

KAR Auction Services, Inc.  
Form 10-Q  
November 07, 2012

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

OR

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

**Commission File Number: 001-34568**

**KAR Auction Services, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**20-8744739**

(I.R.S. Employer  
Identification No.)

**13085 Hamilton Crossing Boulevard  
Carmel, Indiana 46032**

(Address of principal executive offices, including zip code)

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

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a  
smaller reporting company)

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

As of October 31, 2012, 136,635,331 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**KAR Auction Services, Inc.**

**Consolidated Statements of Income**

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating revenues				
ADESA Auction Services	\$ 257.0	\$ 241.3	\$ 791.4	\$ 767.1
IAA Salvage Services	167.4	164.7	534.1	513.8
AFC	50.5	43.1	144.2	125.6
<b>Total operating revenues</b>	<b>474.9</b>	449.1	<b>1,469.7</b>	1,406.5
Operating expenses				
Cost of services (exclusive of depreciation and amortization)	264.1	247.3	796.7	766.2
Selling, general and administrative	102.3	80.4	319.9	282.5
Depreciation and amortization	46.8	43.8	143.4	131.5
<b>Total operating expenses</b>	<b>413.2</b>	371.5	<b>1,260.0</b>	1,180.2
<b>Operating profit</b>	<b>61.7</b>	77.6	<b>209.7</b>	226.3
Interest expense	29.9	29.4	89.8	112.3
Other (income) expense, net	(1.2)	1.3	(1.6)	(6.0)
Loss on extinguishment of debt	0	0	0	53.5
<b>Income before income taxes</b>	<b>33.0</b>	46.9	<b>121.5</b>	66.5
Income taxes	13.8	14.7	52.4	8.8
<b>Net income</b>	<b>\$ 19.2</b>	\$ 32.2	<b>\$ 69.1</b>	\$ 57.7
Net income per share				
Basic	\$ 0.14	\$ 0.24	\$ 0.51	\$ 0.42
Diluted	\$ 0.14	\$ 0.23	\$ 0.50	\$ 0.42

See accompanying notes to consolidated financial statements



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 19.2	\$ 32.2	\$ 69.1	\$ 57.7
Other comprehensive income (loss), net of tax				
Foreign currency translation gain (loss)	8.7	(26.8)	9.8	(16.7)
Unrealized gain (loss) on interest rate derivatives, net of tax of \$0 and \$0.1 for the three months ended September 30, 2012 and 2011, and \$0.2 and \$1.0 for the nine months ended September 30, 2012 and 2011	0	0.1	(0.4)	1.6
Early termination of swap agreement, net of tax of \$5.5 for the nine months ended September 30, 2011	0	0	0	9.0
Total other comprehensive income (loss), net of tax	8.7	(26.7)	9.4	(6.1)
Comprehensive income	\$ 27.9	\$ 5.5	\$ 78.5	\$ 51.6

See accompanying notes to consolidated financial statements

Table of Contents**KAR Auction Services, Inc.****Consolidated Balance Sheets****(In millions)****(Unaudited)**

	September 30, 2012	December 31, 2011
<b>Assets</b>		
<b><i>Current assets</i></b>		
Cash and cash equivalents	\$ 163.7	\$ 97.4
Restricted cash	7.7	8.2
Trade receivables, net of allowances of \$5.7 and \$6.4	385.3	297.4
Finance receivables, net of allowances of \$8.0 and \$9.0	930.5	874.2
Deferred income tax assets	37.6	37.5
Other current assets	62.9	58.5
<b>Total current assets</b>	<b>1,587.7</b>	1,373.2
<b><i>Other assets</i></b>		
Goodwill	1,679.7	1,679.5
Customer relationships, net of accumulated amortization of \$386.5 and \$325.8	639.1	694.0
Other intangible assets, net of accumulated amortization of \$164.5 and \$139.5	298.6	305.9
Unamortized debt issuance costs	23.4	28.6
Other assets	8.7	11.2
<b>Total other assets</b>	<b>2,649.5</b>	2,719.2
Property and equipment, net of accumulated depreciation of \$405.8 and \$362.4	688.8	686.7
<b>Total assets</b>	<b>\$ 4,926.0</b>	\$ 4,779.1

See accompanying notes to consolidated financial statements



Table of Contents**KAR Auction Services, Inc.****Consolidated Balance Sheets****(In millions, except share and per share data)****(Unaudited)**

	September 30, 2012	December 31, 2011
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 465.3	\$ 367.8
Accrued employee benefits and compensation expenses	54.3	57.7
Accrued interest	2.5	2.3
Other accrued expenses	75.6	71.7
Income taxes payable	20.1	0.5
Obligations collateralized by finance receivables	633.5	610.3
Current maturities of long-term debt	17.0	85.9
<b>Total current liabilities</b>	<b>1,268.3</b>	1,196.2
<b>Non-current liabilities</b>		
Long-term debt	1,805.2	1,816.9
Deferred income tax liabilities	306.1	323.9
Other liabilities	101.0	98.9
<b>Total non-current liabilities</b>	<b>2,212.3</b>	2,239.7
Commitments and contingencies (Note 8)		
<b>Stockholders' equity</b>		
Preferred stock, \$0.01 par value:		
Authorized shares: 100,000,000		
Issued shares: none	0	0
Common stock, \$0.01 par value:		
Authorized shares: 400,000,000		
Issued and outstanding shares:		
September 30, 2012: 136,619,187		
December 31, 2011: 136,271,358	1.4	1.4
Additional paid-in capital	1,430.1	1,406.4
Accumulated deficit	(23.6)	(92.7)
Accumulated other comprehensive income	37.5	28.1
<b>Total stockholders' equity</b>	<b>1,445.4</b>	1,343.2
<b>Total liabilities and stockholders' equity</b>	<b>\$ 4,926.0</b>	\$ 4,779.1

See accompanying notes to consolidated financial statements

Table of Contents**KAR Auction Services, Inc.****Consolidated Statement of Stockholders' Equity****(In millions)****(Unaudited)**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance at December 31, 2011</b>	136.3	\$ 1.4	\$ 1,406.4	\$ (92.7)	\$ 28.1	\$ 1,343.2
Net income				69.1		69.1
Other comprehensive income, net of tax					9.4	9.4
Issuance of common stock under stock plans	0.3		2.8			2.8
Stock-based compensation expense			20.9			20.9
<b>Balance at September 30, 2012</b>	<b>136.6</b>	<b>\$ 1.4</b>	<b>\$ 1,430.1</b>	<b>\$ (23.6)</b>	<b>\$ 37.5</b>	<b>\$ 1,445.4</b>

See accompanying notes to consolidated financial statements

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## KAR Auction Services, Inc.

## Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
<b>Operating activities</b>		
Net income	\$ 69.1	\$ 57.7
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	143.4	131.5
Provision for credit losses	6.8	5.1
Deferred income taxes	(18.6)	(11.8)
Amortization of debt issuance costs	5.2	8.3
Stock-based compensation	20.9	10.7
Contingent consideration adjustment	1.0	(4.6)
Gain on disposal of fixed assets	(1.7)	(0.2)
Loss on extinguishment of debt	0	53.5
Other non-cash, net	7.6	6.4
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Trade receivables and other assets	(95.3)	(44.9)
Accounts payable and accrued expenses	99.6	(6.2)
<b>Net cash provided by operating activities</b>	<b>238.0</b>	<b>205.5</b>
<b>Investing activities</b>		
Net increase in finance receivables held for investment	(57.4)	(40.1)
Acquisition of businesses, net of cash acquired	(0.5)	(4.5)
Purchases of property, equipment and computer software	(60.8)	(64.2)
Proceeds from the sale of property and equipment	5.7	0.2
Decrease in restricted cash	0.5	1.9
<b>Net cash used by investing activities</b>	<b>(112.5)</b>	<b>(106.7)</b>
<b>Financing activities</b>		
Net increase in book overdrafts	10.8	58.4
Net decrease in borrowings from lines of credit	(68.9)	0
Net increase in obligations collateralized by finance receivables	20.6	22.6
Proceeds from long-term debt	0	1,691.5
Payments for debt issuance costs	0	(30.6)
Payments on long-term debt	(12.8)	(1,148.8)
Payment for early extinguishment of debt	0	(600.7)
Payments on capital leases	(10.6)	(6.1)
Payments of contingent consideration and deferred acquisition costs	(4.2)	(2.4)
Initial net investment for interest rate caps	0	(1.1)
Issuance of common stock under stock plans	2.8	6.0
<b>Net cash used by financing activities</b>	<b>(62.3)</b>	<b>(11.2)</b>
Effect of exchange rate changes on cash	3.1	(3.1)
<b>Net increase in cash and cash equivalents</b>	<b>66.3</b>	<b>84.5</b>
Cash and cash equivalents at beginning of period	97.4	119.1

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Cash and cash equivalents at end of period	\$	<b>163.7</b>	\$	203.6
Cash paid for interest	\$	<b>80.9</b>	\$	109.8
Cash paid for taxes, net of refunds	\$	<b>44.5</b>	\$	29.9

See accompanying notes to consolidated financial statements

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**KAR Auction Services, Inc.**

**Notes to Consolidated Financial Statements**

**September 30, 2012 (Unaudited)**

**Note 1 Basis of Presentation and Nature of Operations**

***Defined Terms***

Unless otherwise indicated, the following terms used herein shall have the following meanings:

"we," "us," "our," "KAR Auction Services" and "the Company" refer, collectively, to KAR Auction Services, Inc. and all of its subsidiaries unless the context otherwise requires;

"ADESA" refers, collectively, to ADESA, Inc., a wholly owned subsidiary of KAR Auction Services, and its subsidiaries, including OPENLANE, Inc. ("OPENLANE", a wholly owned subsidiary of ADESA and its subsidiaries);

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

"Axle LLC" refers to Axle Holdings II, LLC, which is owned by affiliates of certain of the Equity Sponsors (Kelso & Company and Parthenon), certain members or former members of IAA management and certain co-investors in connection with the acquisition of IAA in 2005. Axle LLC is the former ultimate parent company of IAA and is a holder of common equity interests in KAR LLC;

"Credit Agreement" refers to the Credit Agreement, dated May 19, 2011, among KAR Auction Services, as the borrower, the several banks and other financial institutions or entities from time to time parties thereto and the administrative agent;

"Credit Facility" refers to the \$1.7 billion, six-year senior secured term loan facility and the \$250 million, five-year senior secured revolving credit facility, the terms of which are set forth in the Credit Agreement;

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

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

"KAR LLC" refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors and management of the Company, and owns a majority of our common stock.

***Basis of Presentation***

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The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. Operating results for interim periods are not necessarily indicative of results that may be expected for the year as a whole. In the opinion of management, the consolidated financial statements reflect all adjustments, generally consisting of normal recurring accruals necessary, for a fair statement of our financial results for the periods

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**KAR Auction Services, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**September 30, 2012 (Unaudited)**

**Note 1 Basis of Presentation and Nature of Operations (Continued)**

presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to 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. Actual results could differ from these estimates.

These consolidated financial statements and condensed notes to consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011. The 2011 year-end consolidated balance sheet data included in this Form 10-Q was derived from the audited financial statements referenced above, but does not include all disclosures required by U.S. GAAP for annual financial statements.

***Reclassifications and Revisions***

Certain prior year amounts in the consolidated financial statements have been reclassified or revised to conform to the current year presentation. As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011, in the past, certain AFC fees collected from customers were netted against cost of services as well as certain selling, general and administrative expenses. For the three and nine months ended September 30, 2011, AFC's revenue, cost of services and selling, general and administrative expenses have been revised, resulting in an increase in revenue as well as the related expenses, with no impact on net income.

***Business and Nature of Operations***

As of September 30, 2012, we have a network of online whole car auctions, 68 ADESA whole car auction sites and 161 IAA salvage vehicle auction sites. Our auctions facilitate the sale of used and salvage vehicles through physical, online or hybrid auctions, which permit internet buyers to participate in physical auctions. ADESA Auctions and IAA are leading, national providers of wholesale and salvage vehicle auctions and related vehicle remarketing services for the automotive industry in North America. ADESA's online service offerings include OPENLANE, a leader in internet-based remarketing solutions, and allow us to offer vehicles for sale from any location. Remarketing services include a variety of activities designed to transfer used and salvage vehicles between sellers and buyers throughout the vehicle life cycle. ADESA Auctions and IAA facilitate the exchange of these vehicles through an auction marketplace, which aligns sellers and buyers. As an agent for customers, the Company generally does not take title to or ownership to vehicles sold at the auctions. Generally fees are earned from the seller and buyer on each successful auction transaction in addition to fees earned for ancillary services.

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

IAA is one of the two largest providers of salvage vehicle auctions and related services in North America. The salvage auctions facilitate the remarketing of damaged vehicles that are designated as

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**KAR Auction Services, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**September 30, 2012 (Unaudited)**

**Note 1 Basis of Presentation and Nature of Operations (Continued)**

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 transportation logistics, inspections, evaluations, salvage recovery services, titling and settlement administrative services.

