a result of these agreements, the IAAI continuing investors hold options to purchase Axle Holdings, Inc. stock representing in the aggregate approximately 4.8% of the common stock of Axle Holdings, Inc. on a fully diluted basis immediately after the 2005 Acquisition. These options were converted into options in us pursuant to the conversion agreements entered into between us and the IAAI continuing investors described above.

### **Towing and Transportation Services**

In the ordinary course of business, we have received towing, transportation and recovery services from companies which are controlled by Brian Clingen, our Chairman and Chief Executive Officer. Services received from these companies were approximately \$1.6 million and \$0.8 million for calendar years 2008 and 2007. The transportation services were provided on terms consistent with those of other providers of similar services. There were no such services provided to us from companies controlled by Mr. Clingen in fiscal year 2006.

### **Transactions with the GS Entities and Their Affiliates**

GS Capital Partners VI Fund, L.P. and other private equity funds affiliates with Goldman, Sachs & Co. beneficially own approximately 25.3% of our issued and outstanding common stock. Under the registration rights agreement entered into in connection with the notes, we agreed to file a market-making prospectus in order to

enable Goldman, Sachs & Co. to engage in market-making activities for the notes. Goldman, Sachs & Co., acted as initial purchaser in the offering of the Restricted Notes. Goldman Sachs Credit Partners L.P., an affiliate of GS Capital Partners VI Fund, L.P., was part of the banking syndicate for our credit facility. In addition, Goldman, Sachs & Co. and its affiliates may in the future engage in commercial banking, investment banking or other financial advisory transactions with us and our affiliates.

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### **Director Independence**

Because of the directors' affiliations with the Equity Sponsors and the Company, none of the directors are independent.

### **Termination of 2005 Agreements**

Upon the closing of the Transactions on April 20, 2007, Axle LLC terminated all existing agreements containing any preemptive, registration, voting, liquidation, conversion or other rights relating to the equity interests of Axle Holdings, Inc. and its subsidiaries. In addition, at such closing, all existing agreements (including the existing financial advisory agreement) relating to the payment of any fees or reimbursement of any expenses of any member of Axle LLC (including Kelso and Parthenon) by Axle Holdings, Inc. or any of its subsidiaries and certain other 2005 Acquisition agreements were terminated, including the following agreements.

#### ***2005 Shareholders Agreement***

On May 25, 2005, Axle Holdings, Inc. entered into a shareholders agreement with Axle LLC, which owns all of Axle Holdings, Inc.'s issued and outstanding common stock, and Thomas C. O'Brien, Scott P. Pettit, David R. Montgomery, Donald J. Hermanek, John W. Kett, John R. Nordin and Sidney L. Kerley (the "IAAI 2005 Investors"), who own options to purchase common stock of Axle Holdings, Inc. The shareholders agreement, among other things, provides Axle LLC rights to designate directors to the board of directors of Axle Holdings, Inc., restricts generally the transfer of shares of common stock and options owned by the IAAI 2005 Investors.

#### ***2005 Registration Rights Agreement***

Axle Holdings, Inc. entered into a registration rights agreement with the other parties to the shareholders agreement on May 25, 2005. Under the terms of the registration rights agreement, Axle LLC has the right to make an unlimited number of requests that Axle Holdings, Inc. use its best efforts to register its shares under the Securities Act.

#### ***2005 Financial Advisory Agreements***

Under the terms of a financial advisory and closing fee letter agreement between Kelso and Axle Merger Sub, Inc. entered into upon completion of the 2005 Acquisition, IAAI (1) paid a fee of \$4.475 million to Kelso and (2) commenced paying to Kelso an annual financial advisory fee of \$500,000 payable in quarterly installments in advance (with the first such installment, prorated for the remainder of the then current quarter, paid at the closing of the 2005 Acquisition) for services to be provided by Kelso to IAAI. The financial advisory agreement provides that IAAI will indemnify Kelso, Axle Holdings, Inc. and Kelso's officers, directors, affiliates and their respective partners, employees, agents and control persons (as such term is used in the Securities Act and the rules and regulations thereunder) in connection with the 2005 Acquisition and the transactions contemplated by the related merger agreement (including the financing of the merger), Kelso's investment in IAAI, Kelso's control of Axle Merger Sub, Inc., IAAI and their respective subsidiaries, and the services rendered to IAAI under the financial advisory agreement. It requires IAAI to reimburse Kelso's expenses incurred in connection with the 2005 Acquisition and with respect to services to be provided to IAAI on a going-forward basis. The financial advisory agreement also provides for the payment of certain fees by IAAI to Kelso, as may be determined by the board of directors of IAAI and Kelso, in connection with future investment banking services and for the reimbursement by IAAI of expenses incurred by Kelso in connection with such services.

Under the terms of a letter agreement between PCAP, L.P., an affiliate of Parthenon, and Axle Merger Sub, Inc., upon completion of the 2005 Acquisition, IAAI paid to PCAP, L.P. a fee of \$525,000.

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**DESCRIPTION OF OTHER INDEBTEDNESS**

**Senior Secured Credit Facilities**

*Overview*

On April 20, 2007, we entered into a \$1,865 million senior credit facility, pursuant to the terms and conditions of a credit agreement with Bear Stearns Corporate Lending Inc., as administrative agent, and a syndicate of lenders. The Credit Agreement has a six and one-half year term that expires on October 19, 2013. 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, capital expenditures and acquisitions permitted under the Credit Agreement and for other corporate purposes.

The Credit Agreement provides for a six and one-half year \$1,565 million term loan and a six-year \$300 million 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.

At March 31, 2009, \$1,497.9 million was outstanding on the term loan and there were no borrowings on the revolving credit facility. There were related outstanding letters of credit totaling approximately \$29.3 million at March 31, 2009, which reduce the amount available under our senior credit facilities. In addition, our Canadian operations have a C\$8 million line of credit which was undrawn as of March 31, 2009. There were related letters of credit outstanding totaling approximately \$1.6 million at March 31, 2009, which reduce the amount available under the Canadian line of credit, but do not impact amounts available under our senior credit facilities. 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 facilities 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.

*Prepayments*

The principal amount of the term loan amortizes in quarterly installments equal to 0.25% of the original principal amount of the term loans, with the balance payable at maturity.

Subject to certain exceptions, our senior credit facilities are subject to mandatory prepayments and reduction in an amount equal to:

the net proceeds of (1) certain debt offerings by us or any of our subsidiaries, (2) certain asset sales by us or any of our subsidiaries (subject to customary reinvestment provisions), and (3) certain insurance recovery and condemnation events (subject to customary reinvestment provisions); and

50% of excess cash flow subject to reduction based on our achievement of specified consolidated senior leverage ratio levels.

Voluntary prepayments and commitment reductions are permitted, in whole or in part, in minimum amounts without premium or penalty, other than customary breakage costs.

*Security; Guarantees*

Our obligations under our senior credit facilities are guaranteed by each of our existing and certain future direct and indirect wholly owned domestic subsidiaries, subject to certain exceptions.

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Our senior credit facilities and certain interest rate hedging agreements thereof, subject to certain exceptions, are secured on a first priority basis by (i) pledges of all the capital stock of all our direct or indirect material domestic subsidiaries and up to 65% of the capital stock of each of our direct foreign subsidiaries and (ii) liens on substantially all of the tangible and intangible assets of us and the guarantors.

### ***Interest***

Our 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 March 31, 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 March 31, 2009 the applicable margin was 125 basis points. Our term loan facility 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 March 31, 2009, our term loan facility margin was 225 basis points.

### ***Fees***

Our fees with respect to our senior credit facilities include (i) fees on the unused commitments of the lenders under the revolving facility, (ii) letter of credit fees on the aggregate face amount of outstanding letters of credit plus a fronting fee to the issuing bank, and (iii) administration fees.

### ***Covenants***

The Credit Agreement contains certain restrictive loan covenants, including, among others, financial covenants requiring a maximum consolidated senior secured leverage ratio, provided there are revolving loans outstanding, and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, be acquired, dispose of assets, pay dividends, make capital expenditures and make investments. The leverage ratio covenants are 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.

The covenants contained within our senior credit facilities are critical to an investor's understanding of our financial liquidity, as the violation of these covenants could cause a default and lenders could elect to declare all amounts borrowed 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 financial 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 March 31, 2009.

### ***Events of Default***

Our senior credit facilities contain customary events of default including non-payment of principal, interest or fees, failure to comply with covenants, inaccuracy of representation or warranties in any material respect, cross-default to certain other indebtedness, loss of lien perfection or priority, invalidity of guarantees, certain specified ERISA events, material judgments, change of control, and certain bankruptcy or insolvency events.