AFC is a leading provider of floorplan financing to independent used vehicle dealers and this financing was provided through 104 locations throughout the United States and Canada at September 30, 2012. Floorplan financing supports independent used vehicle dealers in North America who purchase vehicles at ADESA, IAA and other used vehicle and salvage auctions.

**Note 2 Acquisitions**

Some of our acquisitions from prior years include contingent payments related to revenues or unit volumes of certain vehicles sold subsequent to the purchase dates. In the first nine months of 2012, we recorded contingent consideration of approximately \$1.0 million related to certain prior year acquisitions based on revised forecasts which indicated the unit volumes required during the measurement period in order for the contingent consideration to become payable would be met. In the first nine months of 2011, we reversed contingent consideration of approximately \$4.6 million. The contingent consideration adjustments were recorded to "Other (income) expense, net" in the consolidated statements of income.

**Note 3 Stock-Based Compensation Plans**

We adopted the KAR Auction Services, Inc. 2009 Omnibus and Stock Incentive Plan ("Omnibus Plan") in December 2009. The Omnibus Plan is intended to provide equity or cash based awards to our employees. Through the first nine months of 2012, we granted approximately 0.7 million service options with a weighted average exercise price of \$16.18 per share under the Omnibus Plan. The service options have a ten year life and vest in four equal annual installments, commencing on the first anniversary of the grant date. The weighted average fair value of the service options granted through the first nine months of 2012 was \$4.94 per share. The fair value of service options granted was estimated on the dates of grant using the Black-Scholes option pricing model with an expected life of 4 years, an expected volatility of 38% and an average risk free interest rate of 0.59%.

Our stock-based compensation expense includes expense associated with KAR Auction Services, Inc. service and exit option awards, KAR LLC profit interests and Axle LLC profit interests. We have classified the KAR LLC and Axle LLC profit interests as liability awards. We have classified the KAR Auction Services, Inc. service and exit options as equity awards. The main difference between a liability-classified award and an equity-classified award is that liability-classified awards are



Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 3 Stock-Based Compensation Plans (Continued)**

remeasured each reporting period at fair value. The following table summarizes our stock-based compensation expense by type of award (*in millions*):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service options	\$ 0.7	\$ 0.3	\$ 1.9	\$ 0.7
Exit options	1.9	4.1	7.0	12.5
KAR LLC profit interests	2.7	(6.8)	6.4	(0.9)
Axle LLC profit interests	2.3	(6.1)	5.6	(1.6)
<b>Total</b>	<b>\$ 7.6</b>	<b>\$ (8.5)</b>	<b>\$ 20.9</b>	<b>\$ 10.7</b>

There is no income tax benefit recognized by us with respect to the KAR LLC and Axle LLC profit interests. The total income tax benefit recognized in the consolidated statement of income for options was approximately \$0.9 million and \$1.6 million for the three months ended September 30, 2012 and 2011, respectively, and \$3.1 million and \$4.7 million for the nine months ended September 30, 2012 and 2011, respectively.

**Note 4 Net Income Per Share**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 19.2	\$ 32.2	\$ 69.1	\$ 57.7
Weighted average common shares outstanding	136.5	136.3	136.4	135.9
Effect of dilutive stock options	2.7	1.8	2.4	1.8
Weighted average common shares outstanding and potential common shares	139.2	138.1	138.8	137.7
Net income per share				
Basic	\$ 0.14	\$ 0.24	\$ 0.51	\$ 0.42
Diluted	\$ 0.14	\$ 0.23	\$ 0.50	\$ 0.42

Basic net income per share was calculated by dividing net income by the weighted-average number of outstanding common shares for the period. Diluted net income per share was calculated consistent with basic net income per share including the effect of dilutive unissued common shares related to our stock-based employee compensation program. The effect of stock options on net income per share-diluted is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase our common stock at the average market price during the period. Stock options that would have an anti-dilutive effect on net income per share are excluded from the calculations. Approximately 0.4 million and 1.0 million

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 4 Net Income Per Share (Continued)**

options were excluded from the calculation of diluted net income per share for the three months ended September 30, 2012 and 2011, respectively, and approximately 0.8 million and 1.0 million options were excluded from the calculation of diluted net income per share for the nine months ended September 30, 2012 and 2011, respectively. Total options outstanding at September 30, 2012 and 2011 were 9.7 million and 9.0 million, respectively.

**Note 5 Finance Receivables and Obligations Collateralized by Finance Receivables**

AFC sells the majority of its U.S. dollar denominated finance receivables on a revolving basis and without recourse to a wholly owned, bankruptcy remote, consolidated, special purpose subsidiary ("AFC Funding Corporation"), established for the purpose of purchasing AFC's finance receivables. A securitization agreement allows for the revolving sale by AFC Funding Corporation to a bank conduit facility of undivided interests in certain eligible finance receivables subject to committed liquidity. The agreement expires on June 30, 2014. AFC Funding Corporation had committed liquidity of \$650 million for U.S. finance receivables at September 30, 2012.

We also have an agreement for the securitization of Automotive Finance Canada, Inc.'s ("AFCI") receivables. This securitization facility expires on June 30, 2014. AFCI's committed liquidity is provided through a third party conduit (separate from the U.S. conduit) and was C\$100 million at September 30, 2012. The receivables sold pursuant to both the U.S. and Canadian securitization agreements are accounted for as secured borrowings.

The following tables present quantitative information about delinquencies, credit losses less recoveries ("net credit losses") and components of securitized financial assets and other related assets managed. For purposes of this illustration, delinquent receivables are defined as receivables 31 days or more past due.

<b>September 30, 2012</b>						
<b>Principal Amount of:</b>						
<b>(in millions)</b>	<b>Receivables</b>	<b>Receivables Delinquent</b>	<b>Net Credit Losses Three Months Ended September 30, 2012</b>	<b>Net Credit Losses Nine Months Ended September 30, 2012</b>		
Floorplan receivables	\$ 930.6	\$ 3.4	\$ 0.9	\$ 5.4		
Special purpose loans	7.9	0	0.2	0.2		
<b>Total receivables managed</b>	<b>\$ 938.5</b>	<b>\$ 3.4</b>	<b>\$ 1.1</b>	<b>\$ 5.6</b>		

<b>December 31, 2011</b>						
<b>Principal Amount of:</b>						
<b>(in millions)</b>	<b>Receivables</b>	<b>Receivables Delinquent</b>	<b>Net Credit Losses Three Months Ended September 30, 2011</b>	<b>Net Credit Losses Nine Months Ended September 30, 2011</b>		
Floorplan receivables	\$ 877.6	\$ 3.3	\$ 1.0	\$ 4.5		
Special purpose loans	5.6	0.3	0	0		
<b>Total receivables managed</b>	<b>\$ 883.2</b>	<b>\$ 3.6</b>	<b>\$ 1.0</b>	<b>\$ 4.5</b>		

AFC's allowance for losses was \$8.0 million and \$9.0 million at September 30, 2012 and December 31, 2011.



Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 5 Finance Receivables and Obligations Collateralized by Finance Receivables (Continued)**

As of September 30, 2012 and December 31, 2011, \$929.3 million and \$877.6 million, respectively, of finance receivables and a cash reserve of 1 percent of the obligations collateralized by finance receivables served as security for the \$633.5 million and \$610.3 million of obligations collateralized by finance receivables at September 30, 2012 and December 31, 2011, respectively.

Proceeds from the revolving sale of receivables to the bank conduit facility are used to fund new loans to customers. AFC, AFC Funding Corporation and AFCI must maintain certain financial covenants including, among others, limits on the amount of debt AFC and AFCI can incur, minimum levels of tangible net worth, and other covenants tied to the performance of the finance receivables portfolio. The securitization agreements also incorporate the financial covenants of our Credit Facility. At September 30, 2012, we were in compliance with the covenants in the securitization agreements.

**Note 6 Long-Term Debt**

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

	Interest Rate	Maturity	September 30, 2012	December 31, 2011
	Adjusted			
Term Loan B	LIBOR + 3.75%	May 18, 2017	\$ 1,678.7	\$ 1,691.5
	Adjusted			
\$250 million revolving credit facility	LIBOR + 3.50%	May 18, 2016	0	68.9
Floating rate senior notes	LIBOR + 4.00%	May 01, 2014	150.0	150.0
		Repayable upon demand		
Canadian line of credit	CAD Prime + 1.5%		0	0
<b>Total debt</b>			<b>1,828.7</b>	<b>1,910.4</b>
Unamortized debt discount			(6.5)	(7.6)
Current portion of long-term debt			(17.0)	(85.9)
Long-term debt			\$ 1,805.2	\$ 1,816.9

**Credit Facilities**

On May 19, 2011, we established a \$1.7 billion, six-year senior secured term loan facility (Term Loan B in the table above) and a \$250 million, five-year senior secured revolving credit facility (\$250 million revolving credit facility in the table above), the terms of which are set forth in the Credit Agreement dated as of May 19, 2011. The Credit Facility is available for letters of credit, working capital and general corporate purposes (including refinancing certain Existing Indebtedness (as defined in the Credit Agreement)). The Company pays a commitment fee of 50 basis points, payable quarterly, on the average daily unused amount of the Credit Facility. The interest rate on Term Loan B was 5.0% at September 30, 2012.

There were no borrowings on the revolving credit facility at September 30, 2012. On December 31, 2011, \$68.9 million was outstanding on the revolving credit facility. In addition, we had related outstanding letters of credit in the aggregate amount of \$22.8 million and \$28.5 million at September 30, 2012 and December 31, 2011, respectively, which reduce the amount available for borrowings under the credit facility.

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**KAR Auction Services, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**September 30, 2012 (Unaudited)**

**Note 6 Long-Term Debt (Continued)**

The obligations of the Company under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors") and are secured by substantially all of the assets of the Company and the Subsidiary Guarantors, including but not limited to: (a) pledges of and perfected first-priority security interests in 100% of the equity interests of certain of the Company's and the Subsidiary Guarantors' domestic subsidiaries and 65% of the equity interests of certain of the Company's and the Subsidiary Guarantors' first-tier foreign subsidiaries and (b) perfected first-priority security interests in substantially all other tangible and intangible assets of the Company and each Subsidiary Guarantor, subject to certain exceptions. The Credit Agreement contains affirmative and negative covenants that we believe are usual and customary for a senior secured credit agreement. The negative covenants include, among other things, limitations on capital expenditures, asset sales, mergers and acquisitions, indebtedness, liens, dividends, investments and transactions with our affiliates. The Credit Agreement also requires us to maintain a maximum leverage ratio, provided there are revolving loans outstanding. We were in compliance with the covenants in the Credit Agreement at September 30, 2012.

***Fair Value of Debt***

As of September 30, 2012, the estimated fair value of our long-term debt amounted to \$1,832.8 million. The estimates of fair value are based on the market prices for our publicly-traded debt as of September 30, 2012. The estimates presented on long-term financial instruments are not necessarily indicative of the amounts that would be realized in a current market exchange.

**Note 7 Derivatives**

We are exposed to interest rate risk on our variable rate borrowings. Accordingly, interest rate fluctuations affect the amount of interest expense we are obligated to pay. In August 2011, we purchased three interest rate caps for approximately \$1.1 million with an aggregate notional amount of \$925 million to manage our exposure to interest rate movements on our variable rate Term Loan B credit facility when one-month LIBOR exceeds 1.25%. The interest rate cap agreements each had an effective date of August 16, 2011 and each mature on August 16, 2013. The unamortized portion of the \$1.1 million investment is recorded in "Other current assets" or "Other assets" on the consolidated balance sheet, based on the remaining term of the investment, and is being amortized over the remaining life of the interest rate caps to interest expense. We are exposed to credit loss in the event of non-performance by the counterparties; however, non-performance is not anticipated.

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 7 Derivatives (Continued)**

ASC 815 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. In accordance with ASC 815, we designated our interest rate derivatives as cash flow hedges. The fair values of the interest rate derivatives are based on quoted market prices for similar instruments from commercial banks. The following table presents the fair value of our interest rate derivatives included in the consolidated balance sheets for the periods presented (*in millions*):

	Asset Derivatives				Liability Derivatives			
	September 30, 2012		December 31, 2011		September 30, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives Designated as Hedging Instruments Under ASC 815</b>								
Aggregate \$925 million notional interest rate caps	Other current assets	\$ 0	Other assets	\$ 1.0	Other accrued expenses	\$ 0	Other accrued expenses	\$ 0

The earnings impact of the interest rate derivatives designated as cash flow hedges is recorded upon the recognition of the interest related to the hedged debt. Any ineffectiveness in the hedging relationships is recognized in current earnings. There was no significant ineffectiveness in the first nine months of 2012 or 2011. Unrealized gains or losses on the interest rate derivatives are included as a component of "Accumulated other comprehensive income." At September 30, 2012, there was a net unrealized loss totaling \$0.3 million, net of tax benefits of \$0.2 million. At December 31, 2011, there was a net unrealized gain totaling \$0.1 million, net of tax benefits of less than \$0.1 million. The following table presents the effect of the interest rate derivatives on our statement of equity and consolidated statements of income for the periods presented (*in millions*):