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**DESCRIPTION OF THE SENIOR NOTES**

The Floating Rate Senior Notes due 2014 (the Floating Rate Senior Notes ) were issued under an Indenture, dated as of April 20, 2007 (the Floating Rate Indenture ), among the Company, the Guarantors and Wells Fargo Bank, National Association, as trustee (the Floating Rate Trustee ), as amended from time to time. The 8¼% Senior Notes due 2014 (the Fixed Rate Senior Notes and, together with the Floating Rate Senior Notes, the Senior Notes ) were issued under an Indenture, dated as of April 20, 2007 (the Fixed Rate Indenture and, together with the Floating Rate Indenture, the Indentures ), among the Company, the Guarantors, the trustee, as amended from time to time.

Except as set forth herein, the terms of the Senior Notes include those stated in the Indentures and those made part of the Indentures by reference to the Trust Indenture Act. The Floating Rate Senior Notes and the Fixed Rate Senior Notes were issued as a separate series and class and vote separately with respect to all matters.

The following description is only a summary of the material provisions of the Indentures, does not purport to be complete and is qualified in its entirety by reference to the provisions of the Indentures, including the definitions therein of certain terms used below. We urge you to read the Indentures because they, and not this description, define your rights as Holders of the Senior Notes.

**Brief Description of the Senior Notes**

The Senior Notes:

are general, unsubordinated obligations of the Company;

are unsecured;

are structurally subordinated to all existing and future Indebtedness and other liabilities (including trade payables) of the Company's Subsidiaries (other than Subsidiaries that are or become Subsidiary Guarantors pursuant to the provisions described below under Subsidiary Guarantees );

are limited to an aggregate principal amount of \$150.0 million for the Floating Rate Senior Notes and \$450.0 million for the Fixed Rate Senior Notes, subject to our ability to issue Additional Notes;

mature on May 1, 2014;

bear interest at the applicable rate per annum shown from the most recent date to which interest has been paid or provided for;

were issued in minimum denominations of \$2,000 or, if greater at the Issue Date, the dollar equivalent of 1,000 rounded up to the nearest \$1,000 (the Minimum Denomination ) and any integral multiple of \$1,000 in excess thereof;

are represented by one or more registered Senior Notes in global form, but in certain circumstances may be represented by Senior Notes in definitive form. See Book Entry, Delivery and Form ;

are pari passu in right of payment with all existing and future unsubordinated indebtedness of the Company; and

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are unconditionally guaranteed on an unsubordinated basis by each of the Company's current and future Subsidiaries that guarantees payment by the Company of any Indebtedness of the Company under the Senior Credit Facility.

Because the Senior Notes are unsecured, in the event of bankruptcy, liquidation, reorganization or other winding up of the Company or the Subsidiary Guarantors or upon default in payment with respect to, or the acceleration of, any Indebtedness under our senior secured credit facility or other secured indebtedness, the assets

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of the Company and the Subsidiary Guarantors that secure other secured indebtedness will be available to pay obligations on the Senior Notes and the Guarantees only after all Indebtedness under such other secured indebtedness has been repaid in full from such assets.

**Principal, Maturity and Interest**

***Floating Rate Notes***

The Floating Rate Notes were issued in an aggregate principal amount of up to \$150.0 million. The Floating Rate Senior Notes mature on May 1, 2014. Each Floating Rate Senior Notes bears interest at a rate per annum, reset quarterly, equal to LIBOR plus 4%, as determined by the calculation agent (the Calculation Agent), which shall initially be the Floating Rate Trustee.

Interest on the Floating Rate Senior Notes is payable quarterly in cash to Holders of record at the close of business on April 15, July 15, September 15 and January 15 immediately preceding the interest payment date, on May 1, August 1, November 1 and February 1 of each year, commencing August 1, 2007.

The amount of interest for each day that the Floating Rate Senior Notes are outstanding (the Daily Interest Amount) is calculated by dividing the interest rate in effect for such day by 360 and multiplying the result by the principal amount of the Floating Rate Senior Notes then outstanding. The amount of interest to be paid on the Floating Rate Senior Notes for each Interest Period is calculated by adding the Daily Interest Amount for each day in the Interest Period. All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards and all dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards).

The Calculation Agent will, upon the request of any Holder of Floating Rate Senior Notes, provide th