	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Three Months Ended September 30,		Location of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30,	
	2012	2011		2012	2011
	<b>Derivatives in ASC 815</b>				
<b>Cash Flow Hedging Relationships</b>					
Aggregate \$925 million notional interest rate caps	\$ 0	\$ 0.2	Interest expense	\$ 0	\$ 0

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 7 Derivatives (Continued)**

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain / (Loss) Recognized in OCI on Derivative (Effective Portion) Nine Months Ended September 30,		Location of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain / (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 30,	
	2012	2011		2012	2011
Aggregate \$925 million notional interest rate caps	\$ (0.6)	\$ 0.2	Interest expense	\$ 0	\$ 0
\$650 million notional interest rate swap*	N/A	\$ 2.1	Interest expense	N/A	\$ (18.6)
\$250 million notional interest rate cap*	N/A	\$ 0.3	N/A	N/A	\$ 0

\*

In connection with entering into the Credit Facility in May 2011, we de-designated our \$650 million notional interest rate swap and entered into a swap termination agreement related to our previous credit agreement. Our \$250 million notional interest rate cap, related to our previous credit agreement, matured on June 30, 2011.

**Note 8 Commitments and Contingencies**

We are involved in litigation and disputes arising in the ordinary course of business, such as actions related to injuries; property damage; handling, storage or disposal of vehicles; environmental laws and regulations; and other litigation incidental to the business such as employment matters and dealer disputes. Management considers the likelihood of loss or the incurrence of a liability, as well as the ability to reasonably estimate the amount of loss, in determining loss contingencies. We accrue an estimated loss contingency when it is probable that a liability has been incurred and the amount of loss (or range of possible losses) can be reasonably estimated. Management regularly evaluates current information available to determine whether accrual amounts should be adjusted. Accruals for contingencies including litigation and environmental matters are included in "Other accrued expenses" at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. These accruals are adjusted periodically as assessment and remediation efforts progress, or as additional technical or legal information becomes available. If the amount of an actual loss is greater than the amount accrued, this could have an adverse impact on our operating results in that period. Legal fees are expensed as incurred. There has been no significant change in the legal and regulatory proceedings which were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 9 Accumulated Other Comprehensive Income**

Accumulated other comprehensive income, net of related tax effects, consisted of the following (*in millions*):

	September 30, 2012	December 31, 2011
Foreign currency translation gain	\$ 37.6	\$ 27.8
Unrealized gain (loss) on interest rate derivatives	(0.3)	0.1
Unrealized gain on postretirement benefit obligation	0.2	0.2
Accumulated other comprehensive income	\$ 37.5	\$ 28.1

**Note 10 Segment Information**

ASC 280, *Segment Reporting*, requires reporting of segment information that is consistent with the manner in which the chief operating decision maker operates and views the Company. Our operations are grouped into three operating segments: ADESA Auctions, IAA and AFC, which also serve as our reportable business segments. None of our operating segments have been aggregated in our segment reporting. These reportable business segments offer different services and have fundamental differences in their operations.

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 certain insurance, treasury, legal and risk management costs. Holding company interest expense includes the interest expense incurred on the corporate debt structure. Intercompany charges relate primarily to interest on intercompany debt or receivables and certain administrative costs allocated by



Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 10 Segment Information (Continued)**

the holding company. Financial information regarding our reportable segments is set forth below for the three months ended September 30, 2012 (in millions):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	\$ 257.0	\$ 167.4	\$ 50.5	\$ 0	\$ 474.9
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	147.2	106.0	10.9	0	264.1
Selling, general and administrative	61.6	14.8	5.0	20.9	102.3
Depreciation and amortization	23.5	17.1	5.7	0.5	46.8
Total operating expenses	232.3	137.9	21.6	21.4	413.2
Operating profit (loss)	24.7	29.5	28.9	(21.4)	61.7
Interest expense	0.2	0.3	3.8	25.6	29.9
Other (income) expense, net	(0.7)	(0.2)	0	(0.3)	(1.2)
Intercompany expense (income)	15.0	9.5	(4.6)	(19.9)	0
Income (loss) before income taxes	10.2	19.9	29.7	(26.8)	33.0
Income taxes	4.6	7.7	10.9	(9.4)	13.8
Net income (loss)	\$ 5.6	\$ 12.2	\$ 18.8	\$ (17.4)	\$ 19.2
Assets	\$ 2,402.1	\$ 1,164.5	\$ 1,323.8	\$ 35.6	\$ 4,926.0

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 10 Segment Information (Continued)**

Financial information regarding our reportable segments is set forth below for the three months ended September 30, 2011 (*in millions*):

	ADESA Auctions	IAA	AFC	Holding Company	Consolidated
Operating revenues	\$ 241.3	\$ 164.7	\$ 43.1	\$ 0	\$ 449.1
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	137.7	100.0	9.6	0	247.3
Selling, general and administrative	50.1	20.3	5.6	4.4	80.4
Depreciation and amortization	20.8	16.4	6.2	0.4	43.8
Total operating expenses	208.6	136.7	21.4	4.8	371.5
Operating profit (loss)	32.7	28.0	21.7	(4.8)	77.6
Interest expense	0.2	0.5	3.4	25.3	29.4
Other (income) expense, net	(0.3)	1.3	0	0.3	1.3
Intercompany expense (income)	14.8	9.6	(3.8)	(20.6)	0
Income (loss) before income taxes	18.0	16.6	22.1	(9.8)	46.9
Income taxes	3.9	6.9	8.0	(4.1)	14.7
Net income (loss)	\$ 14.1	9.7	\$ 14.1	\$ (5.7)	\$ 32.2
Assets	\$ 2,194.6	\$ 1,172.0	\$ 1,204.7	\$ 40.3	\$ 4,611.6

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 10 Segment Information (Continued)**Financial information regarding our reportable segments is set forth below for the nine months ended September 30, 2012 (*in millions*):

	<b>ADESA Auctions</b>	<b>IAA</b>	<b>AFC</b>	<b>Holding Company</b>	<b>Consolidated</b>
Operating revenues	\$ 791.4	\$ 534.1	\$ 144.2	\$ 0	\$ 1,469.7
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	442.6	322.8	31.3	0	796.7
Selling, general and administrative	189.6	52.7	16.1	61.5	319.9
Depreciation and amortization	73.6	50.8	17.6	1.4	143.4
Total operating expenses	705.8	426.3	65.0	62.9	1,260.0
Operating profit (loss)	85.6	107.8	79.2	(62.9)	209.7
Interest expense	0.8	1.1	11.2	76.7	89.8
Other (income) expense, net	(1.8)	0.5	0	(0.3)	(1.6)
Intercompany expense (income)	45.2	28.7	(13.1)	(60.8)	0
Income (loss) before income taxes	41.4	77.5	81.1	(78.5)	121.5
Income taxes	19.5	30.8	29.8	(27.7)	52.4
Net income (loss)	\$ 21.9	\$ 46.7	\$ 51.3	\$ (50.8)	\$ 69.1

Financial information regarding our reportable segments is set forth below for the nine months ended September 30, 2011 (*in millions*):

	<b>ADESA Auctions</b>	<b>IAA</b>	<b>AFC</b>	<b>Holding Company</b>	<b>Consolidated</b>
Operating revenues	\$ 767.1	\$ 513.8	\$ 125.6	\$ 0	\$ 1,406.5
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	436.4	301.4	28.4	0	766.2
Selling, general and administrative	157.6	59.9	16.2	48.8	282.5
Depreciation and amortization	63.2	48.9	18.6	0.8	131.5
Total operating expenses	657.2	410.2	63.2	49.6	1,180.2
Operating profit (loss)	109.9	103.6	62.4	(49.6)	226.3
Interest expense	0.7	1.6	8.5	101.5	112.3
Other (income) expense, net	(1.0)	(5.3)	0	0.3	(6.0)
Loss on extinguishment of debt	0	0	0	53.5	53.5
Intercompany expense (income)	37.5	28.8	(10.6)	(55.7)	0
Income (loss) before income taxes	72.7	78.5	64.5	(149.2)	66.5
Income taxes	14.9	28.9	22.3	(57.3)	8.8
Net income (loss)	\$ 57.8	\$ 49.6	\$ 42.2	\$ (91.9)	\$ 57.7



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**KAR Auction Services, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**September 30, 2012 (Unaudited)**

**Note 11 Supplemental Guarantor Information**

Our obligations related to the floating rate senior notes are guaranteed on a full, unconditional, joint and several basis by certain direct and indirect present and future domestic subsidiaries (the "Guarantor Subsidiaries"). AFC Funding Corporation and all of our foreign subsidiaries are not guarantors (the "Non-Guarantor Subsidiaries"). The following financial information sets forth, on a condensed consolidating basis, the balance sheets, statements of income, statements of comprehensive income and statements of cash flows for the periods indicated for KAR Auction Services, the Guarantor Subsidiaries, the Non-Guarantor Subsidiaries and the eliminations to arrive at KAR Auction Services on a consolidated basis.

The condensed consolidating financial statements are provided as an alternative to filing separate financial statements of the Guarantor Subsidiaries. The condensed consolidating financial statements should be read in conjunction with our consolidated financial statements and notes thereto.

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Income  
For the Three Months Ended September 30, 2012  
(In millions)  
(Unaudited)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	\$ 0	\$ 354.0	\$ 120.9	\$ 0	\$ 474.9
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	226.8	37.3	0	264.1
Selling, general and administrative	5.8	81.3	15.2	0	102.3
Depreciation and amortization	0	41.5	5.3	0	46.8
Total operating expenses	5.8	349.6	57.8	0	413.2
Operating profit (loss)	(5.8)	4.4	63.1	0	61.7
Interest expense	11.5	14.0	4.4	0	29.9
Other (income) expense, net	0	(0.5)	(0.7)	0	(1.2)
Intercompany expense (income)	0	(5.0)	5.0	0	0
Income (loss) before income taxes	(17.3)	(4.1)	54.4	0	33.0
Income taxes	(5.8)	1.2	18.4	0	13.8
Net income (loss)	\$ (11.5)	\$ (5.3)	\$ 36.0	\$ 0	\$ 19.2

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Income  
For the Three Months Ended September 30, 2011  
(In millions)  
(Unaudited)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	\$ 0	\$ 334.9	\$ 114.2	\$ 0	\$ 449.1
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	209.5	37.8	0	247.3
Selling, general and administrative	(11.8)	79.6	12.6	0	80.4
Depreciation and amortization	0	37.9	5.9	0	43.8
Total operating expenses	(11.8)	327.0	56.3	0	371.5
Operating profit (loss)	11.8	7.9	57.9	0	77.6
Interest expense	10.9	14.6	3.9	0	29.4
Other income, net	0	1.8	(0.5)	0	1.3
Intercompany expense (income)	0	(4.4)	4.4	0	0
Income (loss) before income taxes	0.9	(4.1)	50.1	0	46.9
Income taxes	(1.6)	(1.7)	18.0	0	14.7
Net income (loss)	\$ 2.5	\$ (2.4)	\$ 32.1	\$ 0	\$ 32.2

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Income**  
**For the Nine Months Ended September 30, 2012**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	\$ 0	\$ 1,109.7	\$ 360.0	\$ 0	\$ 1,469.7
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	683.9	112.8	0	796.7
Selling, general and administrative	14.6	258.7	46.6	0	319.9
Depreciation and amortization	0	125.9	17.5	0	143.4
Total operating expenses	14.6	1,068.5	176.9	0	1,260.0
Operating profit (loss)	(14.6)	41.2	183.1	0	209.7
Interest expense	34.4	42.5	12.9	0	89.8
Other (income) expense, net	0	(0.1)	(1.5)	0	(1.6)
Intercompany expense (income)	0	(14.0)	14.0	0	0
Income (loss) before income taxes	(49.0)	12.8	157.7	0	121.5
Income taxes	(17.0)	14.4	55.0	0	52.4
Net income (loss)	\$ (32.0)	\$ (1.6)	\$ 102.7	\$ 0	\$ 69.1



Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)**

September 30, 2012 (Unaudited)

**Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Income**  
**For the Nine Months Ended September 30, 2011**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Operating revenues	\$ 0	\$ 1,058.5	\$ 348.0	\$ 0	\$ 1,406.5
Operating expenses					
Cost of services (exclusive of depreciation and amortization)	0	647.1	119.1	0	766.2
Selling, general and administrative	0.8	242.0	39.7	0	282.5
Depreciation and amortization	0	113.2	18.3	0	131.5
Total operating expenses	0.8	1,002.3	177.1	0	1,180.2
Operating profit (loss)	(0.8)	56.2	170.9	0	226.3
Interest expense	57.5	44.9	9.9	0	112.3
Other income, net	0	(4.7)	(1.3)	0	(6.0)
Loss on extinguishment of debt	53.5	0	0	0	53.5
Intercompany expense (income)	0	(13.1)	13.1	0	0
Income (loss) before income taxes	(111.8)	29.1	149.2	0	66.5
Income taxes	(42.7)	(0.7)	52.2	0	8.8
Net income (loss)	\$ (69.1)	\$ 29.8	\$ 97.0	\$ 0	\$ 57.7

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Comprehensive Income (Loss)**  
**For the Three Months Ended September 30, 2012**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	\$ (11.5)	\$ (5.3)	\$ 36.0	\$ 0	\$ 19.2
Other comprehensive income					
Foreign currency translation gain	0	0	8.7	0	8.7
Total other comprehensive income	0	0	8.7	0	8.7
Comprehensive income (loss)	\$ (11.5)	\$ (5.3)	\$ 44.7	\$ 0	\$ 27.9

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Comprehensive Income (Loss)**  
**For the Three Months Ended September 30, 2011**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	\$ 2.5	\$ (2.4)	\$ 32.1	\$ 0	\$ 32.2
Other comprehensive income (loss)					
Foreign currency translation gain (loss)	0	0	(26.8)	0	(26.8)
Unrealized gain on interest rate derivatives, net of tax	0.1	0	0	0	0.1
Total other comprehensive income (loss)	0.1	0	(26.8)	0	(26.7)
Comprehensive income (loss)	\$ 2.6	\$ (2.4)	\$ 5.3	\$ 0	\$ 5.5

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Comprehensive Income (Loss)**  
**For the Nine Months Ended September 30, 2012**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	\$ (32.0)	\$ (1.6)	\$ 102.7	\$ 0	\$ 69.1
Other comprehensive income (loss)					
Foreign currency translation gain	0	0	9.8	0	9.8
Unrealized gain (loss) on interest rate derivatives, net of tax	(0.4)	0	0	0	(0.4)
Total other comprehensive income (loss)	(0.4)	0	9.8	0	9.4
Comprehensive income (loss)	\$ (32.4)	\$ (1.6)	\$ 112.5	\$ 0	\$ 78.5

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Comprehensive Income (Loss)**  
**For the Nine Months Ended September 30, 2011**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
Net income (loss)	\$ (69.1)	\$ 29.8	\$ 97.0	\$ 0	\$ 57.7
Other comprehensive income (loss)					
Foreign currency translation gain (loss)	0	0	(16.7)	0	(16.7)
Unrealized gain on interest rate derivatives, net of tax	1.6	0	0	0	1.6
Early termination of swap agreement, net of tax	9.0	0	0	0	9.0
Total other comprehensive income (loss)	10.6	0	(16.7)	0	(6.1)
Comprehensive income (loss)	\$ (58.5)	\$ 29.8	\$ 80.3	\$ 0	\$ 51.6

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)**

September 30, 2012 (Unaudited)

**Note 11 Supplemental Guarantor Information (Continued)****Condensed Consolidating Balance Sheet**

As of September 30, 2012

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Assets</b>					
<i>Current assets</i>					
Cash and cash equivalents	\$ 0	\$ 116.5	\$ 47.2	\$ 0	\$ 163.7
Restricted cash	0	0	7.7	0	7.7
Trade receivables, net of allowances	0	320.2	89.8	(24.7)	385.3
Finance receivables, net of allowances	0	9.1	921.4	0	930.5
Deferred income tax assets	0.1	37.5	0	0	37.6
Other current assets	0.5	52.7	9.7	0	62.9
<b>Total current assets</b>	<b>0.6</b>	<b>536.0</b>	<b>1,075.8</b>	<b>(24.7)</b>	<b>1,587.7</b>
<i>Other assets</i>					
Investments in and advances to affiliates, net	2,411.3	359.0	162.0	(2,932.3)	0
Goodwill	0	1,674.7	5.0	0	1,679.7
Customer relationships, net of accumulated amortization	0	537.2	101.9	0	639.1
Other intangible assets, net of accumulated amortization	0	297.9	0.7	0	298.6
Unamortized debt issuance costs	19.7	0	3.7	0	23.4
Other assets	0	8.1	0.6	0	8.7
<b>Total other assets</b>	<b>2,431.0</b>	<b>2,876.9</b>	<b>273.9</b>	<b>(2,932.3)</b>	<b>2,649.5</b>
Property and equipment, net of accumulated depreciation	0	552.0	136.8	0	688.8
<b>Total assets</b>	<b>\$ 2,431.6</b>	<b>\$ 3,964.9</b>	<b>\$ 1,486.5</b>	<b>\$ (2,957.0)</b>	<b>\$ 4,926.0</b>

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)**

September 30, 2012 (Unaudited)

**Note 11 Supplemental Guarantor Information (Continued)****Condensed Consolidating Balance Sheet (Continued)**

As of September 30, 2012

(In millions)

(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Liabilities and Stockholders' Equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 0	\$ 438.5	\$ 51.5	\$ (24.7)	\$ 465.3
Accrued employee benefits and compensation expenses	0	47.4	6.9	0	54.3
Accrued interest	2.3	0	0.2	0	2.5
Other accrued expenses	0	63.4	12.2	0	75.6
Income taxes payable	0	20.1	0	0	20.1
Obligations collateralized by finance receivables	0	0	633.5	0	633.5
Current maturities of long-term debt	17.0	0	0	0	17.0
Total current liabilities	19.3	569.4	704.3	(24.7)	1,268.3
<b>Non-current liabilities</b>					
Investments by and advances from affiliates, net	160.5	0	0	(160.5)	0
Long-term debt	983.7	821.5	0	0	1,805.2
Deferred income tax liabilities	0	284.2	21.9	0	306.1
Other liabilities	0	83.7	17.3	0	101.0
Total non-current liabilities	1,144.2	1,189.4	39.2	(160.5)	2,212.3
<b>Commitments and contingencies</b>					
<b>Stockholders' equity</b>					
Total stockholders' equity	1,268.1	2,206.1	743.0	(2,771.8)	1,445.4
Total liabilities and stockholders' equity	\$ 2,431.6	\$ 3,964.9	\$ 1,486.5	\$ (2,957.0)	\$ 4,926.0

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)**

September 30, 2012 (Unaudited)

**Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Balance Sheet**  
**As of December 31, 2011**  
(In millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Assets</b>					
<i>Current assets</i>					
Cash and cash equivalents	\$ 0	\$ 68.3	\$ 29.1	\$ 0	\$ 97.4
Restricted cash	0	0	8.2	0	8.2
Trade receivables, net of allowances	0	256.8	59.4	(18.8)	297.4
Finance receivables, net of allowances	0	5.5	868.7	0	874.2
Deferred income tax assets	0	37.5	0	0	37.5
Other current assets	1.5	49.9	7.1	0	58.5
<b>Total current assets</b>	<b>1.5</b>	<b>418.0</b>	<b>972.5</b>	<b>(18.8)</b>	<b>1,373.2</b>
<i>Other assets</i>					
Investments in and advances to affiliates, net	2,475.5	285.5	130.8	(2,891.8)	0
Goodwill	0	1,674.8	4.7	0	1,679.5
Customer relationships, net of accumulated amortization	0	588.6	105.4	0	694.0
Other intangible assets, net of accumulated amortization	0	301.4	4.5	0	305.9
Unamortized debt issuance costs	23.5	0	5.1	0	28.6
Other assets	1.0	9.6	0.6	0	11.2
<b>Total other assets</b>	<b>2,500.0</b>	<b>2,859.9</b>	<b>251.1</b>	<b>(2,891.8)</b>	<b>2,719.2</b>
Property and equipment, net of accumulated depreciation	0	555.4	131.3	0	686.7
<b>Total assets</b>	<b>\$ 2,501.5</b>	<b>\$ 3,833.3</b>	<b>\$ 1,354.9</b>	<b>\$ (2,910.6)</b>	<b>\$ 4,779.1</b>



Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)**

September 30, 2012 (Unaudited)

**Note 11 Supplemental Guarantor Information (Continued)****Condensed Consolidating Balance Sheet (Continued)**

As of December 31, 2011

(In millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Liabilities and Stockholders' Equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 0	\$ 351.7	\$ 34.9	\$ (18.8)	\$ 367.8
Accrued employee benefits and compensation expenses	0	52.8	4.9	0	57.7
Accrued interest	2.1	0	0.2	0	2.3
Other accrued expenses	0.4	61.5	9.8	0	71.7
Income taxes payable	0	0.5	0	0	0.5
Obligations collateralized by finance receivables	0	0	610.3	0	610.3
Current maturities of long-term debt	85.9	0	0	0	85.9
Total current liabilities	88.4	466.5	660.1	(18.8)	1,196.2
<b>Non-current liabilities</b>					
Investments by and advances from affiliates, net	119.9	0	0	(119.9)	0
Long-term debt	995.4	821.5	0	0	1,816.9
Deferred income tax liabilities	0	300.2	23.7	0	323.9
Other liabilities	0	82.4	16.5	0	98.9
Total non-current liabilities	1,115.3	1,204.1	40.2	(119.9)	2,239.7
<b>Commitments and contingencies</b>					
<b>Stockholders' equity</b>					
Total stockholders' equity	1,297.8	2,162.7	654.6	(2,771.9)	1,343.2
Total liabilities and stockholders' equity	\$ 2,501.5	\$ 3,833.3	\$ 1,354.9	\$ (2,910.6)	\$ 4,779.1

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)****September 30, 2012 (Unaudited)****Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Cash Flows**  
**For the Nine Months Ended September 30, 2012**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Net cash (used by) provided by operating activities</b>	\$ 78.9	\$ 102.7	\$ 56.4	\$ 0	\$ 238.0
<b>Investing activities</b>					
Net decrease (increase) in finance receivables held for investment	0	(6.3)	(51.1)	0	(57.4)
Acquisition of businesses, net of cash acquired	0	(0.5)	0	0	(0.5)
Purchases of property, equipment and computer software	0	(54.7)	(6.1)	0	(60.8)
Proceeds from sale of property and equipment	0	5.7	0	0	5.7
(Increase) decrease in restricted cash	0	0	0.5	0	0.5
<b>Net cash (used by) provided by investing activities</b>	0	(55.8)	(56.7)	0	(112.5)
<b>Financing activities</b>					
Net increase (decrease) in book overdrafts	0	15.7	(4.9)	0	10.8
Net decrease in borrowings on lines of credit	(68.9)	0	0	0	(68.9)
Net increase (decrease) in obligations collateralized by finance receivables	0	0	20.6	0	20.6
Payments on long-term debt	(12.8)	0	0	0	(12.8)
Payments on capital leases	0	(10.2)	(0.4)	0	(10.6)
Payments of contingent consideration and deferred acquisition costs	0	(4.2)	0	0	(4.2)
Issuance of common stock under stock plans	2.8	0	0	0	2.8
<b>Net cash provided by (used by) financing activities</b>	(78.9)	1.3	15.3	0	(62.3)
Effect of exchange rate changes on cash	0	0	3.1	0	3.1
<b>Net increase (decrease) in cash and cash equivalents</b>	0	48.2	18.1	0	66.3
Cash and cash equivalents at beginning of period	0	68.3	29.1	0	97.4
Cash and cash equivalents at end of period	\$ 0	\$ 116.5	\$ 47.2	\$ 0	\$ 163.7

Table of Contents**KAR Auction Services, Inc.****Notes to Consolidated Financial Statements (Continued)**

September 30, 2012 (Unaudited)

**Note 11 Supplemental Guarantor Information (Continued)**

**Condensed Consolidating Statement of Cash Flows**  
**For the Nine Months Ended September 30, 2011**  
(In millions)  
(Unaudited)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations and Adjustments	Total
<b>Net cash (used by) provided by operating activities</b>	\$ 77.4	\$ 62.1	\$ 66.0	\$ 0	\$ 205.5
<b>Investing activities</b>					
Net decrease (increase) in finance receivables held for investment	0	3.9	(44.0)	0	(40.1)
Acquisition of businesses, net of cash acquired	0	(4.5)	0	0	(4.5)
Purchases of property, equipment and computer software	0	(63.0)	(1.2)	0	(64.2)
Proceeds from sale of property, equipment and computer software	0	0.2	0	0	0.2
(Increase) decrease in restricted cash	0	0	1.9	0	1.9
<b>Net cash (used by) provided by investing activities</b>	0	(63.4)	(43.3)	0	(106.7)
<b>Financing activities</b>					
Net increase (decrease) in book overdrafts	0	58.8	(0.4)	0	58.4
Net increase in obligations collateralized by finance receivables	0	0	22.6	0	22.6
Proceeds from long-term debt	1,691.5	0	0	0	1,691.5
Payments for debt issuance costs	(24.3)	(5.2)	(1.1)	0	(30.6)
Payments on long-term debt					